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

2017 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

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 *(Chief Financial Officer)*

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)*

AUDIT COMMITTEE

Mr. Shen Hongbo *(Chairman)*
Ms. You Jie
Mr. Chen Huabin
Mr. Li Yuanxu
Mr. Zhu Qin

REMUNERATION COMMITTEE

Mr. Zhu Qin *(Chairman)*
Mr. Wu Jianying
Mr. Huang Ming
Mr. Shen Hongbo
Mr. Li Yuanxu

NOMINATION COMMITTEE

Mr. Li Yuanxu *(Chairman)*
Dr. Hou Yongtai
Ms. You Jie
Mr. Chen Huabin
Mr. Zhu Qin

STRATEGY COMMITTEE

Ms. You Jie *(Chairlady)*
Dr. Hou Yongtai
Mr. Wu Jianying
Mr. Huang Ming
Mr. Li Yuanxu

LEGAL ADVISERS

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

Room 1901, 19/F
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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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FINANCIAL HIGHLIGHTS

	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000
Results of operation					
Revenue	1,344,856	851,157	663,917	515,940	401,088
Gross Profit	1,057,389	709,606	558,844	450,057	346,252
Profit before tax	461,621	365,885	320,647	215,616	166,467
Net profit attributable to shareholders of the parent	372,415	305,052	273,474	183,582	141,521
Profitability					
Gross profit margin	78.6%	83.4%	84.2%	87.2%	86.3%
Net profit margin	27.7%	35.8%	41.2%	35.6%	35.3%
Earnings per share (RMB)					
Basic earnings per share*	2.33	1.91	1.86	1.53	1.18
Assets					
Total assets	4,075,299	3,693,412	2,821,910	751,903	621,178
Total liabilities	708,594	707,552	156,476	157,743	90,600
Total equity attributable to ordinary equity holders of the parent	3,200,562	2,903,992	2,661,911	594,160	530,578
Gearing ratio	17.4%	19.2%	5.5%	21.0%	14.6%

* 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 Group for the year ended 31 December 2017.

2017 marked a significant year for the implementation of the spirit of the National Health and Well-being Convention and the "13th Five-Year Plan" for deepening the reforms of the pharmaceuticals and healthcare system. The frequent release of the national medical policies makes the industry face new important opportunities and challenges.

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB1,344.86 million, representing an increase of RMB493.70 million, or approximately 58.0%, as compared to that in 2016. During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB372.42 million, representing an increase of approximately 22.1% as compared to that in 2016. The amortisation charge attributable to ordinary equity holders of the Company on intangible assets from business acquisition of the Group (after tax) was approximately RMB12.50 million, after excluding the impact of such charge, the profit attributable to ordinary equity holders of the Company was approximately RMB384.92 million, representing an increase of approximately 25.6% as compared to that in 2016.

Since 2016, the Group completed a number of acquisitions, including the acquisition of 60% equity interest in Shenzhen NIMO, 100% equity interest in Henan Universe, 100% equity interest in Zhuhai Eyegood and Aaren Business. Following these acquisitions, the Group completed the acquisition of 70% share capital in Contamac Holdings, a UK IOL, ophthalmic materials and technology supplier, during the Reporting Period, which will help the Group to secure long-term and stable upstream material supply and enhance the research and development of new IOL and other ophthalmic products. So far, the Group's global whole industry chain layout centered on IOL products has been primarily established, which has laid an industry foundation for the long-term growth of the ophthalmic high-valued materials business in the future.

On 23 February 2017, the Ministry of Human Resources and Social Security officially issued the 2017 National Reimbursement Drug List ("NRDL"), and upon experts' appraisal, rhEGF "Healin" was reclassified to Class B medical insurance products by lifting the limitation on the work-related injury insurance products in the 2009 NRDL. Advanced jointly by the favourable policies and the Group's efforts on marketing, the Group's revenue from the sales of "Healin" products rapidly increased to approximately RMB53.03 million for the Reporting Period from approximately RMB37.52 million in 2016, representing an increase of 41.3%.

During the Reporting Period, our sodium hyaluronate injection product with a new specification of 2.5ml has been approved by the CFDA, making the Group the only enterprise having sodium hyaluronate injection products with full series of specifications of 2ml, 2.5ml and 3ml in the PRC market. The management of the Company believes that the approval of the new specification will help the Group to gain new strengths in the intense market competition.

CHAIRMAN'S STATEMENT

During the Reporting Period, the Group continued to enlarge its R&D investments and focus on the technological innovation. The project on "Research & Development of New Intraocular Lens and High-end Ophthalmic Implant Materials" led by the Group was successfully selected in the National Key Research and Development Programs under the "13th Five-Year Plan", which will offer in-depth support to the Group on improving the quality and market competitiveness of domestic IOL products and then realizing its strategic plan related to replacing the imported products. As at the date of this annual report, the Company, as the only bio-medicine enterprise in Shanghai, has been included on the Proposed List of National Enterprise Technology Centers released by the National Development and Reform Commission, making the Company the first Shanghai bio-medicine enterprise enlisted ever since 2015.

The year of 2018 will still be a year full of challenges, however, we believe that current reforms, enterprises benefiting from the advantage of scale and in possession of advanced technologies, well established brands, marketing competitive edge and industrial integration capabilities will experience invaluable development opportunities. In conclusion, on behalf of the Board, I would like to express the sincere gratitude to our staff and management team, customers and Shareholders for their ongoing support. And we look forward to heading to a new year with fruitful results along with you.

Hou Yongtai
Executive Director and Chairman of the Board

26 March 2018

BUSINESS REVIEW AND PROSPECT

2017 marked a significant year for the implementation of the spirit of the National Health and Well-being Convention and the "13th Five-Year Plan" for deepening the reforms of the pharmaceuticals and healthcare system. In 2017, the consecutive introduction of major policies for the pharmaceutical and medical device industry in China since 2015 continued to affect the whole industry, and the reform policies released during the Reporting Period covered almost all of the sub-sectors under the four major sectors including pharmaceuticals, healthcare, medical insurance and circulation, which created severe challenges for the enterprises within the industry, while on the other hand, important develop opportunities also emerged.

During the Reporting Period, the Group offered responses to the reforms. In order to accommodate with the fast-changing tender policy and the highly competitive market environment, the Group made quick and proper adjustments to the selling prices of products, marketing mode, etc. Meanwhile, the Group improved operational efficiency through refined management, enhanced budgeting and operations control. The Group also focused on optimizing its product portfolio and advancing service upgrade so as to secure the steady growth of the Group's entire principal business.

The Group has been taking steady steps to penetrate the ophthalmic high-valued materials industry since 2016 from the market of intraocular lens ("**IOL**") (the core medical device for cataract surgery), by means of acquisition and integration with domestic and foreign targeting enterprises with mature products, high-end technologies and valuable marketing resources. Since 2016, the Group completed a number of acquisitions, including the acquisition of 60% equity interest in Shenzhen NIMO, 100% equity interest in Henan Universe, 100% equity interest in Zhuhai Eyegood and Aaren Business. Following these acquisitions, the Group completed the acquisition of 70% share capital in Contamac Holdings, a UK IOL, ophthalmic materials and technology supplier, on 2 June 2017, which will help the Group to secure long-term and stable upstream material supply and enhance the research and development of new IOL and other ophthalmic products. So far, the Group's global whole industry chain layout centered on IOL products has been primarily established, which has laid an industry foundation for the long-term growth of the ophthalmic high-valued materials business in the future.

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB1,344.86 million (2016: approximately RMB851.16 million), representing an increase of RMB493.70 million, or approximately 58.0%, as compared to that in 2016. The breakdown of the Group's revenue by therapeutic areas is as follows (by amount and as a percentage of the total revenue of the Group):

	2017		2016		Year-on-year increase or decrease
	RMB'000	%	RMB'000	%	%
Ophthalmology products	**557,002**	**41.4%**	120,068	14.1%	363.9%
Medical aesthetics and wound care products	**306,602**	**22.8%**	225,104	26.4%	36.2%
Orthopedics products	**266,090**	**19.8%**	287,250	33.8%	-7.4%
Anti-adhesion and hemostasis products	**212,083**	**15.8%**	211,094	24.8%	0.5%
Other products	**3,079**	**0.2%**	7,641	0.9%	-59.7%
Total	**1,344,856**	**100%**	851,157	100.0%	58.0%

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB372.42 million (2016: RMB305.05 million), representing an increase of approximately 22.1% as compared to that in 2016. The amortisation charge attributable to ordinary equity holders of the Company on intangible assets from business acquisition of the Group (after tax) was approximately RMB12.50 million (2016: RMB1.41 million), after excluding the impact of such charge, the profit attributable to ordinary equity holders of the Company was approximately RMB384.92 million (2016: RMB306.46 million), representing an increase of approximately 25.6% as compared to that in 2016.

During the Reporting Period, the increase in the profit attributable to ordinary equity holders of the Company was mainly attributable to the initial synergistic effect of the acquisition of ophthalmic high-valued materials business by the Group and the sustained steady growth of its existing business.

During the Reporting Period, the basic earnings per share were RMB2.33 (2016: RMB1.91).

During the Reporting Period, the overall gross profit margin of the Group decreased from 83.4% in 2016 to 78.6%, primarily attributable to the lower overall gross profit margin of the ophthalmic high-valued materials business enterprises acquired by the Group as compared to that of the Group's existing business.

Ophthalmology Products

The Group currently manufactures and sells three types of ophthalmology products, including three OVD products, six IOL products, ophthalmic materials that are used for production of ophthalmic products (such as intraocular lens and corneal contact lens), one lubricant eye drops product and other ophthalmic high-valued materials.

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

	2017		2016		Year-on-year increase or decrease
	RMB'000	%	RMB'000	%	%
Intraocular lens and ophthalmic materials	**449,281**	**33.4%**	39,975	9.0%	1,023.9%
OVD products	**97,990**	**7.3%**	76,632	4.7%	27.9%
Other ophthalmology products	**9,731**	**0.7%**	3,461	0.4%	181.2%
	557,002	**41.4%**	120,068	14.1%	363.9%

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was approximately RMB557.00 million, representing an increase of approximately RMB436.93 million, or 363.9%, from RMB120.07 million in 2016.

Cataract is the number one of blindness-causing diseases in the world. Currently, the only effective treatment for cataract is IOL implantation through cataract surgery. In 2015, the cataract surgery rate ("**CSR**") per million of Europe, the United States, Japan and other developed countries has reached 9,000. In contrast, the CSR of China is only 1,500 in 2015 and only 2,070 in 2016. Although this number represents a significant increase over the previous year, it is still far below the data of developed countries. According to a calculation based on the 2016 CSR data, the national cataract surgery CSR is only about 2.69 million. On the other hand, according to the statistics of the Chinese Ophthalmological Society, the incidence of illness cataract for those in the 60-89 age group is 80% and those in the age group over 90 is 90% and above. There is still a greater room to improve the cataract surgery operation rate since the market penetration rate of relevant ophthalmic products is relatively low to date. On the other hand, with the constantly deepened degree of aging, continuously improved ophthalmic awareness of the public, and the gradually enhanced healthcare concept and payment ability, the demands in ophthalmology market surges, coupled with sustained investment in public and private medical resources, which jointly promoted the development of ophthalmology industry in the PRC. The management of the Company believes that the ophthalmology market in the PRC boasts vast development potential.

The Group enters into the ophthalmic high-valued materials industry through a series of acquisitions, which enables the ophthalmology business of the Group cover research & development and sales of IOL products and materials, optical materials, OVD and other ophthalmic high-valued materials and related services. Of which, IOL 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 can not only extend the Group's ophthalmology products line but also expand the Group's recognition and influence in cataract surgery market. During the Reporting Period, the Group's revenue from the sales of IOL and ophthalmic materials mainly includes the revenue recorded by its subsidiaries Shenzhen NIMO, Henan Universe, Zhuhai Eyegood and Aaren Laboratories, as well as sales revenue generated by Contamac Holdings for the period since acquired by the Group.

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 CFDA Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the market share of the Group's OVD products was 41.9% in 2016 and accounted over 40% market share for the past ten consecutive years, making the Group the largest OVD product manufacturer in the PRC.

During the Reporting Period, the Group launched the integration of industry chain in ophthalmology sector. The management of the Company believes that the Group is expected to be an important participant and impeller in the rise of ophthalmology industry in the PRC by gaining prominent strengths in technologies, channels, brand and market share in the fast-growing ophthalmic high-valued materials market in the PRC.

Medical Aesthetics and Wound Care Products

During the Reporting Period, the Group manufactures and sells three products for medical aesthetics and wound care, including hyaluronic acids ("**HA**") dermal filler "Matrifill", "Janlane" (collectively, "**HA Dermal Filler Products**") and rhEGF "Healin". HA Dermal Filler Products can correct moderate to severe facial wrinkles and folds. While rhEGF "Healin" can expedite the repair of skin wounds on epidermis and mucosa, it can be applied topically to various acute or chronic wounds and be used for epidermis wound repair and care subsequent to laser cosmetology surgery.

During the Reporting Period, the breakdown of 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):

	2017		2016		Year-on-year increase or decrease
	RMB'000	%	RMB'000	%	%
HA Dermal Filler Products	**253,575**	**18.9%**	187,585	22.0%	35.2%
rhEGF "Healin"	**53,027**	**3.9%**	37,519	4.4%	41.3%
	306,602	**22.8%**	225,104	26.4%	36.2%

During the Reporting Period, the Group's revenue from the sales of medical aesthetics and wound care products was RMB306.60 million, representing an increase of approximately RMB81.50 million, or approximately 36.2%, from RMB225.10 million in 2016.

HA Dermal Filler Products

HA dermal filler "Matrifill", a product launched in the market by the Group in 2014, is the first mono-phase sodium hyaluronate gel for injection approved by the CFDA in the PRC. It can, through injection into dermis layer, repair the shape of the skin surface to achieve a satisfactory repair effect. During the Reporting Period, the market share of the Group's "Matrifill" products continued to expand, and had thus become a leading domestic brand of HA dermal filler products in PRC.

