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

2019
Annual Report

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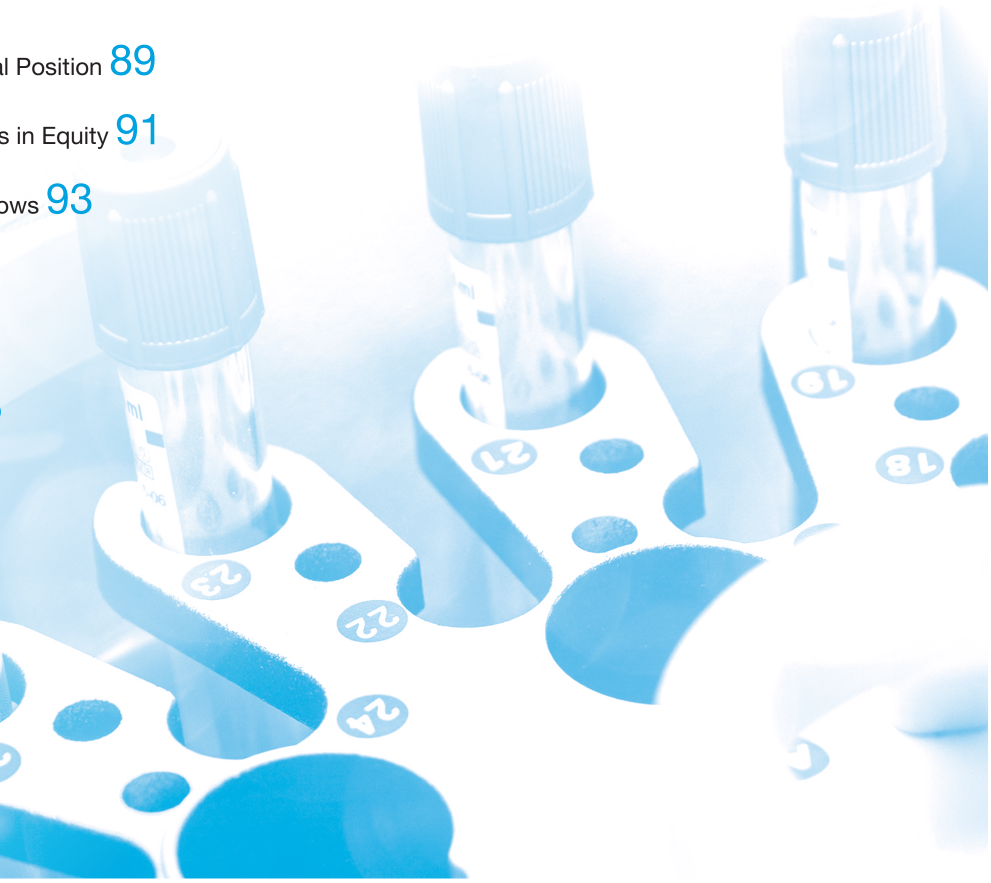


CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Ms. Chen Yiyi
Mr. Tang Minjie *(Chief Financial Officer)*

Non-executive Directors:

Ms. You Jie
Mr. Huang Ming

Independent Non-executive Directors:

Mr. Chen Huabin
Mr. Shen Hongbo
Mr. Zhu Qin
Mr. Wong Kwan Kit

FOURTH SESSION OF THE SUPERVISORY 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

Ms. Tian Min
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. Wong Kwan Kit
Mr. Zhu Qin

REMUNERATION AND REVIEW COMMITTEE

Mr. Zhu Qin *(Chairman)*
Mr. Wu Jianying
Mr. Huang Ming
Mr. Shen Hongbo
Mr. Chen Huabin

NOMINATION COMMITTEE

Mr. Zhu Qin *(Chairman)*
Dr. Hou Yongtai
Ms. You Jie
Mr. Chen Huabin
Mr. Wong Kwan Kit

STRATEGY COMMITTEE

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

LEGAL ADVISERS

Tiang & Partners
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
Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

H SHARE REGISTRAR

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

A SHARE REGISTRATION INSTITUTION

China Securities Depository and Clearing Corporation Limited Shanghai Branch
166 Lujiazui East Road
New Pudong District
Shanghai, China

INFORMATION ON 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

INFORMATION ON A SHARES

Place of listing:	Sci-tech Innovation Board of the Shanghai Stock Exchange
Stock code:	688366
Number of A shares issued:	137,800,000 A shares
Nominal value:	RMB1.00 per A 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

Investors' Service Line: (86) 021-52293555
Fax: (86) 021-52293558
Website: www.3healthcare.com

FINANCIAL HIGHLIGHTS

	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Results of operation					
Revenue	1,595,498	1,545,824	1,344,856	851,157	663,917
Gross profit	1,231,499	1,211,538	1,057,389	709,606	558,844
Profit before tax	434,349	525,185	461,621	365,885	320,647
Net profit attributable to owners of the parent	370,779	414,540	372,415	305,052	273,474
Profitability					
Gross profit margin	77.2%	78.4%	78.6%	83.4%	84.2%
Net profit margin	23.2%	26.8%	27.7%	35.8%	41.2%
Earnings per share (RMB)					
Basic earnings per share (Note 1)	2.27	2.59	2.33	1.91	1.86
Assets					
Total assets	6,151,871	4,436,352	4,109,323	3,693,412	2,821,910
Total liabilities	498,518	600,905	724,059	707,552	156,476
Total equity attributable to ordinary equity holders of the parent	5,454,780	3,611,511	3,200,562	2,903,992	2,661,911
Gearing ratio	8.1%	13.5%	17.6%	19.2%	5.5%

Note 1: 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,

2019 is a landmark year for Haohai Biological Technology. Haohai Biological Technology was successfully listed on the Sci-tech Innovation Board of the Shanghai Stock Exchange on 30 October 2019, and became the first bio-medical enterprise of "H + Sci-tech Innovation Board". After landing on the Sci-tech Innovation Board of the Shanghai Stock Exchange, we vigorously promoted the start of the A share investment project – construction of the international medical R&D and industrialization project by Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生科國際醫藥研發及產業化項目) to further improve the production capacity of products and the level of R&D innovation.

Year 2019 was the last key year for the implementation of the "13th Five-Year Plan" for deepening the reforms of the pharmaceuticals and healthcare system. The intensive introduction of various policies has brought severe challenges to the operating performance of pharmaceutical and medical device companies in the short term. In 2019, the Group recorded aggregate revenue of approximately RMB1,595.50 million, representing an increase of RMB49.68 million, or approximately 3.21%, as compared to that in 2018. The profit attributable to ordinary equity holders of the Company was approximately RMB370.78 million, representing a decrease of approximately 10.6% as compared to that in 2018, the main reasons were that the Group invested more in the R&D of new ophthalmology products and medical aesthetics products, the Group recognized one-off disposal loss and investment loss for the two investments completed during the Reporting Period, and the government subsidy income recognized by the Group based on the acceptance stage of scientific research projects cooperated with the government decreased.

At the beginning of 2020, the novel coronavirus (COVID-19) outbreak occurred and spread worldwide. What makes us proud is that during the fight against the epidemic, our domestic and overseas employees watched and helped each other, and everyone was part of the fight against the epidemic. We are also fortunate to be in the pharmaceutical industry and be able to directly serve the general public through innovative technologies and products to help everyone get a healthy and quality life. In the future, the Group will continue to focus on the medical absorbable biomaterials and the field of ophthalmic products such ophthalmic IOL, pharmaceuticals, etc., pay attention to scientific research innovation and achievement transformation, and strengthen professional services; continue to maintain the leading position of the Group's technology through cooperation with well-known domestic and foreign research and development institutions, independent research and development and technology introduction; continue to optimize and improve management capabilities and improve operational efficiency; continue to expand and improve product lines and integrate the industrial chain through the combination of endogenous growth and mergers and acquisitions; strengthen the Company's brand building and enhance brand value, making the Group a leading domestic and internationally renowned biomedical company in the field of biomedical materials.