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", which adopted low temperature double cross linking technology, is mainly promoted for its dynamic filling function. Based on its characteristics and efficacy, it will have differentiated positioning from and supplementary development with the HA dermal filler "Matrifill" that focuses on shaping, thus leading the trend of combined application of HA dermal filler in the non-invasive medical aesthetic market in the PRC. During the Reporting Period, the Group orderly advanced the initial launch and promotion of HA dermal filler "Matrifill" in the markets at various levels, including to 108 cooperative medical and aesthetic plastic institutions within 21 cities and 4 municipalities in the PRC rapidly.

Moreover, the third generation of HA Dermal Filler Product ("**QST gel**") of the Group is expected to complete the clinical trial phase in 2018. The Group can accordingly sustain its leading market position in research and development as well as manufacturing and sale of products in the medical aesthetic and wound care sector. Such products will form combined effects of serialization and differentiation and meet the increasingly segmental and diversified market needs.

The medical aesthetics market in China is experiencing rapid growth. Along with the growth of social wealth, a new consumption pattern evolves. Under the strong demand and the profit-driven market, the speed of upgrade of medical beauty products and related technology is accelerating. These new products and technology can satisfy consumer demand as well as attract more consumers through increasingly comprehensive product supply, improving clinical efficacy and change of consumption concept of the new generation. Meanwhile, attracted by the relatively high profit margin from medical aesthetics products, more competitors attempted to enter into the market and share the growth of the industry. In 2017, more dermal filler products were launched to the market. As of 31 December 2017, 24 products were approved by the CFDA. However, due to many inconsistent practices in the medical aesthetics industry, the government regulation is getting more stringent. As such, the industry will surely undergo a market selection process under the principle of "survival of the fittest". This poses a higher demand on enterprises in terms of strength in research and development, technology innovation, product quality control and marketing reforms.

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

In addition, the Group established an independent professional marketing team for HA dermal filler "Matrifill" and "Janlane". 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 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, and 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 Group's revenue from the sales of the HA Dermal Filler Products increased to approximately RMB253.58 million from approximately RMB187.59 million in 2016, representing an increase of 35.2%.

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 sector of non-invasive medical aesthetic in the PRC.

rhEGF "Healin"

We utilize genetic engineering technology to manufacture innovative biological products that 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 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 recent years showed a constantly increasing trend with outstanding market performance.

According to the research reports of CFDA 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 2016 whereas the market share of "Healin" products continued to increase from 16.2% in 2015 to 16.4% in 2016.

On 23 February 2017, the Ministry of Human Resources and Social Security officially issued the 2017 NRDL, and upon experts' appraisal, rhEGF "Healin" was reclassified to Class B medical insurance products by lifting the limitation on the work-related injury insurance products on the 2009 NRDL. Advanced jointly by the favourable policies and the Group's efforts on marketing, the Group's revenue from the sales of "Healin" products rapidly increased to approximately RMB53.03 million for the Reporting Period from approximately RMB37.52 million in 2016, representing an increase of 41.3%.

Orthopedics Products

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

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

	2017		2016		Year-on-year increase or decrease
	RMB'000	%	RMB'000	%	%
Sodium hyaluronate injection	**182,377**	**13.6%**	202,372	23.8%	-9.9%
Medical chitosan "Chitogel"	**83,713**	**6.2%**	84,878	10.0%	-1.4%
	266,090	**19.8%**	287,250	33.8%	-7.4%

According to the research reports of CFDA Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., we were the largest manufacturer of intra-articular viscosupplement products in China in 2016 for the third consecutive year where our market share increased to 35.4% in 2016 from 34.0% in 2015.

Sodium Hyaluronate Injection

During the Reporting Period, the Group's revenue from the sales of sodium hyaluronate injection product was approximately RMB182.38 million, representing a decrease of approximately RMB19.99 million, or approximately 9.9%, from RMB202.37 million in 2016.

Since 2015, the national policies in respect of adjusting drug purchasing models and drug prices have been issued successively, whereby the provincial and local governments introduced local policies one after another according to the instruction of the central government. Under further 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. In order to ensure its market share, the Group made proper adjustment to the bidding prices and selling prices of its products, due to which, the overall revenue from the sales of the sodium hyaluronate injection products decreased during the Reporting Period.

However, in terms of clinical application, the clinical application of sodium hyaluronate injection has been included in the Osteoarthritis Clinical Pathway (2016 version) issued by the National Health and Family Planning Commission, which established the important position of sodium hyaluronate in the treatment of osteoarthritis ("**OA**"). On 14 November 2017, as guided by the Sports Medicine Specialized Committee under the Chinese Association of Orthopedic Surgeons and the Editorial Department of the People's Medical Publishing House, many authoritative orthopedic experts and sports medicine experts in the PRC jointly formulated the 2017 revised version of the Expert Consensus on the Application of Sodium Hyaluronate for Orthopedic and Sports Medicine Related Diseases ("**2017 Consensus**"), the full text of which was published on the Chinese Journal of the Frontiers of Medical Science (Electronic Version). This is another important revision following the first publication of expert consensus in 2012 ("**2012 Consensus**"). By combining the application of 2012 Consensus in orthopedic and sports medicine areas in recent years, and the continual accumulation of evidence-based medical proof and clinical practices, 2017 Consensus provides academic references for the effective and regulated use of sodium hyaluronate injection products by the Chinese clinicians in orthopedic and sports medicine areas.

As a significantly efficacious product extensively used in the world, the sodium hyaluronate injection product can mitigate long-term pains, protect and improve function of joints with mild and low incidence of adverse reactions. Moreover, featuring safety, efficacy, practicality and economical efficiency, sodium hyaluronate injection can reduce the dosage of oral analgesic so as to bring about fewer adverse reactions caused by drugs. Given that such product still has an extremely low penetration rate in the PRC market, the management of the Company believes that, with the increasing popularity and acceptance among patient groups in the PRC, it has a future sales growth potential that cannot be overlooked. As such, the Group upgraded important accessories including PRTC (Plastic Rigid Tip Cap) syringe (魯爾鎖定接頭注射器) and thin-walled needle (薄壁注射針) during the Reporting Period to prominently improve injection experience, which laid a foundation for the long-term and stable growth of the Group's sodium hyaluronate injection product in the future.

In the meantime, our sodium hyaluronate injection product with a new specification of 2.5ml has been approved by the CFDA during the Reporting Period, making the Group the only enterprise having sodium hyaluronate injection products with full series of specifications of 2ml, 2.5ml and 3ml in the PRC market. The management of the Company believes that the approval of the new specification will help the Group to gain new strengths in the intense market competition.

Medical Chitosan "Chitogel"

During the Reporting Period, the Group's revenue from the sales of medical chitosan "Chitogel" products was approximately RMB83.71 million, representing a slight decrease of approximately RMB1.17 million from RMB84.88 million in 2016.

Medical chitosan "Chitogel" product is an exclusive 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 OA 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" product is characterized by the Group's exclusive water-soluble technology which significantly reduces the rate of allergy and thus fundamentally tackling the safety concerns in relation to the internal use of the product.

During the Reporting Period, medical chitosan "Chitogel" has been gradually entering some major hospitals in key cities of China. Currently, however, the medical chitosan "Chitogel" product is still in the process of market preparation for being added into the local health insurance and cost catalogue gradually. Coupled with the impact brought by national control measures in terms of the level and volume of social medical insurance expenditures in 2017, the revenue from such product remained flat as compared with that in 2016. The management of the Company believes that, through insisting upon professional promotion and market preparation improvement for medical chitosan "Chitogel" product, the stable quality and significant efficacy of such product will be recognized by an increasing number of doctors and patients, thus presenting significant development opportunity for medical chitosan "Chitogel" product in the future.

Anti-Adhesion and Hemostasis Products

The Group currently manufactures and sells five 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 breakdown of revenue from anti-adhesion and hemostasis products by specific products is as follows (by amount and as a percentage of the total revenue of the Group):

	2017		2016		Year-on-year increase or decrease
	RMB'000	%	RMB'000	%	%
Medical chitosan	**128,495**	**9.6%**	115,575	13.6%	11.2%
Medical sodium hyaluronate gel	**68,604**	**5.1%**	79,725	9.4%	-13.9%
Medical collagen sponge	**14,984**	**1.1%**	15,794	1.8%	-5.1%
	212,083	**15.8%**	211,094	24.8%	0.5%

During the Reporting Period, the Group's revenue from the sales of anti-adhesion and hemostasis products was approximately RMB212.08 million, which remained flat as compared with that in 2016.

Anti-Adhesion Products

According to the research reports of CFDA Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the market share of the anti-adhesion products of our Group maintained at 50.2% in 2016, making our Group the largest anti-adhesion product manufacturer in the PRC for the past ten consecutive years.

In November 2017, nearly 20 authoritative experts jointly formulated the Chinese Expert Consensus on Prevention of Abdominal Adhesion after Abdominal Surgery ("**Expert Consensus**"), the full text of which was published on the Chinese Journal of General Surgery. The Expert Consensus points out that post-operative tissue or visceral organ adhesion is the most common post-operative complication. Adverse reactions caused by abdominal adhesion will heavily burden the patients, doctors and the society. A large number of evidence-based medical proof shows that anti-adhesion materials can function as a protective barrier to avoid any adhesion, and can prevent adverse reactions related to adhesion to avoid medical risk associated with operation conducted right there, so as to reduce overall medical expenses. From 2015 to date, certain expert consensus associated with the anti-adhesion products marks the clinical medical concern on anti-adhesion issue. The management of the Company believes that with the promotion of the expert consensus, anti-adhesion products will be increasingly valued by both doctors and patients. It will facilitate the implementation of the provincial and national cost catalogue and medical insurance, hence increasing clinical usage radically and further promoting the continuous growth of the sales of anti-adhesion and hemostasis products of the Group.

Medical Collagen Sponge "奇特邦"

Medical collagen has good hemostatic and tissue filling effect, and thus becomes a unique biomedical material used in surgical operations for gynaecology and obstetrics, otolaryngology, brain surgery and general surgery. The medical collagen sponge "奇特邦" product of our Group is a refined type I collagen extracted from bovine tendon through the advanced freeze-drying technology. It can accelerate hemostasis and promote wound healing. In the meantime, 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 further enhanced the market recognition of its medical collagen sponge "奇特邦".

However, due to the impact brought by the reform of the payment method of medical insurance in 2017, in particular, the limitations on, or even suspension on use of, high-valued materials including anti-adhesion materials and new hemostasis materials in certain regions at the end of 2017, the Group's whole series of surgical products were restricted in hospital use. Coupled with the fact that the relevant tender process was not yet completed in some regions at the end of 2017, the Group's revenue from the sales of surgical products during the Reporting Period failed to grow as expected. The management of the Company believes that, the anti-adhesion materials and new hemostasis materials have precise clinical needs, and therefore, the use of which will gradually resume in 2018, and along with the completion of the tender processes in more regions, the market share and income of the Group's surgical products will enjoy a significant growing potential.

Research and Development ("R&D")

The Group continued to put more efforts on R&D. During the Reporting Period, the total R&D expenses amounted to RMB76.33 million, representing an increase of 61.5% as compared to 2016.

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 2017, the Group's in-house R&D team comprised 207 staff members, of which 153 were degree holders or above, 16 were doctorate degree holders and 50 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.

The Group owns an overseas R&D centre located in California of the United States, and will leverage on its advanced technology and R&D advantages to speed up the technological upgrading of domestic ophthalmic materials and improve the quality level and market competitiveness of domestic products.

As at 31 December 2017, the Group owns 57 product licenses and 42 product pipelines in different stages of R&D. The Group intends to lodge application for approval of production for 3 products; 7 products are undergoing different stages of clinical trials or type inspection; and 32 products are undergoing the stages of preclinical study or technology study.

During the Reporting Period, the China National Center for Biotechnology Development under the Ministry of Science and Technology published the proposed project list in 2017 of five special projects for the National Key Research and Development Programs under the "13th Five-Year Plan", such as "Research & Development of Biological Medicine Materials and Repair and Replacement of Tissues and Organs" (生物醫用材料研發與組織器官修復替代), of which, the project on "Research & Development of New Intraocular Lens and High-end Ophthalmic Implant Materials" led by the Group was successfully included into the said program. The financial support expected to be received by the Group is approximately RMB11.72 million. The National Key Research and Development Programs under the "13th Five-Year Plan" is a combination of the former 973 Program, 863 Program and National Technology Support Program, aiming to address major scientific issues that faced with national strategies. The approval of the "Research & Development of Biological Medicine Materials and Repair and Replacement of Tissues and Organs" (生物醫用材料研發與組織器官修復替代) project offers in-depth support to the Group on improving the quality and market competitiveness of domestic IOL product and then realizing its strategic plan related to replacement of imported products.

As at the date of this annual report, the National Development and Reform Commission released the 2017 (24th Batch) Proposed List of National Enterprise Technology Centers, on which the Company has been included as the only bio-medicine enterprise in Shanghai, making the Company the first Shanghai bio-medicine enterprise enlisted ever since 2015. The National Enterprise Technology Center was appraised and confirmed jointly by the National Development and Reform Commission, the Ministry of Science of Technology, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation. Since the commencement of the appraisal from 1993 in the PRC, an accumulation of 1,276 enterprises have been recognized as national-level enterprise technology centers, of which 61 enterprises are located in Shanghai, and only 6 are medical enterprises in Shanghai.

In the short to medium term, the Group will focus on the research and development of the third generation of HA dermal filler “QST gel”, fibrin sealant products, second generation of thermal-sensitive chitosan products, new IOL products and certain programs in ophthalmic treatment areas covering optical, dry eyes and glaucoma, and will also expand specification and indication of the Group’s existing products in the market.

In the long term, the Group will insist on expanding its R&D capabilities to further develop the new IOL and high-end ophthalmic implant materials R&D platform, which is elected as one of the National Key Research and Development Programs under the “13th Five-Year Plan”. 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 “12th Five-Year Plan”, as well as the electrospinning technology platform (elected as the major project of National Science and Technology) will 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 a marketing model that combines with distribution and direct sales, and owns extensive and effective sales network in China.