Finally, on behalf of the Board of the Company, I would like to express my sincere gratitude to all shareholders who have always supported the development of the Company, and express my sincere thanks to all the employees of the Company for their hard work! In the new year, the Company will continue on the road of development without fear of challenges and make every effort to reward shareholders and society!

Hou Yongtai
Executive Director and Chairman of the Board

26 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS DISCUSSION AND ANALYSIS

Business Review and Discussion

Year 2019 was the last key year for the implementation of the "13th Five-Year Plan" for deepening the reforms of the pharmaceuticals and healthcare system (the "**Plan**"). With the implementation of the Plan, a series of reform policies such as reform of medical insurance payment methods, centralized tendering and procurement with target quantity had continued to deepen. Despite severe challenges in operating results of pharmaceutical and medical device industry as affected by the above factors, they will also have a positive contribution to the healthy, orderly and innovative development of the entire industry. Currently, the rigid market demand brought about by China's aging population and urbanization has been still driving the steady growth of the industry scale. Under the background of the rapid growth of diversified medical needs, the gradually refining medical insurance payment system and the escalating health consumption concept of Chinese people, leading enterprises with innovative ability, brand value, efficacious products and good financial status are expected to meet with significant development opportunities.

During the Reporting Period, the Group focused on increasing investment in R&D and advancing service upgrade so as to secure the steady growth of the entire principal business.

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB1,595.50 million, representing an increase of RMB49.68 million, or approximately 3.21%, as compared to that in 2018. The breakdown of the Group's revenue from main business of each product line by therapeutic areas is as follows (by amount and as a percentage of the total revenue of the Group):

Product line	2019		2018		Change
	RMB'000	%	RMB'000	%	(%)
Ophthalmology products	709,768	44.49	672,075	43.48	5.61
Medical aesthetics and wound care products	299,410	18.75	337,375	21.82	-11.25
Orthopedics products	357,932	22.43	298,933	19.34	19.74
Anti-adhesion and hemostasis products	188,877	11.84	199,949	12.93	-5.54
Other products	39,781	2.49	37,492	2.43	6.11
Total	1,595,498	100.00	1,545,824	100.00	3.21

During the Reporting Period, the Group's sales volume and sales unit price of HA dermal filler products decreased as affected by the periodic industry rectification in the end market of medical aesthetics and the significant decrease in the selling price of competing HA dermal filler products. Attributable to the sustained growth of sales revenue of orthopedic sodium hyaluronate injection, medical chitosan product used for intra-articular viscosupplement, ophthalmic materials and rhEGF product, the Group's total revenue for the Reporting Period continued to increase from last year.

During the Reporting Period, the overall gross profit margin of the Group was 77.19%, representing a slight decrease as compared to 78.37% in 2018, mainly due to the smaller proportion of HA dermal filler products in the Group's total revenue, which have higher gross profit margin.

During the Reporting Period, the Group continued to increase investment in R&D, focusing on expanding the innovative products lines of ophthalmology and medical aesthetics. The current R&D expenses were RMB116.08 million, representing an increase of RMB20.71 million, or 21.71%, as compared to that in 2018. The proportion of R&D expenses in revenue increased from 6.17% in 2018 to 7.28% in the Reporting Period.

During the Reporting Period, the Group's net profit attributable to owners of the parent was RMB370.78 million, decreased by 10.56% compared to 2018, which was mainly affected by the following multiple factors:

(1) During the Reporting Period, the Group's R&D expenses increased by approximately RMB20.71 million compared with 2018, representing an increase of 21.71%, which was mainly due to the Group's increased investment in R&D of new ophthalmology products and medical aesthetics products;

(2) During the Reporting Period, some of the Group's scientific research cooperation projects have not yet reached the acceptance stage, making the current non-recurring government subsidy income decrease by approximately RMB10.02 million compared with 2018;

(3) Contamac Holdings disposed of its 50% equity interest in Contateq in January 2019, which resulted in the one-off investment loss of approximately RMB9.53 million; and

(4) In April 2019, Contamac Holdings acquired 100% equity interest of ODC, a French-based manufacturer of IOL injector, which resulted in an one-off investment loss of approximately RMB9.98 million which the Group recognized instead of recognizing the goodwill of the respective acquisition for the period in the principle of prudence after considering the extended period of integration between Contamac Holdings and ODC and uncertainty in profitability of such business.

During the Reporting Period, the basic earnings per share were RMB2.27 (2018: RMB2.59).

The Company was successfully listed on the Sci-tech Innovation Board of the SSE on 30 October 2019, and became the first bio-medical enterprise of "H + Sci-tech Innovation Board". 17,800,000 A Shares were issued, the total fund raised amounted to RMB1,588,294,000. After deducting the issuing expenses for A shares, the net proceeds amounted to approximately RMB1,529,268,800 and are mainly invested in the construction of the international medical R&D and industrialization project by Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生科國際醫藥研發及產業化項目) and the improvement of the production capacity and R&D innovation level of the Group's series products (such as medical sodium hyaluronate series, medical chitosan series, and rhEGF for external use) to meet the increasing market demand.


Ophthalmology Products

In the field of ophthalmology, the Group is the largest OVD product manufacturer in the PRC and one of the internationally renowned manufacturers of IOL. According to the research reports of Guangzhou Biaodian Medical Information Co., Ltd. ("**Biaodian Medical**") under the NMPA Southern Medicine Economic Research Institute, the market share of the Group's OVD products was 46.87% in 2018, with a market share of over 40% for the past twelve consecutive years. Based on the sales volume, the Group's IOL products had captured about 30% of the IOL market in the PRC. In addition, Contamac Holdings, a subsidiary of the Group, is one of the world's largest independent manufacturers of ophthalmic materials. It provides ophthalmic materials such as materials for IOL and contact lenses to customers worldwide.

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was approximately RMB709.77 million, representing an increase of approximately RMB37.69 million, or 5.61%, as compared to that in 2018. The breakdown of revenue from ophthalmology products by specific products is as follows:

Project	2019		2018		Change
	RMB'000	%	RMB'000	%	(%)
IOL products	**431,735**	**27.06**	431,163	27.90	0.13
Ophthalmic materials	**151,690**	**9.51**	122,307	7.91	24.02
OVD products	**112,631**	**7.06**	105,752	6.84	6.50
Other ophthalmology products	**13,712**	**0.86**	12,853	0.83	6.68
Total	**709,768**	**44.49**	672,075	43.48	5.61

Note: The Group has separately listed the revenue of the "IOL" and "Ophthalmic materials" product lines, and adjusted the relevant presentations for 2018 accordingly.

During the Reporting Period, the Group's revenue from the sales of ophthalmic materials was approximately RMB151.69 million, representing an increase of 24.02% as compared to that in 2018, mainly benefiting from the rapid growth of gas permeable materials in the U.S. market and the widespread recognition of IOL materials worldwide.

During the Reporting Period, Contamac Holdings' self-developed new-generation gas permeable material "Optimum Infinite" was approved by the US Food and Drug Administration and officially launched on the market. Optimum Infinite is a contact lens production material with an oxygen permeability of over 180 Barrer. It is currently one of the materials with highest gas permeability in the world. Contamac Holdings has successfully broken a recognized rule in the contact lens industry in the past, that is, the higher the oxygen permeability of rigid lenses, the lower the crease resistance, turning ability, scratch resistance, and wettability. In addition, the material also solves the problem of corneal hypoxia caused by long-term wearing of a scleral lens. The launch of Optimum Infinite is a milestone in the contact lens industry. In the future, the Group will continue to explore and innovate in the field of ophthalmic materials, and is committed to providing first-class innovative ophthalmic materials to customers worldwide.