As at 31 December 2017, the Group’s distribution network comprised over 2,000 distributors. With such distribution network, products of the Group are sold across provinces, municipals and autonomous regions in China. In addition to the distribution network, the Group also has four professional teams, namely, specific markets, medical, commercial and sales teams who are responsible for formulating standardized marketing and sales policies, product trainings, academic promotions, 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 any changes to market needs. The four teams work independently yet complementing each other, centralizing the beneficial resources of the Group to assist the Group’s products to expand their market shares rapidly and effectively. The management of the Company believes that the Group’s broad coverage of hospitals and other medical institutions and its capabilities of identifying and managing distributors are serving as the major competitive strengths. Accordingly, the Group is able to effectively promote its products to the target market by means of its sales network with broad coverage. As a result, this lays a solid foundation for continuously enhancing the reputation of the Group’s products and brand, expanding the market share and increasing the sales of the products.

During the Reporting Period, the Group derived revenue of approximately RMB819.36 million and RMB525.50 million (2016: RMB634.97 million and RMB216.19 million) from the sales of its products through distributors and from direct sales, respectively, which accounted for 60.9% and 39.1% (2016: 74.6% and 25.4%) of the Group’s sales revenue, respectively.

OPERATING PROSPECTS OF 2018

Recently, the continual growth of the pharmaceutical and healthcare industry in China is driven by a combination of favourable socioeconomic factors. 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, the cross-regional joint procurement, as well as the two-vote system and other policies profoundly affecting the industry are propelling industry integration, transformation of operating models and price competition within the industry. The management of the Company believes that the year of 2018 will follow the year of 2017 which is 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 domestic industrialization progress of medical and pharmaceutical industry and reforms of weeding out obsolete capacities, enterprises benefiting from the advantage of scale and in possession of advanced technologies, well established brands, marketing competitive edge and industrial integration capabilities will experience invaluable development opportunities.

In 2018, the Group will continue to put its own capital to effective use; to proactively expand the business scale to the deeper and broader market of ophthalmology on the basis of the whole existing industry chain layout centered on IOL products; to explore the fast-growing therapeutic fields of medical aesthetic, orthopedics and surgery; and to actively identify suitable target companies to achieve expansionary business growth through acquisitions, capital increase or equity participation where appropriate.

In 2018, the Group will continue to focus on the organic growth of the existing segments by the following means:

- enhancing the manufacturing capacity of the whole series of products and upgrading the manufacturing facilities of merged companies by improving the quality of products and production efficiency through more intelligent and numerical manufacturing facilities and by actively expanding manufacturing place and establishing new production line;

- pushing forward the construction of the Group's information technology-based system comprehensively, focusing on and strengthening digital intelligence management of 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, promoting the clinical applications of products, supporting the technical improvements of IOL products and accelerating the replacement of imported goods;

- taking a series of marketing measures to intensify market penetration of original competitive products and expanding the coverage of the new products on key hospitals and areas via a refined multi-dimensional marketing strategy. In the new situation of pharmaceutical marketing, increasingly emphasizing the compliance management, and further advancing the development of professional marketing services.

Orthopedics Products

The management of the Company has well positioned the two types of orthopedics products of the Group. Sodium hyaluronate injection, which has a longer cultivation cycle, possesses the advantages of high clinical recognition and relatively broad application. In 2018, the Group will, as guided by the 2012 Consensus and 2017 Consensus, continue to advance marketing and provide academic support for the sufficient and regulated use of sodium hyaluronate injection products by the Chinese clinicians in orthopedic and sports medicine areas. Meanwhile, the Group is able to gain competitive edges in bidding and tendering by its products with whole series of specifications, which is helpful to stabilize the extensive coverage of the Group's sodium hyaluronate injection product for intra-articular viscosupplement products market and benefit more patients.

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. Such product has the significant advantages of minimized injection dosage and long-lasting therapeutic effect. For the medical chitosan "Chitogel" product, the management of the Company has designated (i) differentiated clinical applications; (ii) target market and price positioning, (iii) actively enhanced their marketing promotion and sales, and (iv) strived to penetrate the market in various regions, to secure the overall profitability of orthopedics products through the continuous growth in sales of such product.

While implementing the above strategies effectively, the Group will also actively explore and develop new products, to achieve the synergic development of the orthopedics products, thereby securing the brand appeal and leading position of the Group in the market of intra-articular viscosupplement products in China.

Medical Aesthetics and Wound Care Products

In 2018, the Group will advance, with all efforts, the clinical trials and registration of the third generation of HA dermal filler QST gel product, and combine the existing HA dermal filler "Matrifill" and "Janlane" product series to satisfy the increasingly segmented and diversified market demands. Leveraging on its highly competitive R&D, manufacture and sales platforms in medical biological materials, as well as the comprehensive superiority in the processing technology and quality control of HA Dermal Filler Products, the Group will continue to provide safe, effective and high-quality products for medical institutions and consumers. With regards to marketing, the Group will be proactive in exploring the market of its key commercial partners while expanding the coverage in medical institutions.

Anti-Adhesion and Hemostasis Products

In respect of the current market landscape of anti-adhesion products, there are various types of products in the PRC market, and market concentration is relatively high with the top three manufacturers representing nearly 80% of the market share in aggregate. In recent years, more challenges have been posed during product license renewal and new product registrations as the government continues to raise demands on the quality of such products. 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 on improving the specifications and packaging of the anti-adhesion and hemostasis products. The Group is currently able to provide a series of products with the most comprehensive and integrated specifications. The detailed designs can render more user-friendly products and further cater for clinical needs, thus cultivating a brand preference for medical practitioners. In 2018, the Group will enhance the market recognition and acceptance of the products among clinical surgery by putting more efforts on professional promotion, preparing for the rapid growth of such products.

Ophthalmology Products

The Group focuses on the investment and industrial integration of the ophthalmic high-valued materials, pharmaceuticals and diagnosing equipment used in ophthalmology surgery in China. In 2018, leveraging on its management team's brilliant track record, resource advantages and rich experiences in integrating strategic assets, the Group will continue to seek to streamline and integrate the internal and external products, technology, talents and other resources of the Group and all of its ophthalmology subsidiaries, aiming to promote the application of new materials and leverage on the advantages of overseas technological platform. The Group is committed to developing the whole series of domestic IOL products and promoting the domestic industrialization of overseas matured IOL production technology, with an aim to enhance the productivity, quality and market competitiveness of domestic enterprises, which in turn achieves replacement of imported products with domestic products in domestic market and expansion to international market, to explore the highly potential ophthalmology market with global customers. In addition, the Group will explore the development of ophthalmic treatments in glaucoma, fundus and dry eyes and build an industry foundation for its future business growth with efficient industry integration.

FINANCIAL REVIEW

Revenue, Cost and Gross Profit Margin

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB1,344.86 million (2016: approximately RMB851.16 million), representing an increase of RMB493.70 million, or approximately 58.0%, as compared to that in 2016, which was primarily attributable to the revenue contributed by the ophthalmic high-valued materials business acquired by the Group and the sustained increase of sales of medical aesthetics products of the Group. Following the growth in revenue, the sales cost of the Group amounted to approximately RMB287.47 million, representing an increase of 103.1% as compared to that in 2016.

During the Reporting Period, the overall gross profit margin of the Group decreased from 83.4% in 2016 to 78.6%, primarily attributable to the lower overall gross profit margin of the ophthalmic high-valued materials business acquired by the Group as compared to that of the Group's existing business, as well as the fact that the Group lowered the selling prices of various series of products under the existing business in order to respond to the national tender policy and adapt to the highly competitive market environment, which also resulted to a decrease in gross profit margin.

Selling and Distribution Expenses

The selling and distribution expenses of the Group increased from approximately RMB287.76 million in 2016 to approximately RMB414.08 million for the Reporting Period, representing an increase of approximately RMB126.32 million. The proportion of selling and distribution expenses to the Group's total revenue decreased from 33.8% in 2016 to 30.8% for the Reporting Period. The general increase in the selling and distribution expenses of the Group during the Reporting Period was primarily due to the impact of combined statements incurred by the acquisition of ophthalmic high-valued materials business by the Group. Meanwhile, the Group's increasing involvement in academic promotion and launching campaign of new products such as HA Dermal Filler product "Janlane" during the Reporting Period also led to an increase in selling expenses. However, the selling and distribution expenses of the ophthalmic high-valued materials business acquired by the Group, in particular, the Group's overseas business, represented a relatively low proportion in the total revenue, which led to a decrease in the general proportion of the Group during the Reporting Period.

Administrative Expenses

The administrative expenses of the Group increased from approximately RMB90.19 million recorded in 2016 to approximately RMB194.75 million for the Reporting Period, representing an increase of approximately RMB104.56 million. The proportion of administrative expenses to the Group's total revenue increased from 10.6% in 2016 to 14.5% for the Reporting Period. The general increase in the administrative expenses of the Group during the Reporting Period was primarily due to the existing administrative expenses incurred by the acquisition of ophthalmic high-valued materials business by the Group, the amortization charge on intangible assets from business acquisitions, and other impacts of combined statements. Moreover, the increasing number of administrative staff as well as more performance awards distributed by the Group also contributed to increased administrative expenses.

R&D Expenses

The R&D expenses of the Group increased from approximately RMB47.26 million recorded in 2016 to approximately RMB76.33 million for the Reporting Period, representing an increase of approximately RMB29.07 million, primarily due to the impact of combined statements incurred by the acquisition of ophthalmic high-valued materials business by the Group. Meanwhile, as the Group continued to enlarge its R&D investments in the existing businesses, more pipeline products and more R&D team members also resulted in the growth in R&D expenses. During the Reporting Period, the proportion of R&D expenses to the Group's total revenue was 5.7% (2016: 5.6%). With the Group's rich product pipeline under development 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 RMB55.26 million in 2016 to approximately RMB61.61 million for the Reporting Period, representing an increase of approximately RMB6.35 million.

The effective rate of income tax for the Group recorded a slight decrease from 15.1% in 2016 to 13.3% for the Reporting Period, primarily due to the utilization of previous years' current tax losses by two of the Group's subsidiaries.

Results of the Year

Due to the above reasons, during the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB372.42 million (2016: RMB305.05 million), representing an increase of approximately 22.1% as compared to that in 2016. The amortisation charge attributable to ordinary equity holders of the Company on intangible assets from business acquisition of the Group (after tax) was approximately RMB12.50 million (2016: RMB1.41 million), after excluding the impact of such charge, the profit attributable to ordinary equity holders of the Company was approximately RMB384.92 million (2016: RMB306.46 million), representing an increase of approximately 25.6% as compared to that in 2016.

During the Reporting Period, the basic earnings per share were RMB2.33 (2016: RMB1.91). The stable growth in the results during the Reporting Period was mainly attributable to the income from the ophthalmic high-valued materials business acquired by the Group as well as the growth in sales revenue and profit of the existing business of the Group.

Liquidity and Capital Resources

As at 31 December 2017, the total current assets of the Group amounted to approximately RMB2,385.97 million, representing a decrease of approximately RMB102.19 million as compared to the amount as at 31 December 2016, and the total current liabilities amounted to approximately RMB477.76 million, representing a decrease of approximately RMB58.40 million as compared to the amount as at 31 December 2016. As at 31 December 2017, the Group's current assets to liabilities ratio was approximately 4.99 (31 December 2016: 4.64).

Employees and Remuneration Policy

The Group had 1,107 employees in total as of 31 December 2017. The breakdown of our total number of employees by function was as follows:

Production	405
Research and Development	207
Sales and Marketing	310
Supply	18
Administration	167
Total	1,107

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 RMB205.61 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, GBP 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 2017, the bank borrowings of approximately GBP2.16 million (equivalent to approximately RMB18.98 million) of Contamac Holdings, a subsidiary of the Group, were secured by the pledge of certain of its property, plant and equipment with the carrying amount of approximately GBP1.45 million (equivalent to approximately RMB12.74 million) (31 December 2016: nil).

Gearing

As at 31 December 2017, the total liabilities of the Group amounted to approximately RMB708.59 million and the gearing ratio (total liabilities/total assets) x 100%) was 17.4%, representing a decrease as compared to 19.2% as at 31 December 2016. Such decrease was primarily due to the Group's subsequent payment for part of the business acquisitions during the Reporting Period.

Bank Borrowings

As at 31 December 2017, Shenzhen NIMO and Contamac Holdings, two subsidiaries of the Group, had interest-bearing bank borrowings of approximately RMB18.50 million and GBP2.16 million (equivalent to approximately RMB18.98 million), respectively.

As at 31 December 2016, Shenzhen NIMO, the subsidiary of the Group, had interest-bearing bank borrowings of approximately RMB26.67 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 2017, the Group did not enter into any hedging transactions.

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities.

Material Events after the Reporting Period

As at 31 December 2017, there were no significant events after the Reporting Period.

Material Acquisitions and Disposals of Subsidiaries and Associates

Save as disclosed in this annual report, the Group did not have any material acquisitions and disposals related to subsidiaries and affiliated companies during the year ended 31 December 2017.

Significant Investment

Save as disclosed in this annual report, the Group has no other significant investment during the year ended 31 December 2017.

Purchase, Sales or Redemption of Listed Securities

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

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.

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 23 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 42 to the consolidated financial statements. The Group don't have any significant event since the end of the Reporting Period and as at the date of this report. 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 56 in this annual report. The probable future business development of the Company is discussed in "Management Discussion and Analysis" on page 18 of this annual report.

RESULTS

The Company's results for the Reporting Period and the financial position of the Company as at 31 December 2017 are set out in the audited consolidated financial statements on pages 70 to 76 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 23 of this annual report.

DIVIDENDS

On 26 March 2018, the Board recommends to declare a final dividend of RMB0.5 (inclusive of tax) per share for the year ended 31 December 2017, 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, August 10, 2018.