During the Reporting Period, the Group's revenue from the sales of IOL products was approximately RMB431.74 million, which aligned with 2018; the Group's revenue from the sales of OVD products was approximately RMB112.63 million, representing an increase of 6.50% as compared to that in 2018. IOL and OVD products are mainly used for cataract surgery. In 2019, the domestic cataract surgery end market has undergone a periodical regulatory rectification, and cataract screening activities in some medical institutions of some regions have been reduced or suspended. Due to this, the Group's revenue of IOL and OVD products has slowed down.

Cataract is a common and frequently-occurring disease in the middle-aged and elderly population, and it is also the number one blindness-causing disease in the world. According to statistics reported by the World Health Organization, 35% of blindness and 25% of severe visual impairment worldwide come from cataracts that have not been treated in time. At the same time, the incidence of cataract increases with age. According to the statistics of the Chinese Ophthalmological Society, the incidence of cataract for those in the 60-89 age group is 80% and those in the age group over 90 exceeds 90% in China. According to the statistics of the National Bureau of Statistics, as of the end of 2018, there were 249 million people aged 60 and above in the country, accounting for 17.3% of the total population; according to the "Predictive Research Report on the Development Trend of China's Population Aging (《中國人口老齡化發展趨勢預測研究報告》)" issued by the Office of the National Working Committee on Aging(全國老齡工作委員會辦公室), it is estimated that in 2050, China 's population over 60 will exceed 400 million. It is foreseeable that age-related eye diseases such as cataracts caused by population aging will continue to increase.

The cataract surgery rate ("**CSR**") of China is far below the data of developed countries. In 2017, the CSR per million of Chinese population is only 2,205, and only approximately 3.05 million cataract surgeries were performed in China. In contrast, the CSR of Europe, the United States, Japan and other developed countries has exceeded 10,000. Therefore, there is still greater room to improve the cataract surgery operation rate since the market penetration rate of relevant ophthalmic products of China is relatively low to date.

The compliance and rectification in the field of cataract treatment in 2019 has a certain impact on the amount of surgery, but in the long run, the gradual improvement of the compliance will definitely be beneficial to the long-term healthy development of the industry. And cataract treatment is a rigid demand, with the constantly deepened degree of aging, continuously improved ophthalmic awareness of the public, gradually enhanced healthcare concept and payment ability as well as sustained investment in public and private medical resources, the Chinese ophthalmology market, including the cataract market, has huge potentials for future development.

The only effective treatment for cataract is IOL implantation through cataract surgery. As far as the construction of the industrial chain, at present, the Group has initially completed the layout of the entire industrial chain of IOL products. We have opened up the raw material production link of the IOL industrial chain through Contamac Holdings; mastered the R&D and production process of IOL products through its subsidiaries Aaren Scientific Inc., Henan Universe and Zhuhai Eyegood; meanwhile, strengthened the downstream sales channels of IOL products through the IOL trading business of its subsidiary NIMO. In terms of specific products, leveraging on its domestic and foreign brands, the Group has covered a full range of products from PMMA unfoldable IOL to multifocal foldable IOL, and has been actively engaged in R&D of high-end and new type IOL products.

During the Reporting Period, the Group continued to deepen the integration of industrial chain for ophthalmology cataract treatment business and focused on the resource rationalization and optimization of marketing channels, while leveraging on the support of the National Key R&D Programs under the Plan, creating synergy among the ophthalmology R&D technology platforms of the Group in the PRC, the United States and the United Kingdom to promote collaboration with top domestic research institutes, universities and clinical institutions, accelerate technology introduction and define innovation. In April 2019, the aspheric IOL product of Henan Universe, one of the Group's subsidiary, has been approved by the NMPA, further improving the technical level of domestic IOL brands.

Medical Aesthetics and Wound Care Products

In the field of medical aesthetics and wound care, the Group is the second largest domestic manufacturer of rhEGF for external use and one of the well-known domestic manufacturers of HA Dermal Filler. The Group's rhEGF "Healin", developed and produced by genetic engineering technology, is the only epidermal growth factor product in China that has exactly the same, sequence and spatial structure of amino acids as human natural EGF and the first registered rhEGF product in the world. The Group's first-generation HA dermal filler "Matrifill" is the first mono-phase sodium hyaluronate gel for injection approved by the former State Food and Drug Administration ("**CFDA**") in the PRC. It mainly features shaping function and is mainly positioned as a popular entry-level hyaluronic acid. The Group's self-developed second generation of HA dermal filler "Janlane" is mainly positioned at the mid-to-high end, and mainly features the dynamic filling function. The Group's third-generation HA Dermal Filler product with new particle-free characteristics has been submitted to NMPA for registration and is currently in the declaring production stage. The Group's HA Dermal Filler product portfolio has been widely recognized in the market and has become a leading brand of domestic HA Dermal Filler products.

During the Reporting Period, the Group's revenue of medical aesthetics and wound care products was approximately RMB299.14 million, representing a decrease of approximately RMB38.24 million, or 11.33%, as compared to 2018. The breakdown of the revenue from medical aesthetics and wound care products by specific products is as follows:

Project	**2019**		2018		Change
	RMB'000	**%**	RMB'000	%	(%)
HA Dermal Filler	**203,491**	**12.75**	265,173	17.15	-23.26
rhEGF	**95,649**	**6.00**	72,202	4.67	32.47
Total	**299,140**	**18.75**	337,375	21.82	-11.33

HA Dermal Filler Products

During the Reporting Period, the Group's revenue of HA Dermal Filler products was RMB203.49 million, decreased by approximately RMB61.68 million, representing a decrease of 23.26% as compared to 2018.

In recent years, demand for aesthetics have been growing increasingly, and the speed of upgrade of medical aesthetic products and related technology have been accelerating. These new products and technology can satisfy existing consumer demand as well as attracting more potential consumers through increasingly comprehensive product supply, improving clinical efficacy and change of consumption concept. In the niche market of HA Dermal Filler products, the HA Dermal Filler injection project has become one of the most popular medical aesthetic products among medical aesthetic institutions and beauty seekers with relatively higher repurchase rate over time for its safety, effectiveness, high price-performance ratio, high repurchase rate and other features.

However, after the initial spurt of growth of the medical aesthetic industry, the competition of terminal medical cosmetology institutions has become increasingly fierce, customer acquisition costs remain high, and profit margins have been declining, resulting in continued pressure on domestic HA Dermal Filler products to reduce prices. At the same time, the rapid development of the industry has also been accompanied by some chaos, and industry supervision is also being strengthened. Since the second half of 2018, various national ministries and commissions have continued to carry out rectification actions to regulate medical aesthetics behavior, which has caused the business of some medical aesthetics institutions to be affected to varying degrees, and the market demand for HA Dermal Filler products has decreased.

Under the multiple influences mentioned above, the Group's HA Dermal Filler products have suffered a decrease in revenue compared to 2018 due to a decrease in sales volume. However, relying on the brand foundation widely recognized by the"Matrifill" and "Janlane" series of HA Dermal Filler products, the Group actively adjusted its sales strategy and maintained a relatively stable and good overall price system with a series of effective professional market service measures. In addition, relying on the previous market foundation and accumulation, revenue of the Group's second-generation HA dermal filler product "Janlane" increased by approximately RMB21.04 million compared with 2018, representing an increase of 56.02%, which partially made up for the unfavorable situation of falling sales of the first-generation "Matrifill" HA Dermal Filler product, and became a new sales growth point.

Although the compliance process of the Chinese medical aesthetics end market has caused market shocks in a certain period of time, in the long run, it will play a positive role in promoting the healthy and long-term development of the industry. At present, China has become the third largest medical aesthetic market in the world. However, compared with other major medical aesthetic medical markets of other countries, China's penetration rate of medical aesthetic projects is still at a low level, and potential for growth in the market is still significant. China's huge population base and strong consumption power will definitely help the medical and aesthetic industry to resume its vitality.