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 2017 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 77 to 79 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 2017, the net proceeds of the Company were applied as follows:

Use of Proceeds from the Global Offering	Remaining Balance of Unutilized Net Proceeds up to 8 June 2016[(1)] *(RMB million) approximately*	Remaining Balance of Unutilized Net Proceeds up to 14 February 2017[(2)] *(RMB million) approximately*	Approximate Percentage of Remaining Balance of Unutilized Net Proceeds up to 14 February 2017	Proposed Reallocation on the Use of Remaining Balance of Unutilized Net Proceeds up to 14 February 2017 *(RMB million) approximately*	Utilized Net Proceeds up to 31 December 2017 *(RMB million) approximately*	Remaining Balance of Unutilized Net Proceeds up to 31 December 2017 *(RMB million) approximately*
1. Acquiring Suitable Businesses	694.28	0.02	80%	284.26	240.33	43.93
2. Purchasing New Production Equipment	378.69	355.26	10%	35.53	35.53	0.00
3. Working Capital	189.35	0.05	10%	35.53	35.53	0.00
		355.33				43.93

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. For the details of the proposal to change the use of net proceeds, please refer to the announcement of Proposed Change in Use of Proceeds from the Global Offering dated 18 March 2016.

(2) The extraordinary general meeting has passed the proposal on the second reallocation and further change in use of net proceeds on 14 February 2017. For the details of the proposal on the further change in the use of net proceeds, please refer to the announcement of Proposed Further Change in Use of Proceeds from the Global Offering dated 9 December 2016.

SHARE CAPITAL

Share capital of the Company as at 31 December 2017 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 56.1% of the Group's total purchases for the year ended 31 December 2017, among which, the purchases attributable to the Group's largest supplier during the Reporting Period was 35.4%.

During the Reporting Period, the aggregate sales attributable to the Group's five largest distributors comprised 10.4% of the Group's total sales for the year ended 31 December 2017, among which, the sales attributable to the Group's largest distributor during the Reporting Period was 3.4%. 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 13.4% of the Group's total sales for the year ended 31 December 2017, among which, the sales attributable to the Group's largest customer during the Reporting Period was 4.5%.

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 31 to the consolidated financial statements and details of the reserve distributable to shareholders are set out in note 31 to the consolidated financial statements.

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 2017, Shenzhen NIMO and Contamac Holdings, two subsidiaries of the Group, had interest-bearing bank borrowings of approximately RMB18.50 million and GBP2.16 million (equivalent to approximately RMB18.98 million), respectively.

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	56	Chairman and Executive Director	23 July 2010
Mr. Wu Jianying	54	Executive Director and General Manager	23 July 2010
Mr. Huang Ming	42	Executive Director, Secretary of the Board and one of our joint company secretaries	23 July 2010
Ms. Chen Yiyi	36	Executive Director	23 July 2010
Mr. Tang Minjie	42	Executive Director and Chief Financial Officer	14 February 2017
Ms. You Jie	55	Non-executive director	23 July 2010
Mr. Gan Renbao	78	Non-executive director	23 July 2010
Mr. Chen Huabin	50	Independent Non-executive director	16 October 2014
Mr. Shen Hongbo	38	Independent Non-executive director	16 October 2014
Mr. Li Yuanxu	51	Independent Non-executive director	16 December 2010
Mr. Zhu Qin	54	Independent Non-executive director	16 October 2014
Mr. Wong Kwan Kit	48	Independent Non-executive director	6 April 2015
Mr. Liu Yuanzhong	49	Chairman of the Supervisory Committee and shareholder Supervisor	23 July 2010
Ms. Yang Qing	46	Independent Supervisor	16 October 2014
Mr. Tang Yuejun	39	Independent Supervisor	16 October 2014
Mr. Wei Changzheng	38	Employee representative Supervisor	23 July 2010
Mr. Yang Linfeng	36	Employee representative Supervisor	30 September 2014
Ms. Ren Caixia	60	Deputy general manager	23 July 2010
Mr. Wang Wenbin *(whose term of office expired on 29 September 2017)*	51	Deputy general manager	30 September 2014
Mr. Zhang Jundong *(whose term of office expired on 29 September 2017)*	44	Deputy general manager	30 September 2014
Ms. Wei Xin *(resigned on 21 December 2017)*	46	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 CHIEF EXECUTIVE OFFICER

The changes in the information of Directors, Supervisors and chief executive office since the date of the Company's 2017 interim report are set out below:

1. Mr. Wu Jianying, an executive Director and General Manager of the Company, served as a director of Haohai Aesthetics Holdings (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, with effect from November 2017, and ceased to be the chairman of Shanghai Baiyue Medical Equipment Co., Ltd.* (上海柏越醫療設備有限公司) since November 2017.

2. Mr. Huang Ming, an executive Director, secretary of the Board and joint company secretary of the Company, ceased to be a supervisor of Shanghai Baiyue Medical Equipment Co., Ltd.* (上海柏越醫療設備有限公司) since November 2017, and served as a director of China Ocean Group Limited, an indirectly wholly-owned subsidiary of the Company, with effect from December 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 2017, 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 2017, (b) no new competing business was reported by the Covenantors as at 31 December 2017, (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 2017 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 2017, the Group had 1,107 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 2017, 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]	42,800,000 (L)	35.67	26.74	Beneficial owner
	28,800,000 (L)	24.00	17.99	Interest of spouse
	6,471,000 (L)	5.39	4.04	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanxi Corporate Management Limited Company[2]	6,471,000 (L)	5.39	4.04	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership)[2]	6,471,000 (L)	5.39	4.04	Beneficial owner
Lou Guoliang	10,000,000 (L)	8.33	6.25	Beneficial owner

Note: L denotes long position

1. Mr. Jiang Wei directly holds 42,800,000 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. He holds 6,471,000 domestic shares in the Company through his interest in controlling Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) and its controlling shareholder Shanghai Zhanxi Corporate Management Limited Company.

2 Each of Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) and its controlling shareholder Shanghai Zhanxi Corporate Management Limited Company is deemed to be interested in such shares.

3. Pursuant to Part XV of the SFO, if certain conditions are met, the shareholders of the Company are required to submit a disclosure of interest notice. In the event of changes in the shareholding of the shareholders in the Company, the shareholders will not be required to notify the Company and the Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the shareholders in the Company may be different from the shareholding submitted to the Stock Exchange.

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)]	3,254,120(L)	8.13	2.03	Person having a security interest in shares
	1,000 (L)	0.002	0.0006	Interest of corporation controlled by the substantial shareholder
Templeton Investment Counsel, LLC[(1)]	3,634,200 (L)	9.08	2.27	Investment Manager
Matthews International Capital Management, LLC[(1)]	3,876,800 (L)	9.68	2.42	Investment Manager

Notes: L denotes long 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 3,254,120 H Shares, UBS Group AG was deemed to hold long position of 3,254,120 H Shares through its security interest in those shares. In addition, UBS Group AG was deemed to have interest in long position of 1,000 H Shares (UBS Fund Management (Switzerland) AG was wholly owned by UBS Group AG, and was beneficially holding long position of 1,000 H Shares in the Company).

Saved as disclosed above, as at 31 December 2017, 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 2017, 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
	49,271,000 (L)	41.06	30.79	Interest of spouse
Hou Yongtai	6,000,000 (L)	5.00	3.75	Beneficial owner
Wu Jianying	6,000,000 (L)	5.00	3.75	Beneficial owner
Huang Ming	2,000,000 (L)	1.67	1.25	Beneficial owner
Gan Renbao	500,000 (L)	0.42	0.31	Beneficial owner
Chen Yiyi	400,000 (L)	0.33	0.25	Beneficial owner
Liu Yuanzhong	2,000,000 (L)	1.67	1.25	Beneficial owner

Note: L denotes long position

1. Ms. You Jie directly holds 28,800,000 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 42,800,000 domestic shares directly held by Mr. Jiang Wei and 6,471,000 domestic shares held through Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) in the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2017, 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

For the year ended 31 December 2017, the Group did not entered into any connected transactions or continuing connected transactions which were subject to disclosure in this annual report under Chapter 14A of the Listing Rules.

Information on connected transactions effective during the Reporting Period which are fully exempt connected transactions pursuant to the Rule 14A.76 of the Listing Rules are contained in note 39 (a) (ii) and note 39(b) to the consolidated financial statements in this annual report.

The related party transactions in respect of the remuneration of directors, supervisors and chief executives of the Company constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than directors, supervisors and chief executives) of the Company did not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

The details on the related party transactions of the Group for the year ended 31 December 2017 are set out in note 39 to the consolidated financial statements in this annual report.

None of the related party transactions constitutes a connected transaction or continuing connected transaction which is subject to the shareholders' approval, annual review and all disclosure 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 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 RMB625,140.00.

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 2017 annual results and financial statements of the Group for the year ended 31 December 2017 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 2017 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

26 March 2018

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	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 60 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 six 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	6/6
Mr. Wu Jianying	Executive Director and General Manager	6/6
Mr. Huang Ming	Executive Director, Secretary of the Board and one of the Joint Company Secretaries	6/6
Ms. Chen Yiyi	Executive Director	6/6
Mr. Tang Minjie	Executive Director and Chief Financial Officer	6/6
Ms. You Jie	Non-executive Director	6/6
Mr. Gan Renbao	Non-executive Director	6/6
Mr. Chen Huabin	Independent Non-executive Director	6/6
Mr. Shen Hongbo	Independent Non-executive Director	6/6
Mr. Li Yuanxu	Independent Non-executive Director	6/6
Mr. Zhu Qin	Independent Non-executive Director	6/6
Mr. Wong Kwan Kit	Independent Non-executive Director	6/6

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 of the Company participated in the trainings regarding the knowledge and cases of leveraged merger & acquisition, as well as the knowledge in relation to environmental, social and governance report during the Reporting Period, in order to comply with the requirements of the Corporate Governance Code in relation to continuous professional development.

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. As authorized by the general meeting, emoluments of Directors shall be determined by the Board with reference to Directors' experience, working performance and position as well as the market conditions.

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.

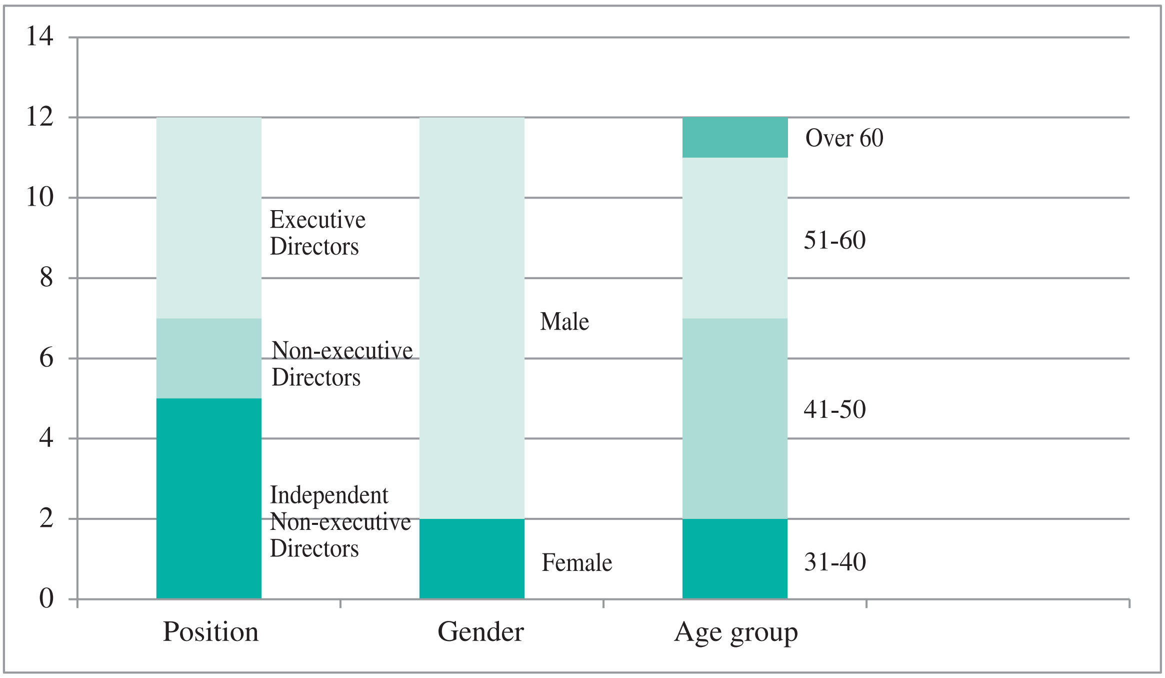
Board Diversity Policy

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 of 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 60 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	3/3

During the Reporting Period, the Audit Committee, through its meetings held on 30 March, 30 August and 20 December 2017 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 2016, review and discussion of the onshore and offshore audit firms' expenses in 2016, recommendation of the Board to engage onshore and offshore audit firms in 2017, as well as review and discussion of audit work of the Group and internal control self-valuation report in 2016;

- review and discussion of the financial statements and interim report and results announcement for the six months ended 30 June 2017; and

- review and discussion of the Risk Management and Internal Control System Assessment Report and the Risk Assessment Report of the Company, and recommendation to the Board of the Company's Risk Management and Internal Control System Assessment Report and the 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 30 March 2017 to review and pass remuneration of Directors and senior management personnel in 2016 and remuneration proposal of Directors and senior management personnel in 2017. All members of the Remuneration Committee 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 a meeting on 30 March 2017 to review and pass the proposals on the review of the Board diversity and achievement of objectives pursuant to the board diversity policy and effectiveness of the board diversity policy, evaluation of the independence of independent non-executive Directors, and review of the Board structure and the non-executive Directors' duties fulfillment to the Company. All members of the Nomination Committee attended the meeting.

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 the 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 30 March 2017 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 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 of 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 through its meetings held on 30 March and 30 August 2017 respectively, has mainly performed, among others, the following:

- review of the audited financial statements for the year ended 31 December 2016; and

- review of the financial statements for the six months ended 30 June 2017.

AUDITORS AND THEIR REMUNERATIONS

At the 2016 annual general meeting convened on 23 June 2017, the Company approved the appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the Company's domestic and international auditors for 2017, 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 RMB1.74 million and RMB0.16 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 2017 which give a true and fair view of the state of affairs of the Group as at 31 December 2017 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 69.

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 acknowledges its responsibility for the effectiveness of risk management and internal control systems of the Group. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Directors of the Company are responsible for regularly reviewing the internal control and risk management system of the Group to ensure its effectiveness and efficiency. The risk management and internal control work of the Group involves jointly work of the Board, the Audit Committee, the audit department and management of the Company. The Board is responsible for maintaining a sound and effective risk management and internal control system, and assessing the effectiveness of the said system annually through the Audit Committee, which shall cover all significant monitoring including finance, operation and compliance monitoring as well as risk management function. The Audit Committee is responsible for assisting the Board in monitoring the Group's risk management and internal control system, and review and discussion with the management annually to ensure the discharging of duties by the management so as to maintain the effectiveness of the said system, and is responsible for considering the important survey results in relation to risk management and internal control and making recommendations to the Board. The audit department, the executive body for the work of the Audit Committee, is responsible for facilitating the effective operation and management of the Company and providing support to the Board and the Audit Committee in discharging their duties. The management is responsible for designing, implementing and monitoring the Group's risk management and internal control system, and reporting to the Board and the Audit Committee the effectiveness of the said system.

During the Reporting Period, under the leadership of the Audit Committee, the audit department analyzed the effectiveness of the risk management and internal control system of the Company through 11 internal audit projects, and submitted the results to the Board via the Audit Committee. On 30 March 2017 and 20 December 2017, the Board convened two meetings, respectively, to review the effectiveness of the risk management and internal control system of the Company during the Reporting Period, concluding the said system and the internal audit function was adequate and effective, but only made reasonable but not absolute assurance against material misstatements or losses. The Board has considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting departments and their training programs and budgets.

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 Group's financial position, operating results and business prospect may be directly or indirectly affected by a series of risks and uncertainties relating to the businesses of the Group. During the Reporting Period, there was no change in the nature and extent of major risks for the Group. The major risks identified by the Group are set out below:

Internal Management Risk

Along with the expansion of the business scale of the Group, and the increasing number of subsidiaries, in particular, overseas subsidiaries, the Group will face more challenges in operation and management, human resources and financial control. Any inability to accommodate with new situations or new changes in terms of operation and management, risk management, and talent cultivation will directly expose the Group to operation and management risks.

Business Risk

In 2017, the structure of the pharmaceutical industry in China is undergoing profound adjustments and changes. During the Reporting Period, the reform policies released by the pharmaceutical and medical device industry covered almost all of the sub-sectors under the four major sectors including pharmaceuticals, healthcare, medical insurance and circulation. which created severe challenges for the enterprises within the industry, while on the other hand, important develop opportunities also emerged. The Group offered responses to the reforms. In order to accommodate with the fast-changing tender policy and the highly competitive market environment, the Group made quick and proper adjustments to the selling prices of products, marketing mode, etc. Meanwhile, the Group improved operational efficiency through refined management, enhanced budgeting and operations control. The Group also focused on optimizing its product portfolio and advancing service upgrade so as to secure the steady growth of the Group's entire principal business.

Financial Risk

Major financial risks are set out in note 42 to the consolidated financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could be material in the future.

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 2017.

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 accounting 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 2017 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
14 February 2017	23/F, WenGuang Plaza, No. 1386 Hongqiao Road, Changning District, Shanghai, PRC	2017 First Extraordinary General Meeting
23 June 2017	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2017 First Domestic Shareholders' Class Meeting
23 June 2017	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2017 First H Shareholders' Class Meeting
23 June 2017	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2016 Annual 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. 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	Executive Director and Chief Financial Officer	4/4
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

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.

OUTLINE OF 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

ENVIRONMENTAL POLICY PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY

The Group is dedicated to increasing the operational efficiency, with the aim of ensuring that our main business achieve overall healthy development, while pursuing sustainable development and operation. With the assistance of the environmental, social and governance (ESG) working group, the Group has been making persistent efforts in optimizing our ESG management.

As an enterprise engaging in the high-tech biomedicine industry, the Group takes a proactive approach to implement the philosophy of sustainable development in various aspects, including research and development of products, production and transportation. As a research and development project launches, we would carry out assessment on the environmental risks, with a view to minimizing the impact on the environment. In the process of production, through the implementation of the ISO14001 environmental management systems certification, we take the initiative to comply with relevant laws and regulations, while making consistent efforts in the optimization of environmental protection facilities and retrofitting for energy saving. Such initiatives aim to continuously enhance the level of environmental management, and minimize the burden on the environment arising from our production and operation activities to the full extent. In the process of transportation, we further put our philosophy of energy saving and emission reduction into practice by way of enhancing the transportation efficiency.

The Group has been continuously strengthening the capability in product innovation and research and development. Shanghai Qisheng was awarded the title of "Little Giant Science and Technology Outstanding Enterprise" and the project on "Research & Development of New Intraocular Lens and High-end Ophthalmic Implant Materials" was successfully selected in the National Key Research and Development Programs under the "13th Five-Year Plan". The Group persistently optimizes the production process to ensure the homogeneity and stability of product quality; during the year, the Group proactively conducts various charity events in the community, including cataract program and carries out our corporate social responsibility.

RELATIONSHIP WITH STAKEHOLDERS

We consider our customers, shareholders and potential investors, government institutions, media, employees, suppliers etc. as our important stakeholders. In order to ensure the establishment of an effective ESG development strategy that addresses environmental and social regulatory risks, and respond to the opinions and expectations of various stakeholders, the Group carried out stakeholder survey, and analysis of regulatory requirements during the year, as a result of which we concluded the important ESG issues that are vital to our own development and the stakeholders are concerned as the basis for preparing of independent ESG report, and as important reference in formulating sustainable development strategy in the future. For more information about the ESG performance of the Group during the Reporting Period, please refer to the independent ESG report to be published by the Company (such report will be published with three months after the publication date of this annual report) 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 is strictly in compliance with the relevant laws and regulation in the regions where it operates and observes the Hong Kong Listing Rules. For the purpose of minimizing ESG risks, the Group has been complying with various regulations relating to areas such as labor welfare, safety and health, environment etc. During the Reporting Period, there was no cases of material breach or non-compliance with the relevant laws and regulations occurred within the Group.

EXECUTIVE DIRECTORS

Dr. Hou Yongtai (侯永泰), aged 56, 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 54, 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, and the general manager and executive director at Shanghai Likangrui since December 2010. 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., an indirectly wholly-owned subsidiary of our Company since May 2016, the director of Haohai Healthcare Holdings (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since August 2016, the Chairman of New Industries since November 2016 and the executive director of Zhuhai Eye Good in December 2016, and the director of Contamac Holdings Limited, a subsidiary of our Company since June 2017, and the director of Haohai Aesthetic Holdings Co., Ltd., an indirectly wholly-owned subsidiary of our Company since November 2017. 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.

Mr. Huang Ming (黃 明), aged 42, 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, and a supervisor of Shanghai Likangrui since December 2010. He served as the director of Haohai Healthcare since July 2015, the director of New Industries since December 2016 the director of Contamac Holdings Limited, a subsidiary of the Company since June 2017, and the director of China Ocean Group Limted, an indirectly wholly-owned subsidiary of the Company, since December 2017. 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 36, 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 42, 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, and serves as the director of Contamac Holdings Limited, a subsidiary of the Company since June 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 55, 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 78, 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 50, 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 38, 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 51, 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.

Mr. Zhu Qin (朱勤), aged 54, 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 48, 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 49, 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 46, 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 39, 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 (魏長征), aged 38, 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 36, 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 60, 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 51, 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 44, 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.

JOINT COMPANY SECRETARIES

Mr. Huang Ming (黃明), aged 42, 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 41, 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 12 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 also a holder of the Practitioner's Endorsement Certificate issued by HKICS. 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 70 to 151, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group recorded revenue from sales of goods amounting to approximately RMB1,345 million in its consolidated statement of profit or loss and other comprehensive income for the year end 31 December 2017. 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 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.	Our audit procedures included, among others, performing test of control on revenue recognition, performing test of details by checking the occurrence and accuracy of selected revenue records based on threshold, obtaining the sales contracts with customers, and reviewing key terms of revenue recognition and sales return. In addition, 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 documents. We performed alternative procedures for non-replied confirmations by checking to original documents and subsequent review. We performed substantive analytical review by comparing revenue and gross margin to previous years among the same products. 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 MATTERS (Continued)

Key audit matter

Business combination

In May 2017, the Group completed the acquisition of a 70% equity interest of Contamac Holdings Limited at a total consideration of GBP24.5 million (approximately RMB216 million) and recognised goodwill of GBP8 million (approximately RMB68 million) and other intangible assets of GBP21 million (approximately RMB183 million). We focus on this area because the accounting for the acquisition relies on a significant amount of management estimation and judgements in respect of fair value assessments of the non-current assets, and the review of these estimations required a high level of professional judgement.

The Group's specific disclosures about business combination are included in note 2.4 summary of significant accounting policies and note 33 business combination to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included, among others, evaluating the competence, capabilities and objectivity of the external appraiser engaged by the Group to perform the valuation and involving our internal valuation specialists to assist us in reviewing the valuation methodologies adopted, and the assumptions used in the valuation of the non-current assets by reference to the historical experience, estimation of the Group and the market practices, including discount rate and growth rate. Besides, we also checked the related disclosures.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the carrying value of goodwill and intangible assets with infinite useful lives	
Goodwill and intangible assets with infinite useful lives subjected to impairment test arising from business combination amounted to RMB343 million and RMB103 million respectively as at 31 December 2017. The Group is required to perform the impairment test for goodwill and intangible assets with infinite useful lives annually. The impairment test is based on the recoverable value of the respective cash-generating units ("CGUs"). We focus on this area because management's impairment assessment process on goodwill and intangible assets with infinite useful lives is complex and involved significant judgements, 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 about goodwill and intangible assets are included in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates, note 15 intangible assets 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, including the discount rate and growth rate, used by the Group in the impairment test of goodwill and intangible assets with infinite useful lives arising from business combination. We evaluated the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGUs and the business development plan. Besides, we also checked the related disclosures.

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 Group or to cease operations or have no realistic alternative but to do so.

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

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
26 March 2018

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**1,344,856**	851,157
Cost of sales		**(287,467)**	(141,551)
Gross profit		**1,057,389**	709,606
Other income and gains, net	5	**115,830**	88,500
Selling and distribution expenses		**(414,083)**	(287,757)
Administrative expenses		**(194,754)**	(90,190)
Research and development costs		**(76,332)**	(47,255)
Other expenses		**(21,969)**	(7,964)
Finance costs	7	**(2,209)**	(216)
Share of profits and losses of:			
A joint venture	17	**(2,358)**	—
An associate	18	**107**	1,161
PROFIT BEFORE TAX	6	**461,621**	365,885
Income tax expense	10	**(61,609)**	(55,258)
PROFIT FOR THE YEAR		**400,012**	310,627
Attributable to:			
Ordinary equity holders of the parent		**372,415**	305,052
Non-controlling interests		**27,597**	5,575
		400,012	310,627
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value		**17,227**	(1,587)
Exchange differences on translation of foreign operations		**(6,879)**	2,634
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**10,348**	1,047
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**410,360**	311,674
Attributable to:			
Ordinary equity holders of the parent		**382,951**	306,099
Non-controlling interests		**27,409**	5,575
		410,360	311,674
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the year	12	**2.33**	1.91

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	585,757	474,754
Prepaid land lease payments	14	40,640	30,888
Other intangible assets	15	449,514	295,406
Goodwill	16	410,144	292,084
Investment in a joint venture	17	13,778	—
Investment in an associate	18	3,549	—
Available-for-sale investments	19	91,453	64,226
Deferred tax assets	28	17,510	8,813
Other non-current assets	20	76,984	39,078
Total non-current assets		1,689,329	1,205,249
CURRENT ASSETS			
Inventories	21	174,914	117,953
Trade and bills receivables	22	333,042	235,153
Prepayments, deposits and other receivables	23	80,594	124,802
Cash and bank balances	24	1,797,420	2,010,255
Total current assets		2,385,970	2,488,163
CURRENT LIABILITIES			
Trade payables	25	39,009	19,686
Other payables and accruals	26	376,431	442,451
Interest-bearing bank borrowings	27	19,888	26,666
Tax payable		42,428	47,352
Total current liabilities		477,756	536,155
NET CURRENT ASSETS		1,908,214	1,952,008
TOTAL ASSETS LESS CURRENT LIABILITIES		3,597,543	3,157,257
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	17,596	—
Other payables and accruals	26	93,241	75,600
Deferred tax liabilities	28	110,894	83,787
Deferred income	29	9,107	12,010
Total non-current liabilities		230,838	171,397
NET ASSETS		3,366,705	2,985,860

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital	30	**160,045**	160,045
Reserves	31	**3,040,517**	2,743,947
		3,200,562	2,903,992
Non-controlling interests		**166,143**	81,868
Total equity		**3,366,705**	2,985,860

Hou Yongtai	**Tang Minjie**
Director	*Director*

	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 interests 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 31 December 2016 and 1 January 2017	160,045	1,770,386	(1,587)	77,680	2,634	—	894,834	2,903,992	81,868	2,985,860
Profit for the year	—	—	—	—	—	—	372,415	372,415	27,597	400,012
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments	—	—	17,227	—	—	—	—	17,227	—	17,227
Exchange differences related to foreign operations	—	—	—	—	(6,691)	—	—	(6,691)	(188)	(6,879)
Total comprehensive income for the year	—	—	17,227	—	(6,691)	—	372,415	382,951	27,409	410,360
Disposal of a subsidiary	—	—	—	—	—	—	—	—	(2,744)	(2,744)
Non-controlling interests arising from business combination	—	—	—	—	—	—	—	—	63,168	63,168
Dividends declared	—	—	—	—	—	—	(80,023)	(80,023)	—	(80,023)
Acquisition of non-controlling interests	—	—	—	—	—	(264)	—	(264)	(1,136)	(1,400)
Others	—	—	—	—	—	—	(6,094)	(6,094)	(2,422)	(8,516)
Transfer from retained profits	—	—	—	2,343	—	—	(2,343)	—	—	—
As at 31 December 2017	160,045	1,770,386	15,640	80,023	(4,057)	(264)	1,178,789	3,200,562	166,143	3,366,705