In the current situation, only by constantly innovating and promoting technological innovation and putting forward higher requirements on their product quality control capabilities and marketing methods, can upstream manufacturing enterprises maintain their brand value and vitality, and cope with the new generation of consumers' higher demand for specialized products and prepare for future sustainable growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Leveraging on its highly competitive R&D efforts in biomedical materials, manufacturing and marketing platforms and comprehensive strengths in the technology and quality control of sodium hyaluronate products, the Group's self-developed serially HA dermal filler products, based on their characteristics and efficacy, have established the differentiated positioning and supplementary development, thus leading the trend of combined application of HA dermal filler in the non-invasive medical aesthetic market in the PRC. Since the launch of the first generation of HA dermal filler, the Group has established a market reputation for domestically produced HA dermal filler with its professional attitude and actions. The Group established an independent professional marketing team for "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. Meanwhile, 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 lifestyle of consumer groups so as to improve the adhesiveness of HA dermal filler.

The Group will continue to leverage on its continuous innovation in R&D as well as stable product quality, clear clinical efficacy and highly efficient market management, to build a leading brand in the medical aesthetic micro-plastic field in the PRC.

In addition, the Group always focuses on the industrial layout in the field of medical aesthetics, aiming to integrate domestic industrial resources and introduce international advanced new technologies and products through various approaches such as R&D, investment, mergers and acquisitions and cooperation.

On 19 November 2019, the Group completed an exclusive Series A investment of US$14 million in Recros Medica Inc., ("**Recros Medica**"), an USA medical aesthetic equipment company. Recros Medica was founded in 2014 and is headquartered in San Diego, California. Prior to this, Recros Medica had completed a seed round of financing and two venture capital investments. After completing this Series A financing, Recros Medica has raised a total of US$36 million in financing.

Recros Medica is committed to reducing skin laxity and improving facial contours for patients. Using its proprietary rotational fractional resection technology, Nucrolus® Focal Contouring System developed by Recros Medica can help patients get immediate results with a single treatment. Nearly 100 subjects have been treated in four clinical trials approved by the Institutional Review Boards under the US Food & Drug Administration, and Recros Medica is currently planning a key clinical study. In addition, Recros Medica is also trying to facilitate autologous dermal transfer based on the Nuvellus® platform, which may become a natural alternative to commercial dermal filler.

Through the investment, the Group will support the follow-up research of Recros Medica and the future commercial operation of Nuvellus® Focal Contouring system in the Chinese market.

rhEGF "Healin"

We utilize genetic engineering technology to manufacture innovative biological products that used for wound care. The rhEGF "Healin", which was independently developed and produced by the Group using genetic engineering, 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 former CFDA in 2001 and was awarded the Second Prize of National Science and Technology Progress Award in 2002. The Group's exclusive patented technology is adopted in the production of "Healin", 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 Biaodian Medical, the Group strengthened its market position as the second largest manufacturer of rhEGF products in China in 2018, whereas the market share of "Healin" products continued to increase to 20.39%.

In February 2017, the Ministry of Human Resources and Social Security of the PRC officially issued the 2017 NRDL, and upon experts' appraisal, "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 favorable policies and the Group's phased solution of insufficient production capacity, the Group's revenue from the sales of "Healin" products increased rapidly to approximately RMB95.65 million in 2019 during the Reporting Period from approximately RMB72.20 million in 2018, representing an increase of 32.47%.

Orthopedics Products

In the field of orthopedics, the Group is the largest domestic manufacturer of orthopedic intra-articular viscoelastic supplements. According to the research reports of Biaodian Medical, the Group was the largest manufacturer of intra-articular viscosupplement products in China in 2018 for the fifth consecutive year where our market share was 39.67%.

During the Reporting Period, the orthopedics products of the Group recorded revenue of RMB357.93 million, representing an increase of approximately RMB59.00 million, or 19.74%, as compared to that in 2018. The breakdown of the revenue generated from the sales of orthopedics products by specific products is as follows:

Project	2019		2018		Change
	RMB'000	%	RMB'000	%	(%)
Sodium hyaluronate injection	**250,766**	**15.72**	210,152	13.59	19.33
Medical chitosan used for intra-articular viscosupplement	**107,166**	**6.71**	88,781	5.75	20.71
Total	**357,932**	**22.43**	298,933	19.34	19.74

Orthopedic intra-articular viscoelastic supplements are mainly used in degenerative osteoarthritis. Degenerative osteoarthritis is also a common and frequently-occurring disease in the senior population. According to statistics, the incidence of osteoarthritis in men over 65 is 58%, and that in women is 65% -67%; the incidence of people over 75 is as high as 80%. As of 2018, there are 140 million osteoarthritis patients in China. The Group is the only enterprise having sodium hyaluronate injection products with full series of specifications of 2mL, 2.5mL and 3mL in the PRC market. Meanwhile, Medical chitosan intra-articular viscosupplement is an exclusive product of the Group, which is the only intra-articular viscosupplement registered as a Class III medical device in the PRC.

Sodium Hyaluronate Injection

Benefiting from the complete specifications and stable quality of the Group's sodium hyaluronate injection products, we have maintained a good bidding and sales price system in recent years, and have obvious competitive advantages. During the Reporting Period, the sodium hyaluronate injection of the Group recorded revenue of approximately RMB250.77 million, representing an increase of approximately RMB40.61 million, or 19.33 %, as compared to that in 2018.

The orthopedic 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, orthopedic sodium hyaluronate injection can reduce the dosage of oral analgesic so as to bring about fewer adverse reactions caused by drugs. As a significantly efficacious product extensively used in the world, the clinical application of orthopedic sodium hyaluronate injection has been included in the Osteoarthritis Clinical Pathway (2017 version) issued by the National Health and Family Planning Commission, which established the important position of sodium hyaluronate in the treatment of osteoarthritis. This was another important revision following the first publication of expert consensus in 2012, providing academic references for the effective and regulated use of orthopedic sodium hyaluronate injection products by the Chinese clinicians in orthopedic and sports medicine areas.

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. The Group upgraded its products and services to prominently improve injection experience, which laid a foundation for the long-term and stable growth of the Group's orthopedic sodium hyaluronate injection in the future.

Medical Chitosan Used for Intra-articular Viscosupplement

During the Reporting Period, the Group's medical chitosan used for intra-articular viscosupplement products recorded revenue of approximately RMB107.17 million, representing an increase of approximately RMB18.39 million, or 20.71 %, as compared to that in 2018.

Medical chitosan used for intra-articular viscosupplement 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 used for intra-articular viscosupplement 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, and was awarded the Second Prize of National Science and Technology Progress Award in 2009.

In 2018, the Joint Surgery Working Committee (關節外科工作委員會) under Chinese Medical Doctor Association and Society of Orthopedics under Chinese Medical Association organized, formulated and released the Expert Consensus on the Application of Medical Chitosan in Joint Cavity Injection (2018 Version) (《醫用幾丁糖在關節腔注射應用的專家共識(二零一八版)》) and the Guidelines for the Diagnosis and Treatment of Osteoarthritis (2018 Version) (《骨關節炎診治指南(二零一八年版)》), respectively. It has been demonstrated in the 2018 Medical Chitosan Consensus and the Guidelines that medical chitosan can relieve joint pain and protect chondrocytes through evidence-based medical proof, and can effectively treat osteoarthritis and delay the progression of the disease, providing academic reference for regulated use of medical chitosan in joint cavity injection.

Currently, medical chitosan used for intra-articular viscosupplement product is in the process of being steadily added into the charges catalogue of various provinces and local health insurance. The management of the Company believes that, with the successive completion of inclusion of the product into charges catalogue of various provinces and cities, and through insisting upon professional promotion, the stable quality and significant efficacy of medical chitosan used for intra-articular viscosupplement product will be recognized by an increasing number of doctors and patients, thus presenting significant development opportunity in the future. If medical chitosan used for intra-articular viscosupplement product could be further successfully included into the charges catalogue and medical insurance of various regions, there would be significant potential for increase of sales revenue.