* These reserve accounts comprise the consolidated reserves of approximately RMB3,040,517,000 (2016: RMB2,743,947,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		461,621	365,885
Adjustments for:			
Finance costs	7	2,209	216
Share of profits and losses of:			
A joint venture	17	2,358	—
An associate	18	(107)	(1,161)
Interest income from bank deposits	5	(59,483)	(58,443)
Interest income from available-for-sale investments		(4,226)	(35)
Net loss on disposal of items of property, plant and equipment	6	1,070	122
Depreciation	6	43,171	31,352
Amortisation of prepaid land lease payments	6	738	738
Amortisation of other intangible assets	6	23,832	3,717
Impairment of trade and other receivables	6	10,693	7,046
Recognition of government grants related to assets	29	(2,903)	(2,853)
Unrealised gains from changes in foreign currency exchange		(1,531)	(720)
Dividend income from available-for-sale investments	5	(4,904)	—
Gain on disposal of a partly-owned subsidiary	5	(2,484)	—
Write-down of inventories to net realisable value	6	742	—
		470,796	345,864
(Increase)/decrease in inventories		(47,266)	9,726
Increase in trade and bills receivables		(83,254)	(85,444)
Decrease in prepayments, deposits and other receivables		51,567	12,991
Increase in trade payables		12,915	4,522
Increase in other payables and accruals		18,959	59
Cash generated from operations		423,717	287,718
Income tax paid		(80,658)	(33,233)
Net cash flows generated from operating activities		343,059	254,485

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from bank deposits		70,883	47,043
Interest income received from available-for-sale investments		1,481	35
Purchases of items of property, plant and equipment		(134,289)	(75,667)
Purchase of other intangible assets		(421)	—
Proceeds from disposal of items of property, plant and equipment		901	64
Receipt of government grants for property, plant and equipment		8,203	—
Payment for acquisition of subsidiaries		(296,013)	(242,151)
Payment for liabilities arising from the acquisition of subsidiaries		(48,000)	—
Payment for investment in an associate		—	(4,250)
Proceeds from disposal of available-for-sale investments		72,945	4,500
Purchase of available-for-sale investments		(80,200)	(65,813)
Refundable deposit for business acquisition		—	(30,000)
Decrease/(increase) in time deposits with original maturity of more than three months		309,469	(1,145,000)
Dividends received from available-for-sale investments		4,904	—
Dividends arising from business combination paid to non-controlling shareholders		(64,813)	—
Disposal of a partly-owned subsidiary, net of cash		6,565	—
Net cash flows used in investing activities		(148,385)	(1,511,239)
CASH FLOWS FROM FINANCING ACTIVITIES			
New from bank borrowings		18,501	5,204
Repayment of bank borrowings		(27,088)	(4,844)
Interest paid		(2,115)	(216)
Dividends paid		(85,775)	(58,564)
Net cash flows used in financing activities		(96,477)	(58,420)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		98,197	(1,315,174)
Cash and cash equivalents at beginning of year		725,255	2,037,787
Effect of foreign exchange rate changes, net		(1,563)	2,642
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	821,889	725,255
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	24	1,797,420	2,010,255
Time deposits with original maturity of more than three months when acquired	24	(975,531)	(1,285,000)
Cash and cash equivalents as stated in the statement of cash flows		821,889	725,255

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 (the "Controlling Shareholders").

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		Principal activities
			Direct	Indirect	
			%	%	
上海其勝生物製劑有限公司 Shanghai Qisheng Biologicals Co., Ltd.* ("Shanghai Qisheng")	PRC/ Mainland China 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 Fine Biological Products Co., Ltd. * ("Shanghai Jianhua")	PRC/ Mainland China 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/ Mainland China 3 September 2001	RMB150,000,000	100	—	Research and development of biological engineering and pharmaceutical products and related technology transfer, consultation and services

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., Limited. [1] ("Haohai Holdings")	Hong Kong 17 July 2015	HKD150,437,360 /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 Development Technology Co., Ltd.*[2] ("Haohai Development")	PRC/ Mainland China 19 February 2016	RMB600,000,000	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. * ("Henan Universe")	PRC/ Mainland China 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. * ("NIMO")	PRC/ Mainland China 27 April 2006	RMB11,000,000	—	60	Sale of ophthalmology products
珠海艾格醫療科技開發有限公司 Eyegood Medical (Zhuhai) Co., Ltd. *[3]	PRC/ Mainland China 24 November 2000	RMB22,639,954	—	100	Manufacture and sale of ophthalmology products
("Zhuhai Eyegood") Aaren Laboratories, LLC[4] ("Aaren Laboratories")	USA 23 May 2016	USD3,000,000	—	100	Manufacture and sale of ophthalmology products

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		Principal activities
			Direct	Indirect	
			%	%	
Contamac Limited. (5) ("Contamac Limited")	U.K. 10 May 1991	USD1,000,000	—	70	Manufacture and sale of contact lens and intraocular lens material, machines and accessories
青島華元精細生物製品有限公司 Qingdao Huayuan Fine Biological Product Co., Ltd.*(6) ("Qingdao Huayuan")	PRC/ Mainland China 19 March 2004	RMB39,000,000	—	100	Manufacture and sale of medical sodium hyaluronate biochemical and derivatives

* English translations of names for identification purposes only

* All of the Company's subsidiaries registered in PRC are limited liability companies under PRC Law

Notes:

(1) During the year, Haohai Holding increased its paid-up capital from HKD123,286,075 to HKD150,437,360.

(2) During the year, Haohai Development increased its paid-up capital from RMB510,000,000 to RMB600,000,000.

(3) During the year, the Group acquired another 2% of equity shares of Zhuhai Eyegood at a cash consideration of RMB1,400,000. The Group holds 100% of equity shares of Zhuhai Eyegood after the acquisition.

(4) During the year, Aaren Laboratories increased its paid-up capital from USD1,000,000 to USD3,000,000.

(5) During the year, the Group acquired a total 70% of equity shares of Contamac Holdings Limited and its subsidiaries Contamac Limited and Contamac US Inc. with a cash contribution of GBP24,500,000 (approximately RMB215,563,000). Further details of this acquisition are included in note 33 to the financial statements.

(6) During the year, the Group acquired a total 100% of equity shares of China Ocean Group Limited and its subsidiaries ("China Ocean Group"), including Qingdao Huayuan, Shanghai Pacific Biological Technology Co., Ltd. and Shanghai Pacific Pharmaceutical Co., Ltd., with a cash contribution of RMB41,000,000. Further details of this acquisition are included in note 33 to the financial statements.

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.

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 2017. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to standards has had a significant financial effect on these financial statements. Disclosure has been made in note 35 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
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 described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During

2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9.

The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

Classification and measurement

The Group currently classifies its financial assets into loans and receivables (cash and bank balances, trade and bills receivables and etc.) which are measured at amortised cost, available-for-sale financial investments on listed equity investments which are measured at fair value and available-for-sale financial investments on unlisted equity investments which are measured at cost less impairment. The Group's debt instruments are currently classified as measured at amortised cost and at fair value through profit or loss which meet the conditions for classification at amortised cost under IFRS 9. The available-for-sale investment of RMB10,000,000 was the equity investment on an unlisted fund company in the PRC, which will be reclassified as a financial asset at fair value through other comprehensive income.

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

Classification and measurement (Continued)

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 37 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB35,038,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

Classification and measurement (Continued)

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

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

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

Fair value measurement

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

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

   (ii) has significant influence over the Group; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

A party is considered to be related to the Group if: (Continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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%-5.0%
Plant and machinery	9.5%-20.0%
Motor vehicles	16.0%-23.8%
Office equipment and others	19.0%-30.1%
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.

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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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 lives of 60 to 120 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)

Operating 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

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 changes in fair value of available-for-sale investments 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 changes in fair value of available-for-sale investments 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 **(Continued)***

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

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.

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's financial liabilities include trade payables, other payables and accruals and interest-bearing bank borrowings.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The amount of any write-down of inventories and any reversal of write-down 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

Current tax assets and liabilities 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 of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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;

(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; and

(c) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Pension scheme

The employees of the Group's subsidiaries 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note 11 to the financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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.

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.

Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are 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 and intangible assets with indefinite useful lives are 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 amounts of goodwill and intangible assets with indefinite useful lives subjected to impairment test at 31 December 2017 were approximately RMB343,029,000 (2016: RMB292,084,000) and RMB102,830,000 (2016: RMB35,506,000), respectively. Further details are given in note 15 and 16.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty (Continued)

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 28 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, intraocular lens, 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

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	1,223,568	849,232
USA	85,604	1,774
U.K.	5,379	—
Other countries	30,305	151
	1,344,856	851,157

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

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
Mainland China	1,192,985	1,022,431
USA	90,389	109,780
U.K.	296,301	—
Hong Kong	691	—
	1,580,366	1,132,211

The non-current asset information of continuing operations above is based on the locations of the assets and excludes available-for-sale investments and deferred tax assets.

Information about major customers

No revenue from a single customer contributed 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 and other income and gains is as follows:

	Note	2017 RMB'000	2016 RMB'000
Revenue			
Sale of goods		1,344,856	851,157
Other income and gains			
Interest income from bank deposits		59,483	58,443
Government grants	i)	43,297	25,643
Dividend income from available-for-sale investments		4,904	—
Exchange gains		—	1,855
Gain on disposal of a partly-owned subsidiary		2,484	—
Others		5,662	2,559
		115,830	88,500

5. REVENUE AND OTHER INCOME AND GAINS (Continued)

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):

	2017 RMB'000	2016 RMB'000
Cost of inventories sold	287,467	141,551
Depreciation (note 13)	43,171	31,352
Amortisation of prepaid land lease payments (note 14)	738	738
Amortisation of other intangible assets (note 15)	23,832	3,717
Auditor's remuneration	1,900	1,860
Minimum lease payments under operating leases:		
Land and buildings	15,997	3,737
Research and development costs:		
Current year expenditures	76,332	47,255
Employee benefit expense		
(excluding Directors' remuneration as set out in note 8)		
– Wages and salaries	184,677	97,701
– Pension scheme contributions	16,420	12,855
Foreign exchange differences, net	6,774	(1,855)
Impairment of trade and other receivables	10,693	7,046
Write-down of inventories to net realisable value	742	—
Interest income from bank deposits	(59,483)	(58,443)
Dividend income from available-for-sale investments	(4,904)	—
Gain on disposal of a partly-owned subsidiary (note 34)	(2,484)	—
Net loss on disposal of items of property, plant and equipment	1,070	122

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on interest-bearing bank borrowings	2,209	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:

	2017 RMB'000	2016 RMB'000
Fees	688	688
Other emoluments:		
Salaries, allowances and benefits in kind	2,763	1,989
Performance related bonuses	2,669	1,909
Pension scheme contributions	276	218
	5,708	4,116
	6,396	4,804

(a) Independent Non-executive Directors

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

	2017 RMB'000	2016 RMB'000
Mr. Li Yuanxu	84	84
Mr. Chen Huabin	84	84
Mr. Zhu Qin	84	84
Mr. Shen Hongbo	84	84
Mr. Wong Kwan Kit	84	84
	420	420

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

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

(b) Executive directors, non-executive directors, supervisors 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
2017					
Executive Directors:					
Dr. Hou Yongtai	—	547	475	46	1,068
Mr. Wu Jianying*	—	583	617	46	1,246
Mr. Tang Minjie	—	471	434	46	951
Mr. Huang Ming	—	313	382	—	695
Ms. Chen Yiyi	—	347	382	46	775
Non-executive Directors:					
Ms. You Jie	—	—	—	—	—
Mr. Gan Renbao	100	—	—	—	100
Supervisors:					
Mr. Liu Yuanzhong	—	—	—	—	—
Mr. Wei Changzheng	—	294	207	46	547
Mr. Yang Qing	84	—	—	—	84
Mr. Tang Yuejun	84	—	—	—	84
Mr. Yang Linfeng	—	208	172	46	426
	268	2,763	2,669	276	5,976

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

(b) Executive directors, non-executive directors, supervisors 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
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

* 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 (2016: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors (2016: three Directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2016: two) highest paid employee who is neither a Director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	428	733
Performance related bonuses	300	688
Pension scheme contributions	46	85
	774	1,506

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	
	2017	2016
Nil to HKD1,000,000	1	2

10. INCOME TAX

The Company and its principal subsidiaries, except for Haohai Holdings, Aaren Laboratories, Aaren Scientific Inc., Contamac Group, Haohai Healthcare Holdings (BVI) Co., Ltd. and China Ocean, 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.

10. INCOME TAX (Continued)

In 2017, the Company and its subsidiaries, Shanghai Qisheng, Shanghai Jianhua and Henan Universe were accredited as high and new-tech enterprises (the "HNTE Status") respectively, effective for the three years from 2017 to 2019 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during the years from 2017 to 2019 for the Company, Shanghai Qisheng, Shanghai Jianhua and Henan Universe. NIMO was accredited with 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 for the other subsidiaries registered in the Mainland China was 25% during the year.

The profits tax for subsidiaries in Hong Kong has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

The profits tax for subsidiaries in the USA has been provided at the rate of 34% on the estimated assessable profits arising in the USA during the year.

The profits tax for subsidiaries in the U.K. has been provided at the rate of 19% on the estimated assessable profits arising in the U.K. during the year.

	2017 RMB'000	2016 RMB'000
Current		
Charge for the year	74,878	56,251
Underprovision in prior years	856	407
Deferred (note 28)	(14,125)	(1,400)
Total tax charge for the year	61,609	55,258

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its 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:

2017

	Mainland China		Hong Kong		USA		U.K.		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	404,005		39,991		2,418		15,207		461,621	
Tax at the statutory tax rate	100,976	25.0	6,599	16.5	822	34.0	2,889	19.0	111,286	24.1
Adjustments in respect of current tax of previous years	856	0.2	—	—	—	—	—	—	856	0.2
Profit and loss attributable to an associate and a joint venture	—	—	—	—	—	—	428	2.8	428	0.1
Additional deductible allowance for research and development expenses	(9,049)	(2.2)	—	—	—	—	(889)	(5.9)	(9,938)	(2.2)
Expenses not deductible for tax	1,557	0.4	—	—	427	17.7	37	0.2	2,021	0.4
Deductible temporary differences and tax losses not recognised	2,419	0.6	—	—	—	—	(244)	(1.6)	2,175	0.5
Income not subject to tax	(685)	(0.2)	(748)	(1.9)	—	—	—	—	(1,433)	(0.3)
Tax losses utilised from previous periods	(4,079)	(1.0)	(383)	(1.0)	(2,154)	(89.1)	—	—	(6,616)	(1.4)
Tax saving from preferential tax rate due to HNTE status	(37,170)	(9.1)	—	—	—	—	—	—	(37,170)	(8.1)
Tax charge at the Group's effective rate	54,825	13.7	5,468	13.6	(905)	(37.4)	2,221	14.5	61,609	13.3

10. INCOME TAX (Continued)

2016

	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
Profit and loss 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

The effective tax rate of the Group was 13.3% in the year ended 31 December 2017 (2016: 15.1%).