Anti-adhesion and Hemostasis Products

In the surgical field, the Group is the largest domestic manufacturer of surgical anti-adhesive materials and one of the major manufacturers of medical collagen sponges. Tissue adhesion is the main cause of postoperative complications. The use of polymer biomaterials as spacers to prevent surgical adhesion has gradually become a consensus to improve the safety of surgery. Currently, medical chitosan and medical sodium hyaluronate gel anti-adhesion products independently developed by the Group have been widely used in clinical practice. At the same time, the Group is also committed to the R&D, production and sales of various degradable and rapid hemostatic materials such as medical collagen sponges and fibrin sealants. The degradable and rapid hemostatic materials have also been listed as key industry development field in the "Guide to the Development Planning of the Pharmaceutical Industry (《醫藥工業發展規劃指南》)".

During the Reporting Period, the Group's anti-adhesion and hemostasis products achieved revenue of approximately RMB188.88 million, decreased by approximately RMB11.07 million compared to 2018, representing a decrease of 5.54%. The breakdown of revenue from the sales of anti-adhesion and hemostasis products by specific products is as follows:

Project	2019		2018		Change
	RMB'000	%	RMB'000	%	(%)
Medical chitosan used for anti-adhesion	93,473	5.86	108,336	7.01	-13.72
Medical sodium hyaluronate gel	73,669	4.62	76,708	4.96	-3.96
Collagen sponge	21,735	1.36	14,905	0.96	45.82
Total	188,877	11.84	199,949	12.93	-5.54

Anti-Adhesion Products

According to the research reports of Biaodian Medical, the Group has been the largest anti-adhesion product manufacturer in the PRC for twelve consecutive years, with a market share of 48.85% in 2018.

From 2015 to date, the gradual publication of certain expert consensus associated with the anti-adhesion products marks the clinical medical concern on anti-adhesion issue. The Chinese Expert Consensus on Prevention of Abdominal Adhesion after Abdominal Surgery, issued in November 2017, points out 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. 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, hence increasing clinical usage radically and further promoting the continuous growth of the sales of anti-adhesion and hemostasis products of the Group.

Due to the impact brought by the sustained controls over fees and quantity carried out by public hospitals across the country starting in the second half of 2017, the use of high-valued materials including anti-adhesion materials in many regions is limited. The Group's whole series of anti-adhesion in hospital use has been affected to some extent. At the same time, as the bidding prices in Beijing, Tianjin, Hebei and other places have fallen, the ex-factory prices of some specifications have also been reduced. In particular, medical chitosan used for anti-adhesion products with relatively high unit prices are severely affected.

Collagen Sponge

Medical collagen has good hemostatic and tissue filling effect, and thus becomes a unique biomedical material used in surgical operations for gynecology and obstetrics, otolaryngology, brain surgery and general surgery. The medical collagen sponge "奇特邦" product of the 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, "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, the Group's collagen sponge products achieved market breakthroughs in Zhejiang, Shandong, Shanghai and other places, with operating revenue of approximately RMB21.74 million, representing an increase of 45.82% as compared to that in 2018.

The management of the Company believes that the Group is able to continue to maintain its leading market share of surgical products by more professional marketing and promotion.

Research and Development ("R&D")

The Group has always attached great importance to R&D. In order to maintain the Company's technological advantages in the industry, the Group will further increase investment in R&D. During the Reporting Period, the total R&D expenses amounted to approximately RMB116.08 million, representing an increase of 21.71% over RMB95.37 million in 2018, and its proportion in revenue increased from 6.17% in 2018 to 7.28%.

All core products of the Group were primarily developed by its in-house R&D team and the Group maintained a complete R&D project control system for development of new technology and new product and also for transformation of technological achievements. Meanwhile, the Group also focuses on cooperative research and technology development projects with well-known domestic universities, research institutes and sizable "Grade III" hospitals.

The Group has undertaken 8 national-level significant projects from the Ministry of Science and Technology and other national department, and 20 significant technology R&D projects for Shanghai municipality, has been certified as national-level enterprise technology center, owns national postdoctoral R&D workstation, two national R&D platforms, four provincial and ministerial-level technology and R&D transformation platforms, and one Shanghai municipal academician expert workstation, and has established an integrated R&D system in China, the United States and the United Kingdom, initially formed an international R&D layout.

As of the end of the Reporting Period, the Group's in-house R&D team comprised of 263 staff members from China and other countries, representing approximately 19.66% of the total staff of the Group, of which 20 staff were doctorate degree holders and 67 staff were master's degree holders.

In the short to medium term, the Group will continue to focus on the R&D of innovative high-medium-class IOL products, orthokeratology products, artificial vitreous products and products covering ophthalmic treatment areas such as optical, fundus, dry eyes and glaucoma, projects such as innovative tissue filler materials and fibrin sealant, and will also expand specification and research indication of the Group's existing products in the market.

In the long term, the Group will insist on expanding its R&D capabilities. The Group will work with famous Chinese and foreign colleges, universities, research institutes and experts to extend the product development in order to further expand the Group's product offerings to sustained-release preparations, new compound anti-adhesion and hemostasis products on the basis of our own four technology platforms: IOL and optical materials technology platform (which is elected as one of the National Key R&D Programs under the "13th Five-Year Plan"), 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"), medical sodium hyaluronate/sodium hyaluronate technology platform, and rhEGF technology platform.

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 operated a marketing model that combines with distribution and direct sales, and has an extensive and effective sales network in China. During the Reporting Period, the Group's main business revenue divided by sales model was as follows:

Project	2019		2018	
	RMB'000	%	RMB'000	%
Distribution	840,864	52.70%	839,692	54.32%
Direct sales	754,634	47.30%	706,132	45.68%
Total	1,595,498	100.00%	1,545,824	100.00%

As of the end of the Reporting Period, the Group's distribution network comprised over 2,000 distributors. With such distribution network, products of the Group were sold across provinces, municipals and autonomous regions in China and approximately 65 countries and regions in the world. In addition to the distribution network, the Group has a professional marketing team of 342 people, and has market department, medical department, public affair department, sales department, commercial department and sales support department which are responsible for formulating standardized bidding and government affair management, 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 Company's products and keeping abreast of any changes to market needs. The Group's broad coverage of hospitals and other medical institutions and its advantages in identifying and managing distributors enabled the Group to effectively promote its products to the target market, laying 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.

DISCUSSION AND ANALYSIS OF FUTURE DEVELOPMENT

Industry Structure and Prospects

At present, the domestic pharmaceutical and medical device industry is undergoing a series of major changes: reform of medical insurance payment methods, centralized tendering and large-scale procurement will continue to deepen from the top down foreseeably. Although the above-mentioned policy factors have brought severe challenges to the operating performance of pharmaceutical and medical device companies, they will also undoubtedly benefit the overall healthy and sustainable development of the industry.

The rigid market demand brought by the aging and urbanization process in China is still driving the industry to grow steadily. As far as the four areas of the Group are concerned, the IOL industry has been listed as a key industry development area by the "13th Five-Year Plan" for Biological Industry Development (《"十三五"生物產業發展規劃》) and the Guidelines for the Development Planning of the Pharmaceutical Industry (《醫藥工業發展規劃指南》), orthopedics and medical aesthetics products are also on the high ceiling quality track. With the rapid growth of diversified medical needs, the gradual improvement of the medical insurance payment system, and the continuous upgrade of the concept of national health consumption, leading pharmaceutical companies with solid product treatment efficacy, good financial status, brand value, and innovative ability are also facing important development opportunity.

Company Development Strategy

The Group always aims to continuously improve the quality of life of Chinese people and promote the rehabilitation of patients, and takes differentiated development as its corporate strategy The Group will continue to focus on ophthalmic products such as medical absorbable biomaterials and ophthalmic IOL such as ophthalmic intraocular lenses, pharmaceuticals, etc., pay attention to scientific research innovation and achievement transformation, and strengthen professional services; continue to maintain its leading position in technology through cooperation with domestic and foreign well-known R&D institutions, independent R&D and technology introduction; continuously optimize and improve management capabilities and improve operational efficiency; continue to expand and improve product lines and integrate the industrial chain through the combination of endogenous growth and mergers and acquisitions; strengthen the company's brand building and enhance brand value, making the Group a leading domestic and internationally renowned biomedical company in the field of biomedical materials.

Business Plan

In 2020, the Group will continue to further promote the integration of internal resources of the Group, and further strengthen the integration of merged and acquired enterprises in various functions such as R&D, production, sales and service, enable merged and acquired enterprises to quickly integrate into the Group's management system with a view to maximizing synergy, improving operational efficiency, developing innovative technologies, and expanding market space, and continue to enhance core competitiveness.

The Group will create synergy among the its superior R&D resources in China, the United States, and the United Kingdom, increase investment in R&D of innovative products, continue to promote the optimization and upgrade of product portfolios, expand the clinical application of products, and ensure technological leadership in the four major therapeutic areas of ophthalmology, medical aesthetics, orthopedics, and general surgery.

At the same time, the Group will adopt a series of market measures to deepen the market penetration of advantageous products and expand the coverage of key hospitals and regions with new products through sophisticated multi-dimensional marketing methods. Under the new situation of pharmaceutical marketing, more attention has been paid to compliance management and more in-depth professional services.

In addition, based on the layout of the entire industrial chain of the existing IOL, the Group will effectively use its own funds, deploy the areas of refractive correction and myopia prevention and control, and continue to pay attention to more industrial opportunities in glaucoma, fundus disease, dry eye and other ophthalmic treatment areas. In addition, the Group will also explore the rapidly developing therapeutic fields such as medical aesthetics, orthopedics, surgery, and actively seek suitable target companies and new products, and take the opportunity to adopt acquisition or cooperation to obtain new extensional growth.

Ophthalmology Products

In 2020, the Group will continue to leverage the outstanding track record, resource advantages, and rich experience of the management team in integrating strategic assets. In the field of cataract treatment, the Group will continue to sort out and integrate the resources in products, technologies, and talents, and develop the advantages of domestic and overseas technology platforms, commit to exploring the application of innovative materials and developing a full range of artificial lens products, promote the domestic industrialization of foreign advanced production technologies, improve the production capacity, quality standards, brand positioning, operating efficiency and market competitiveness of domestic enterprises, drive the process of substitution of imported products in the domestic market, and explore huge market potentials with global ophthalmic customers.

In addition, the Group will actively promote clinical trials of new orthokeratology lens product, which will be the Group's knock-out product in the field of myopia prevention and control solutions for adolescents. In the meanwhile, the Group also pay close attention to merger and acquisition opportunities in the fields of myopia prevention and control and refractive correction, accelerating the Group's industrial layout in this field.

Medical aesthetics and wound care products

In 2020, the Group will steadily promote the marketing of HA dermal filler products "Matrifill" and "Janlane", and choose the right time to bring new third-generation HA dermal filler products with no particle characteristics to the market, further enrich the HA dermal filler product line and increase brand influence to expand market share and operating income.

At the same time, organic crosslinked sodium hyaluronate gel, the Group's fourth-generation HA Dermal Filler products, has entered the registration inspection stage. The Group uses natural products as cross-linker and polysaccharides as the main raw materials to prepare aesthetics filling materials suitable for in vivo injection through cross-linking reactions. The safety of organic cross-linked sodium hyaluronate gel will be significantly improved in contrast to those using chemical cross-linker.

In addition, the Group's self-developed enhanced Aquagen Pro has entered the registration inspection stage. This product is the first Aquagen Pro developed in accordance with the requirements of Class III medical device in the world.

Orthopedics Products

The management of the Company has well positioned the orthopedics products orthopedic sodium hyaluronate injection and medical chitosan product used for intra-articular viscosupplement of the Group. Sodium hyaluronate injection, which has a longer cultivation cycle, possesses the advantages of high clinical recognition and relatively broad application. In 2020, the Group will, as guided by the Expert Consensuses of 2012 and 2017, continue to develop 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 for intra-articular viscosupplement products market and benefit more patients. On the other hand, 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, and forms a product portfolio of the Group in the field of intra-articular viscosupplement with sodium hyaluronate injection products. For the portfolio, the Group has designated differentiated clinical applications, differentiated target market and price positioning. In 2020, the Group will actively enhance the marketing promotion and sales of medical chitosan product used for intra-articular viscosupplement and promote the inclusion of the product into the charges catalogue and health insurance of various regions in China to secure the continuous growth in sales of such product and the overall profitability of orthopedics products.

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.

Anti-Adhesion and Hemostasis Products

In respect of the current market landscape of anti-adhesion products, there are various types of products in the Chinese market and market concentration is relatively high. The top three manufacturers, representing nearly 80% of the market share in aggregate. Recently, more challenges are posed during product renewal and new product registrations as the government continued to raise demands on the quality of such products. Products with outdated technology or unstable quality are facing greater difficulties in survival. In addition, due to the impact brought by the sustained controls over fees and quantity carried out by public hospitals across the country starting in the second half of 2017, the use of high-valued materials including anti-adhesion materials and hemostasis materials in many regions is limited or even disabled. Products with outdated technology or unstable quality are gradually eliminated. The barriers in the field of anti-adhesion and hemostatic materials for new competitors has been raised progressively. Currently, the Group is able to provide a series of anti-adhesion and hemostatic materials products with the most comprehensive and integrated specifications. In 2020, the Group will enhance the market recognition and acceptance of the products among clinical surgery by putting more efforts in professional promotion, with a view to maintaining and increasing its market share.

FINANCIAL REVIEW

Revenue, Cost and Gross Profit Margin

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB1,595.50 million (2018: approximately RMB1,545.82 million), representing an increase of RMB49.68 million or approximately 3.2% as compared to the corresponding period in 2018. During the Reporting Period, the Group's sales revenue of HA Dermal Filler Products somewhat decreased as affected by the periodic industry chaos rectification in the end market of medical aesthetics and the dramatic decrease in the sale price of the competitive products. Due to the sustained rise of sales revenue of products such as sodium hyaluronate injection, intraocular lens and rhEGF for external use, the total revenue of the Group for the Reporting Period still increased, as compared with the corresponding period of last year.

During the Reporting Period, the overall gross profit margin of the Group was 77.2%, representing a decrease as compared to 78.4% in 2018, mainly due to the reduction of percentage of the operating revenue from HA Dermal Filler Products with high gross profit margin.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group was approximately RMB544.13 million, representing an increase of approximately RMB49.05 million or approximately 9.9% from approximately RMB495.08 million in 2018. The proportion of selling and distribution expenses to the Group's total revenue was 34.1%, representing a slight increase from 32.0% in 2018. During the Reporting Period, the increase in total amount of the selling and distribution expenses of the Group was mainly attributable to the expansion of its internal sales team and the organization of marketing activities through external professional teams to promote the market recognition of the products, increase sales channel and expand the proportion of business, whereby the respective marketing expenses and costs of sales staff increased.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group was approximately RMB268.99 million, representing an increase of approximately RMB26.58 million or approximately 11.0% from approximately RMB242.41 million in 2018. During the Reporting Period, the proportion of administrative expenses to the Group's total revenue was 16.9%, representing a slight increase from 15.7% in 2018. The general increase in the administrative expenses of the Group during the Reporting Period was primarily due to the expansion of business scale of the Group, the Group's administrative staff gradually increased, leading to higher wages and welfare expenses, as well as the increase of consulting fees for lawyers, accountants and other intermediary agencies owing to potential acquisitions.