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed final – RMB0.50 (2016: RMB0.50) per ordinary share	**80,023**	80,023

The Directors proposed to declare a final dividend of RMB0.50 (inclusive of tax) per ordinary share (2016: RMB0.50), totally amounting to RMB80,022,650 (2016: RMB80,022,650) for the year ended 31 December 2017. The proposed final dividend for 2017 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 (2016: 160,045,300) 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 2017 and 2016.

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

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**372,415**	305,052
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	**160,045,300**	160,045,300

13. PROPERTY, PLANT AND EQUIPMENT

	Land and 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 2017							
At 1 January 2017:							
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
At 1 January 2017, net of accumulated depreciation and impairment	64,647	165,227	3,089	12,229	209,212	20,350	474,754
Additions	917	2,937	1,837	4,569	85,133	1,318	96,711
Acquisition of subsidiaries (note 33)	38,598	19,364	77	1,196	1,115	—	60,350
Disposals	—	(941)	(27)	(1,003)	—	—	(1,971)
Depreciation provided during the year	(4,632)	(24,281)	(2,286)	(4,748)	—	(7,224)	(43,171)
Disposal of a subsidiary (note 34)	—	—	—	(5)	—	—	(5)
Transfers	—	454	—	1,190	(2,248)	604	—
Exchange realignment	(62)	(846)	—	(3)	—	—	(911)
At 31 December 2017, net of accumulated depreciation and impairment	99,468	161,914	2,690	13,425	293,212	15,048	585,757
At 31 December 2017:							
Cost	115,321	259,427	10,389	39,724	293,212	47,073	765,146
Accumulated depreciation and impairment	(15,853)	(97,513)	(7,699)	(26,299)	—	(32,025)	(179,389)
Net carrying amount	99,468	161,914	2,690	13,425	293,212	15,048	585,757

* At 31 December 2017, land and buildings located in the U.K. amounting to RMB39,754,000 cannot be measured separately.

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 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	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

At 31 December 2017, certain of the Group's land and buildings with a net carrying amount of approximately RMB12,743,000 (2016:Nil) were pledged to secure the bank borrowings, as further detailed in note 27 to the financial statements.

14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	31,626	32,364
Acquisition of subsidiaries (note 33)	10,490	—
Recognised during the year	(738)	(738)
Carrying amount at 31 December	41,378	31,626
Current portion included in prepayments, deposits and other receivables	(738)	(738)
Non-current portion	40,640	30,888

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 2017						
Cost at 1 January 2017, net of accumulated amortisation	2,473	39,524	—	217,903	35,506	295,406
Additions	—	—	421	—	—	421
Acquisition of subsidiaries (note 33)	—	113,060	27	—	69,538	182,625
Amortisation provided during the year	(759)	(6,548)	—	(16,525)	—	(23,832)
Exchange realignment	—	(2,892)	—	—	(2,214)	(5,106)
At 31 December 2017	1,714	143,144	448	201,378	102,830	449,514
31 December 2017:						
Cost	11,588	150,995	591	220,401	102,830	486,405
Accumulated amortisation	(9,874)	(7,851)	(143)	(19,023)	—	(36,891)
Net carrying amount	1,714	143,144	448	201,378	102,830	449,514

15. OTHER INTANGIBLE ASSETS (Continued)

	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	—	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 amounting to approximately RMB33,444,000 (2016: RMB35,506,000) was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc., a legal entity registered in the USA, with indefinite useful life ("Aaren Business") in 2016, and that amounting to approximately RMB69,386,000 was acquired from the business combination of Contamac Group with indefinite useful life in 2017.

During the year ending 31 December 2017, the Group determines that there is no impairment of its cash-generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amounts of cash-generating units named Aaren Business and Contamac Group are 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 and growth rate applied to the cash flow projections named Aaren Business are 12.5% and 2% (2016: 11.4% and 2%). The discount rate and growth rate applied to the cash flow projections named Contamac Group are 12% and 2%.

15. OTHER INTANGIBLE ASSETS (Continued)

Assumptions were used in the value in use calculation of cash-generating units for 31 December 2017. 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.

16. GOODWILL

	2017 RMB'000	2016 RMB'000
At the beginning of the year	292,084	—
Acquisition of subsidiaries (note 33)	135,287	291,872
Adjustments during the measurement period*	(15,976)	—
Exchange realignment	(1,251)	212
At the end of the year	410,144	292,084

* The goodwill adjustments during the measurement period were related to the year business combination of NIMO, Zhuhai Eyegood and Aaren Business occurred in 2016.

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

Cash-generating unit named NIMO

The recoverable amounts of cash-generating unit named 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 14% (2016: 17%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: 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 12% (2016: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period is 2% (2016: 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 15% (2016: 18%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: 3%).

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Contamac Group

The recoverable amounts of cash-generating unit named Contamac Group 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 11%. The growth rate used to extrapolate the cash flows beyond the five-year period is 2%.

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

	NIMO RMB'000	Aaren Business RMB'000	Zhuhai Eyegood RMB'000	Contamac Group RMB'000	China Ocean* Group RMB'000	Total RMB'000
31 December 2017						
Carrying amount of goodwill	249,996	8,981	16,030	68,022	67,115	410,144

	NIMO RMB'000	Aaren Business RMB'000	Zhuhai Eyegood RMB'000	Contamac Group RMB'000	China Ocean Group RMB'000	Total RMB'000
31 December 2016						
Carrying amount of goodwill	252,308	18,943	20,833	—	—	292,084

* The Group engaged an independent appraiser to assist with the identification and determination of fair values to be assigned to the assets and liabilities of China Ocean Group as disclosed above. However, the valuation was not finalised and hence the initial accounting for the business combination of China Ocean Group was incomplete by the date of this report. Therefore, the goodwill recognised in the Group's 2017 annual financial statements in relation to the acquisition of China Ocean Group were on a provisional basis.

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Contamac Group (Continued)

Assumptions were used in the value in use calculation of cash-generating units for 31 December 2017. 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 A JOINT VENTURE

	2017 RMB'000	2016 RMB'000
Share of net assets	5,106	—
Loan to a joint venture	8,672	—
	13,778	—

17. INVESTMENT IN A JOINT VENTURE (Continued)

The loan to the joint venture is unsecured and has no fixed terms of repayment. In the opinion of the Directors, this loan is considered as part of the Group's net investments in the joint venture.

The Group's trade receivable and payable balances with the joint venture are disclosed in note 22 and note 25 respectively, to the financial statements.

The following table illustrates the financial information of the Group's joint venture, Contateq B.V. ("Contateq"), that is not individually material for the year ended 31 December 2017:

	2017 RMB'000	2016 RMB'000
Share of the joint venture's loss for the period from 1 June 2017 to 31 December 2017	2,358	—
Share of the joint venture's total comprehensive loss for the period from 1 June 2017 to 31 December 2017	2,358	—
Aggregate carrying amount of the Group's investment in the joint venture	13,778	—

18. INVESTMENT IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Share of net assets	1,257	—
Loan to an associate	2,292	—
	3,549	—

The loan to the associate is unsecured and have no fixed terms of repayment. In the opinion of the Directors, these loans are considered as part of the Group's net investments in the associate.

The Group's trade receivable balances and payable balances with the associate are disclosed in note 22 and note 25 respectively, to the financial statements.

18. INVESTMENT IN AN ASSOCIATE (Continued)

The following table illustrates the financial information of the Group's associate, Lifeline Medical Devices Private Limited ("Lifeline"), that is not individually material for the year ended 31 December 2017.

	2017 RMB'000	2016 RMB'000
Share of the associate's profit for the period from 1 June 2017 to 31 December 2017	**107**	1,161
Share of the associate's total comprehensive income for the period from 1 June 2017 to 31 December 2017	**107**	1,161
Aggregate carrying amount of the Group's investment in the associate	**3,549**	—

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value	**81,453**	64,226
Unlisted equity investments	**10,000**	—
	91,453	64,226

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB17,227,000 (2016: gross loss of RMB1,587,000).

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

20. OTHER NON-CURRENT ASSETS

	2017 RMB'000	2016 RMB'000
Prepayments for property, plant and equipment	66,984	9,078
Refundable deposits for business acquisition	—	30,000
Aborted plant upon business acquisition (note 33(b))	10,000	—
	76,984	39,078

21. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	39,079	44,213
Work in progress	28,517	12,605
Finished goods	41,648	19,684
Merchandises	67,092	41,870
	176,336	118,372
Less: provision for inventories	1,422	419
	174,914	117,953

None of the Group's inventories was pledged during the years ended 31 December 2017 and 2016.

22. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Bills receivables	3,265	—
Trade receivables	354,870	257,307
Impairment	(25,093)	(22,154)
	333,042	235,153

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required 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 ageing analysis of trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	232,489	171,333
3 to 6 months	66,047	45,723
6 months to 1 year	26,016	16,001
1 to 2 years	8,026	2,024
2 to 3 years	464	72
	333,042	235,153

22. TRADE AND BILLS RECEIVABLES (Continued)

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

	2017 RMB'000	2016 RMB'000
At 1 January	22,154	4,720
Arising from acquisition of subsidiaries	996	12,643
Impairment losses recognised	2,915	4,791
Amount written off as uncollectible	(671)	—
Disposal of a partly-owned subsidiary	(265)	—
Exchange realignment	(36)	—
	25,093	22,154

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of RMB5,099,000 (2016: RMB10,006,000), mainly from acquired subsidiaries with carrying amounts before provisions of RMB5,099,000 (2016: RMB12,101,000), 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.

Included in the Group's trade receivables are amounts due from the Group's joint venture and associate of approximately RMB2,060,000 (2016: Nil) and RMB1,696,000 (2016: Nil), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	22,957	22,169
Deposits and other receivables	69,568	111,286
Impairment	(11,931)	(8,653)
	80,594	124,802

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

	2017 RMB'000	2016 RMB'000
At 1 January	8,653	811
Arising from acquisition of subsidiaries	34	5,587
Impairment losses recognised	7,778	3,407
Impairment losses reversed	—	(1,152)
Others	(4,534)	—
	11,931	8,653

Included in the above provision for impairment of deposits and other receivables is the provision for individually fully impaired other receivables of RMB7,793,000 (2016: RMB3,517,000).

24. CASH AND CASH BALANCES

	2017 RMB'000	2016 RMB'000
Cash and bank balances	1,797,420	2,010,255
Time deposits with original maturity of more than three months when acquired	(975,531)	(1,285,000)
Cash and cash equivalents	821,889	725,255

At the end of the reporting period, nearly 90% (2016: 99%) 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.

25. TRADE PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	39,009	19,686

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

	2017 RMB'000	2016 RMB'000
Within 3 months	35,295	14,180
3 months to 1 year	3,373	2,994
Over 1 year	341	2,512
	39,009	19,686

Included in the Group's trade payables are amounts due from the Group's joint venture and associate of approximately RMB1,320,000 (2016: Nil) and RMB3,000 (2016: Nil), respectively.

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

26. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Current:		
Payroll and welfare payable	**39,495**	24,763
Other taxes payable	**20,647**	38,924
Accrued expenses	**39,452**	14,210
Advances from customers	**41,802**	21,646
Payables related to:		
Government grants received	**40,348**	31,845
Purchases of property, plant and equipment	**24,593**	19,093
Deposits received	**32,913**	19,697
Others	**14,600**	24,981
Payables for acquisition of the subsidiaries and contingent consideration	**76,037**	180,092
Payables arising from business combination to an ex-director of the subsidiary	**39,659**	—
Dividends payable to shareholders of the Company	**—**	5,752
Dividends payable arising from the business combination to non-controlling shareholders of subsidiaries	**6,774**	61,431
Interest payable	**111**	17
	376,431	442,451
Non-current:		
Payables for acquisition of the subsidiaries and contingent consideration	**93,241**	75,600
	469,672	518,051

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

27. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– secured (a)	3.47-3.54	2018	18,501	4.32-6.55	2017	26,666
Current portion of long term and loans						
– secured (b)	2.92	2035	1,387	—	—	—
			19,888			26,666
Non-current						
Bank loans						
– secured (b)	2.92	2035	17,596	—	—	—

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	19,888	26,666
In the second year	871	—
In the third to fifth years, inclusive	2,769	—
Beyond five year	13,956	—
	37,484	26,666

Notes:

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

(b) The bank loans are secured by mortgages over the Group's properties situated in U.K., with an aggregate carrying value of approximately RMB12,743,000 at 31 December 2017.

28. DEFERRED TAX

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

Deferred tax liabilities

2017	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2017	—	83,787	83,787
Deferred tax arising from acquisition of subsidiaries	2,759	39,679	42,438
Adjustments during the measurement period*	—	(9,134)	(9,134)
Deferred tax credited	(1,383)	(3,496)	(4,879)
Exchange realignment	(57)	(1,261)	(1,318)
Gross deferred tax liabilities at 31 December 2017	1,319	109,575	110,894

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

28. DEFERRED TAX (Continued)

Deferred tax assets

2017	Accruals RMB'000	Impairment receivables RMB'000	Deferred of income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible loss RMB'000	Total RMB'000
At 1 January 2017	1,530	5,298	1,801	17	167	8,813
Deferred tax credited/(charged)	2,912	998	(435)	4,678	1,093	9,246
Deferred tax arising from acquisition of subsidiaries	—	206	—	—	—	206
Exchange differences	(28)	(9)	—	—	(38)	(75)
Adjustments during the measurement period*	—	(680)	—	—	—	(680)
Gross deferred tax assets at 31 December 2017	4,414	5,813	1,366	4,695	1,222	17,510

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

* The adjustments during the measurement period were related to the business combination of NIMO, Zhuhai Eyegood and Aaren Business occurred in 2016.