R&D Expenses

During the Reporting Period, the R&D expenses of the Group was approximately RMB116.08 million, representing an increase of approximately RMB20.71 million or approximately 21.7% from approximately RMB95.37 million for the corresponding period in 2018. The growth of R&D expenses was primarily due to the continuous increase of R&D investments of the ophthalmic and medical aesthetic products made by the Group along with more projects in the pipeline and more R&D team members. During the Reporting Period, the proportion of R&D expenses to the Group's total revenue increased from 6.2% in 2018 to 7.3 %.

Other Expenses

During the Reporting Period, the other expenses of the Group were approximately RMB21.76 million, representing an increase of approximately RMB17.56 million or approximately 418.10% as compared to approximately RMB4.20 million in 2018. During the Reporting Period, other expenses mainly included (1) the disposal of 50% equity interest of the joint venture, Contateq, by Contamac Holdings, the subsidiary of the Group in January 2019, resulting in an one-off investment loss of approximately RMB9.53 million; (2) the acquisition of 100% equity interest of a ODC, a French-based manufacturer of IOL injector, on 25 April 2019, by Contamac Holdings, resulting in an one-off investment loss of approximately RMB9.98 million which the Group recognized instead of recognizing the goodwill of the respective acquisition for the period in the principle of prudence after considering the extended period of integration between Contamac Holdings and ODC and uncertainty in profitability of such business.

Income Tax Expense

During the Reporting Period, the income tax expense of the Group was approximately RMB57.97 million (2018: approximately RMB70.11 million), and the effective rate of income tax was 13.3%, which aligned with with 13.3% in 2018.

Results of the Year

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB370.78 million (2018: RMB414.54 million), representing a decrease of approximately 10.6%, which was mainly attributable to the following factors: (1) during the Reporting Period, the Group invested more in the research and development of new ophthalmology products and medical aesthetics products, with research and development expense for the period being increased by RMB20.71 million or 21.7% as compared with the corresponding period of last year; (2) as abovementioned, during the Reporting Period, due to the completion of the disposal of Contateq's equity interest and the acquisition of ODC, the Group recognized one-off disposal loss and investment loss of RMB9.53 million and RMB9.98 million, respectively, resulting in a significant increase in other expenses; (3) during the Reporting Period, some scientific research projects of the Group which were cooperated with the government had not yet reached the acceptance stage, resulting in a decrease in government subsidy income for the period being of approximately RMB18.12 million compared to that in 2018.

During the Reporting Period, the basic earnings per share were RMB2.27 (2018: RMB2.59).

Liquidity and Capital Resources

As at 31 December 2019, the total current assets of the Group were approximately RMB3,945.38 million, representing an increase of approximately RMB1,651.49 million as compared to the amount as at 31 December 2018, which was mainly due to the completion of the Company's initial public offering of shares on the Sci-Tech Innovation Board of SSE during the Reporting Period. The proceeds received resulted in a significant increase in cash, and bank balance. The total current liabilities were approximately RMB359.97 million, being approximately RMB91.35 million lower than that as at 31 December 2018 which was mainly attributable to the settlement of final payment from the acquisition of certain businesses. As at 31 December 2019, the Group's current assets to liabilities ratio was approximately 10.96 (31 December 2018: 5.08), which attributes to the success of the Company's A Share Offering, resulting in the significant increase of the Group's liquidity.

Employees and Remuneration Policy

The Group had 1,338 employees as at 31 December 2019. The breakdown of our total number of employees by function was as follows:

Production	541
Research and Development	263
Sales and Marketing	342
Finance	42
Administration	150
Total	1,338

The Group's remuneration policy for its employees is based on their working experience, daily performance, operational situation of the Group and external market competition. The Group provided various 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 RMB325.69 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 secured and efficient use of the Group's capital. Surplus cash of the Group is generally placed in short-term deposits denominated in RMB, US dollar and HKD. It is the Group's policy to enter into principal guaranteed and conservative deposits transactions only and the Group is restricted from investing in high-risk financial products.

Asset Pledge

As at 31 December 2019, the bank borrowings of approximately GBP1.00 million (equivalent to approximately RMB9.14 million) of Contamac Holdings, a subsidiary of the Company, were secured by the pledge of certain of its property, plant and equipment with the carrying amount of approximately GBP1.44 million (equivalent to approximately RMB13.28 million). As at 31 December 2018, the bank borrowings of approximately GBP2.05 million (equivalent to approximately RMB17.76 million) of Contamac Holdings, a subsidiary of the Company, 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 RMB12.59 million).

Gearing Ratio

As at 31 December 2019, the total liabilities of the Group amounted to approximately RMB498.52 million and the gearing ratio (the percentage of total liabilities to total assets) was 8.1%, representing a significant decrease as compared to 13.5% as at 31 December 2018, which was primarily attributable to the success of the Company's A Share Offering on the Sci-Tech Innovation Board of SSE during Reporting Period, resulting in the significant increase of the Group's current assets from the proceeds raised.

Cash and Cash Equivalents

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB944.51 million, representing a significant increase of approximately RMB608.88 million from that of approximately RMB335.63 million as at 31 December 2018. The increase was mainly attributable to net cash flows generated from financing activities and operating activities of approximately RMB1,392.55 million and RMB348.91 million, respectively, which was partially offset by net cash flows used in investing activities of approximately RMB1,135.74 million.

Bank Borrowings

As at 31 December 2019, NIMO and Contamac Holdings, both subsidiaries of the Group, had interest-bearing bank borrowings of approximately RMB5.30 million and GBP1.00 million (equivalent to approximately RMB9.14 million) respectively. As at 31 December 2018, NIMO and Contamac Holdings, both subsidiaries of the Group, had interest-bearing bank borrowings of approximately RMB18.89 million and GBP2.05 million (equivalent to approximately RMB17.76 million) respectively.

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 2019, the Group did not enter into any hedging transactions.

Contingent Liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities.

Significant Subsequent Event

Please refer to note 42 to the financial statements in this annual report for the details of significant subsequent event.

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 2019.

Significant Investment

Save as disclosed in this annual report, the Group has no other significant investment during the year ended 31 December 2019.

Purchase, Sales or Redemption of Listed Securities

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

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 ophthalmology, medical aesthetics and wound care, orthopedics, 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 page 5 and the Management Discussion and Analysis on pages 6 to 26 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 62 to 66 in this annual report. The objectives and policies on financial risk management of the Group are also set out in the note 41 to the consolidated financial statements. The events since the end of the Reporting Period and as at the date of this report can be found in Management Discussion and Analysis on page 26 of this annual 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 71 in this annual report. The probable future business development of the Company is discussed in Management Discussion and Analysis on page 19 of this annual report.

RESULTS

The Group's results for the Reporting Period and the financial position of the Group as at 31 December 2019 are set out in the audited consolidated financial statements on pages 87 to 95 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 6 to 26 of this annual report.

DIVIDENDS

On 12 March 2019, the payment of dividends of RMB0.50 (inclusive of tax) per share, totaling to RMB80,022,650 for the six months ended 30 June 2018 proposed by the Board was approved by the extraordinary general meeting. These dividends had been paid.

On 26 March 2020, the Directors proposed to declare the final dividend of RMB0.70 (inclusive of tax) per ordinary share, amounting to RMB124,491,710 for the year ended 31 December 2019.