The Group has tax losses of RMB28,491,000 (2016: RMB31,925,000) 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 have 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.

29. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Government grants		
At 1 January	**12,010**	14,863
Released during the year	**(2,903)**	(2,853)
At 31 December	**9,107**	12,010

30. SHARE CAPITAL

	2017 RMB'000	2016 RMB'000
Issued and fully paid:		
160,045,300 (2016: 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 2017 and 31 December 2017	160,045,300	160,045	160,045

31. 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.

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

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

	2017	2016
Percentage of equity interest held by non-controlling interests:		
NIMO	40%	40%
Contamac Group	30%	—
Accumulated balances of non-controlling interests:	RMB'000	RMB'000
NIMO	99,399	77,458
Contamac Group	66,744	—

	2017/ For the period from the acquisition date to 31 December 2017 RMB'000	For the period from the acquisition date to 31 December 2016 RMB'000
Profit allocated to non-controlling interests:		
NIMO	26,004	5,663
Contamac Group	3,764	—

32. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING-INTERESTS (Continued)

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

	NIMO RMB'000	Contamac Group RMB'000
2017/For the period from the acquisition date to 31 December 2017		
Revenue	236,882	85,749
Total expenses	(51,287)	(41,582)
Profit for the year/period	68,219	16,060
Total comprehensive income for the year/period	68,219	16,060
Current assets	238,541	94,314
Non-current assets	46,535	40,286
Current liabilities	(173,241)	(45,592)
Non-current liabilities	—	(8,626)
Net cash flows from operating activities	106,968	24,323
Net cash flows used in investing activities	(109,381)	(4,421)
Net cash flows used in financing activities	(9,014)	(812)
Net (decrease)/increase in cash and cash equivalents	(11,427)	19,090

	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)
Non-current liabilities	—
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

33. BUSINESS COMBINATION

(a) On 2 June 2017, the Group acquired a 70% interest in Contamac Group from the third parties. Contamac Group is engaged in the manufacture and trade of the main raw materials of intraocular lens and contact lens. The acquisition was made as part of the Group's strategy to secure its upstream material supplier of intraocular lens products. The purchase consideration for the acquisition was in the form of cash, with GBP15,000,000 (approximately RMB131,977,000) paid at or near the acquisition date, and the remaining GBP9,500,000 (approximately RMB83,586,000) was recognised as a contingent consideration, which by management expected to be fully paid with a great possibility in the following years.

The fair values of the identifiable assets and liabilities of Contamac Group as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	33,721
Other intangible assets	15	182,598
Deferred tax assets		206
Investment in a joint venture		14,453
Investment in an associate		3,450
Cash and bank balances		20,536
Trade receivables		18,927
Inventories		11,849
Prepayments, deposits and other receivables		8,156
Interest-bearing bank borrowings		(19,448)
Trade payables		(6,646)
Tax payables		(4,893)
Deferred tax liabilities		(39,279)
Other payables and accruals		(13,071)
Total identifiable net assets at fair value		210,559
Non-controlling interests		(63,168)
Goodwill on acquisition	16	68,172
Satisfied by cash		215,563

33. BUSINESS COMBINATION (Continued)

(a) (Continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to approximately RMB18,927,000 and RMB646,000, respectively. The gross contractual amounts of trade receivables and other receivables were approximately RMB19,923,000 and RMB680,000, respectively, of which trade receivables of approximately RMB996,000 and other receivables of RMB34,000 were 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 Contamac Group is as follows:

	RMB'000
Cash consideration paid	132,161
Cash and bank balances acquired	(20,536)
Net inflow of cash and cash equivalents included in cash flows from investing activities	111,625

Since the acquisition, Contamac Group contributed RMB83,832,000 to the Group's revenue and RMB12,547,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB1,406,105,000 and RMB408,974,000, respectively.

(b) On 27 December 2017, the Group acquired 100% interest in China Ocean Group from a third party. China Ocean Group is engaged in the manufacturing of the sodium hyaluronate materials. The acquisition was made as part of the Group's strategy to secure its upstream supplier of sodium hyaluronate materials in China. The purchase consideration for the acquisition was in the form of cash, with RMB26,124,000 paid to the seller at or near the acquisition date, and the remaining RMB14,876,000 would be paid in 2018.

33. BUSINESS COMBINATION (Continued)

(b) (Continued)

The fair values of the identifiable assets and liabilities of China Ocean Group as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	26,629
Prepaid land lease payments	14	10,490
Other intangible assets	15	27
Other non-current assets		29,599
Cash and bank balances		7,645
Inventories		3,909
Prepayments, deposits and other receivables		1,342
Trade payables		(10)
Deferred tax liabilities		(3,159)
Other payables and accruals		(102,587)
Total identifiable net assets at fair value		(26,115)
Goodwill on acquisition*	16	67,115
Satisfied by cash		41,000

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

33. BUSINESS COMBINATION (Continued)

(b) (Continued)

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

	RMB'000
Cash consideration paid	26,124
Cash and bank balances acquired	(7,645)
Net inflow of cash and cash equivalents included in cash flows from investing activities	18,479

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB1,352,493,000 and RMB391,757,000, respectively.

* The Group engaged an independent appraiser to assist with the identification and determination of fair values to be assigned to the assets and liabilities of China Ocean Group as disclosed above. However, the valuation was not finalised and hence the initial accounting for the business combination of China Ocean Group was incomplete by the date of this report. Therefore, these amounts recognised in the Group's 2017 annual financial statements in relation to the acquisition of China Ocean Group were on a provisional basis.

34. DISPOSAL OF A PARTLY-OWNED SUBSIDIARY

On 22 September 2017, the Group sold the 60% interest in Shanghai Baiyue Medical Equipment Co., Ltd. to the third party at a consideration of RMB6,600,000.

	Notes	2017 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	5
Cash and bank balances		35
Inventories		5,349
Trade receivables		1,413
Prepayments and other receivables		1,550
Trade payables		(248)
Accruals and other payables		(1,244)
Non-controlling interests		(2,744)
		4,116
Gain on disposal of a partly-owned subsidiary	5	2,484
		6,600
Satisfied by:		
cash		6,600

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017 RMB'000
Cash consideration	**6,600**
Cash and bank balances disposed of	**(35)**
Net inflow of cash and cash equivalents in respect of the disposal of a partly-owned subsidiary	**6,565**

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financial activities

	Interest-bearing bank borrowings RMB'000
At 1 January 2017	26,666
Changes from financing cash flows	(8,587)
Foreign exchange movement	(43)
Increase arising from acquisition of a subsidiary	19,448
At 31 December 2017	37,484

36. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's interest-bearing bank borrowings are included in note 27 to the financial statements.

37. 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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	13,134	3,711
In the second to fifth years, inclusive	21,904	899
	35,038	4,610

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Plant and machinery	36,796	49,262

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(i) During the year, Contamac Holdings sold hydrophobic premix solution of GBP190,000 (approximately RMB1,670,000) to the joint venture, Contateq B.V., which was used to produce semi button of IOL ("semi button"). The produced semi button of GBP165,000 (approximately RMB1,450,000) was sold back to Contamac Holdings by Contateq. Contamac Holdings then resold the semi button at the amount of GBP132,000 (approximately RMB1,160,000) to the associate, Lifeline Madical Devices Pvt Ltd.

(ii) During the year, the Group purchased the production accessories of RMB1,323,000 from Haohai Technology (Changxin) Co., Ltd., a company controlled by the Controlling Shareholders. The Directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the supplier, except that interest was not charged on overdue balances. The balance owing to the supplier as at 31 December 2017 was RMB145,500 (2016: Nil).

39. RELATED PARTY TRANSACTIONS (Continued)

(b) 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 (2016: 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 (2016: RMB25,000) with a lease period from 1 January 2016 to 31 December 2017, respectively, from Ms. You Jie and Shanghai Haohai Chemical Company Limited.

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

	2017 RMB'000	2016 RMB'000
Short term employee benefits	7,905	6,807
Pension scheme contributions	412	365
Total compensation paid to key management personnel	8,317	7,172

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

40. 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:

2017

Financial assets

	Loans and Receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	91,453	91,453
Trade and bills receivables	333,042	—	333,042
Financial assets included in prepayments, deposits and other receivables	57,637	—	57,637
Cash and bank balances	1,797,420	—	1,797,420
	2,188,099	91,453	2,279,552

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value RMB'000	Total RMB'000
Trade payables	39,009	—	39,009
Financial liabilities included in other payables and accruals	204,526	83,402	287,928
Interest-bearing bank borrowings	37,484	—	37,484
	281,019	83,402	364,421

40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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 and bills 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

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The corporate finance team headed by the CFO 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. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The non-current portion of interest-bearing bank borrowings is categorised within the fair value hierarchy as Level 3. The unobservable inputs that are significant to the fair value measurement are prepayment rate and loss given default. The higher the prepayment rate and loss given default, the lower the fair values are. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant.

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

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investments	**91,453**	64,226	**91,453**	64,226
Financial liabilities				
Interest-bearing bank borrowings	**17,596**	—	**21,899**	—
Contingent consideration	**83,402**	—	**83,402**	—

Fair value hierarchy

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

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	81,453	—	10,000	91,453

As at 31 December 2016

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

Liabilities measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	—	21,899	21,899
Contingent consideration	—	—	83,402	83,402

42. 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 and bills 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 Group's foreign currency risk is not significant. Approximately 100% (2016: 100%) of the Group's sales were denominated in local currencies, which were the same with the units' functional currencies, while approximately 70% (2016: 90%) of the Group's costs were denominated in local currencies, which were the same with the units' functional currencies. The Group would reserve some foreign currencies to meet the requirement of payments, which resulted into an insignificant foreign currency risk for the Group. The Group's interest rate risk is not significant, which is due to the fact that the non-current portion of interest-bearing bank borrowings is subject to a fixed interest rate. 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 2017, 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 are public hospitals with good reputation, and Shannan excellent medical equipment Co., Ltd. (山南優視醫療器械有限公司), which is a subsidiary of an A share listed company with good reputation. The trade receivables derived from Beijing Tongren Hospital, CMU and Shannan excellent medical equipment Co., Ltd. accounted for 8.1% and 7.3%, respectively, of the Group's total trade receivables as at 31 December 2017 (2016: 10.8% of the Group's total trade receivable derived from Beijing Tongren Hospital, CMU). 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 22 to the financial statements.

42. 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 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	28,447	10,562	—	—	—	39,009
Financial liabilities included in other payables and accruals	72,106	42,787	79,794	93,241	—	287,928
Interest-bearing bank borrowings	—	8,544	11,681	6,197	19,405	45,827
	100,553	61,893	91,475	99,438	19,405	372,764

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

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 2017 and 31 December 2016.

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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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:

	2017 RMB'000	2016 RMB'000
Total current liabilities	**477,756**	536,155
Total non-current liabilities	**230,838**	171,397
Debt	**708,594**	707,552
Total assets	**4,075,299**	3,693,412
Debt to assets ratio	**17.4%**	19.2%

43. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after 31 December 2017.

44. 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:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	156,861	141,496
Prepaid land lease payments	13,482	13,834
Other intangible assets	366	484
Investments in subsidiaries	1,095,414	987,284
Available-for-sale investments	10,000	—
Deferred tax assets	2,649	2,194
Other non-current assets	1,184	30,000
Total non-current assets	1,279,956	1,175,292
CURRENT ASSETS		
Due from subsidiaries	757,881	247,296
Inventories	38,874	28,506
Trade and bills receivables	79,188	71,485
Prepayments, deposits and other receivables	9,592	22,099
Cash and bank balances	731,621	1,921,245
Total current assets	1,617,156	2,290,631
CURRENT LIABILITIES		
Due to subsidiaries	152,046	608,660
Trade payables	3,027	6,121
Other payables and accruals	140,240	253,330
Tax payable	3,225	7,166
Total current liabilities	298,538	875,277
NET CURRENT ASSETS	1,318,618	1,415,354
TOTAL ASSETS LESS CURRENT LIABILITIES	2,598,574	2,590,646

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES		
Other payables and accruals	32,400	75,600
Deferred income	1,937	2,771
Total non-current liabilities	34,337	78,371
NET ASSETS	2,564,237	2,512,275
EQUITY		
Share capital	160,045	160,045
Reserves (note)	2,404,192	2,352,230
TOTAL EQUITY	2,564,237	2,512,275

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 2016	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 and 1 January 2017	1,759,449	77,680	515,101	2,352,230
Total comprehensive income for the year	—	—	131,985	131,985
Dividends declared	—	—	(80,023)	(80,023)
Transfer from retained profits	—	2,343	(2,343)	—
As at 31 December 2017	1,759,449	80,023	564,720	2,404,192

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 26 March 2018.

DEFINITIONS

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

"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.
"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
"Contamac Group"	Contamac Holdings and its subsidiaries
"Contamac Holdings"	Contamac Holdings limited, established in UK on 13 October 2009. Since 2 June 2017, the Company indirectly holds 70% of its equity interest
"GBP"	pound sterling, the lawful currency of the UK
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Haohai Holdings"	Haohai Healthcare Holdings Co., Ltd. (昊海生物科技控股有限公司), a limited liability company established in Hong Kong, the PRC on 17 July 2015, which is a direct wholly-owned subsidiary of our Company
"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, which is a wholly-owned subsidiary of the Company since November 2016
"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
"Prospectus"	the prospectus of the Company dated 20 April 2015
"Qingdao Huayuan"	Qingdao Huayuan Fine Biological Product Co., Ltd. (青島華元精細生物制品有限公司), a company established in the PRC on 19 March 2004. Since December 2017, the Company indirectly holds 100% of its equity interest
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the 12-month period from 1 January 2017 to 31 December 2017
"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 20 October 1993 and converted into a limited liability company on 14 August 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
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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, which is a wholly-owned subsidiary of the Company since December 2017

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 implanted 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