I. Holders of A shares

In accordance with the Notice of Ministry of Finance, State Administration of Taxation and CSRC on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) (《財政部、國家稅務總局、中國證監會關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)), for shares of listed companies obtained by individuals from public offerings or the market, where the holding period exceeds one year, the China Securities Depository and Clearing Company dividends shall be temporarily exempted from individual income tax; where the holding period is less than one month (inclusive), the full amount of dividends shall be counted as taxable income and where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. For dividends distributed by the Listed Company, where the period of individual shareholding is within one year (inclusive), the Listed Company shall not withhold the individual income tax temporarily. The tax amount payable, subject to individual transfer of shares, shall be calculated by China Securities Depository and Clearing Corporation Limited in accordance with its terms of shareholding. Custodian of shares including securities companies will withhold the tax amount from individual accounts and transfer the tax amount to China Securities Depository and Clearing Corporation Limited. China Securities Depository and Clearing Corporation Limited shall transfer the tax amount to the Listed Company within 5 working days of the next month, and the Listed Company shall declare the tax to the competent tax authorities upon receiving the tax amount within the statutory reporting period in that month.

Resident enterprise shareholders of A shares shall report and pay for the enterprise income tax of dividends by themselves.

For the shareholders who are Qualified Foreign Institutional Investor (QFII), the Listed Company shall withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the Notice of State Administration of Taxation Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) (《國家稅務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函2009[47]號)). For QFII shareholders who wish to enjoy tax concessions shall apply to the competent taxation authority for tax rebates (arrangements) according to the relevant rules and regulations after they receive the dividends, and tax rebates will be executed under tax agreements upon verification carried out by competent tax authorities.

For non-resident enterprise shareholders of A shares except the abovementioned QFII, the Listed Company shall withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of Tentative Measures for Administration of Withholding at the Source of Income Tax of Non-resident Enterprises (Guo Shui Fa [2009] No. 3) (《非居民企業所得稅源泉扣繳管理暫行辦法》(國稅發[2009]3號)). Non-resident enterprise shareholders entitled to preferential tax treatment shall make registration in accordance with the relevant provisions of the tax treaties.

II. Holders of H shares

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation rules effective on 1 January 2008, where a PRC domestic enterprise distributes dividends for financial periods beginning from 1 January 2008 to non-resident enterprise shareholders, it is required to withhold 10% enterprise income tax for such non-resident enterprise shareholders. Therefore, the Company will, after withholding 10% of the final dividend as enterprise income tax, distribute the final dividend to non-resident enterprise shareholders, i.e. any shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominees Limited, other nominees, trustees, or holders of H Shares registered in the name of other organizations and groups.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No. 348) and relevant laws and regulations, if the individual holders of H shares are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these shareholders. If the individual holders of H shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these shareholders. If these shareholders require the PRC tax authorities to claim refund of overpaid tax fees through the Company in accordance with the relevant requirements of the announcement [2015] No. 60 of State Administration of Taxation, they shall submit reports and data as stipulated in section VII of the announcement [2015] No. 60 of State Administration of Taxation, and supplement the condition of enjoying the treatment of treaties.

If the individual holders of H shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual holders of H shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or those countries which have not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these shareholders.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**"), pursuant to which, in order to maintain the balance of the Company's reasonable return on investment to investors and the sustainable development of the Group, the Board will take into account the following factors when formulating the profit distribution plan: (1) the actual and expected financial results of the Group; (2) the dividends received by the Company from the subsidiaries; (3) the contract restrictions of the Group; (4) the Group's expected funding needs and future expansion plans; (5) the characteristics of the industry in which the Group operates; (6) external factors that have an impact on the Group's business, financial performance and positioning; (7) other factors that the Board considers appropriate.

At the extraordinary general meeting of shareholders on 12 March 2019, the Company approved the proposal on the dividend distribution plan within the three years following the initial public offering and listing of RMB ordinary shares (A Shares) and incorporated the Company's profit distribution policy in the "Articles of Association". The Company's profit distribution policy is as follows:

1. Profit distribution principles: the Company adopts consistent and stable profit distribution policies, which should emphasize on investors' reasonable investment return while maintaining sustainable development of the Company, but the profit distribution shall not exceed the range of the accumulated distributable profits or damage the Company's ability to continue operations.

2. Form of the profit distribution: the Company may distribute profit in the form of cash, shares, or by the combination of cash and shares, and shall adopt cash distribution as the prioritised mean to distribute profit provided that the conditions for cash distribution are satisfied.

3. Cash distribution interval: (1) the Company must make profit distribution at least once a year, provided that the Company records profit for the year with positive accumulative profit undistributed; (2) the Company may make interim profit distribution. The Board may propose to declare interim dividend according to the current profit scale, cash flows, development stage and capital needs.

4. The Board shall propose differentiated cash dividend policies according to the procedures as set out in the Articles of the Association by considering the following different circumstances after taking into full consideration the characteristics of the industry in which the Company operates, its stage of development, its business model, profitability and whether there are any arrangements for significant capital expenses: (1) if the Company is at mature stage and there are no arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 80% of the total profit to be distributed; (2) if the Company is at mature stage and there are arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 40% of the total profit to be distributed; (3) If the Company is at growth stage and there are arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 20% of the total profit to be distributed; If the stage of development of the Company is difficult to identify and there are arrangements for significant capital expenses, the preceding provision shall apply.

5. The specific conditions for the cash dividend distribution are as follows: (1) positive figures are recorded for the distributable profits of the Company (i.e. the remaining after-tax profits after the Company has covered loss and has extracted statutory reserve fund) during the preceding financial year; (2) a standard unqualified audit report is issued by an auditor for the financial report of the Company during the preceding financial year. If the Company recorded negative distributable profits for the preceding financial year or the auditor issued non-standard qualified audit report, the Company shall not distribute cash dividends during that year; (3) the Company has no such events as major investment plans or significant cash expenditures (excluding fund-raising projects).

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 96 to 97 of this annual report.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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. 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 2019, the net proceeds of the Company were applied as follows:

Use of Proceeds from the Global Offering	Remaining Balance of Utilized Net Proceeds up to 8 June 2016[(1)]	Remaining Balance of Utilized Net Proceeds up to 14 February 2017[(2)]	Approximate Percentage of Remaining Balance of Utilized Net Proceeds up to 14 February 2017	Proposed Reallocation on the Use of Remaining Balance of Utilized Net Proceeds up to 14 February 2017	Utilized Net Proceeds up to 31 December 2019	Remaining Balance of Utilized Net Proceeds up to 31 December 2019
	(approximately RMB million)	*(approximately RMB million)*		*(approximately RMB million)*	*(approximately RMB million)*	*(approximately RMB million)*
1. Acquiring Suitable Businesses	694.28	0.02	80%	284.26	7.41	0
2. Purchasing New Production Equipment	378.69	355.26	10%	35.53	0	0
3. Working Capital	189.35	0.05	10%	35.53	0	0
		355.33				0

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.

USE OF PROCEEDS FROM THE A SHARE OFFERING

In order to further strengthen the research and development, upgrade and production of various innovative pharmaceutical products based on the Group's medical sodium hyaluronate, medical chitosan, and rhEGF, to meet the growing market demand and improve the well-being of the people, as approved by the document "Approval in Relation to Registration of the Initial Public Offering of Shanghai Haohai Biological Technology Co., Ltd." (Zheng Jian Xuke [2019] No. 1793) granted by CSRC, the Company was permitted to issue 17,800,000 ordinary shares (A Share) in RMB to the public at an issue price of RMB89.23 per Share. The total amount raised amounted to RMB1,588,294,000. After deducting the issuing expenses, the proceeds amounted to approximately RMB1,529,268,758. The share proceeds have been fully received, and have been verified by Ernst & Young Hua Ming LLP (Special General Partnership), which has issued the Capital Verification report. The proceeds are held in dedicated accounts of the Company.

I. Management of share proceeds

In order to reinforce and regulate the management and use of the fund raised, enhance the efficiency and benefits of use of proceed, and protect investors' interests, the Company formulates the "Share Proceeds Management System of Shanghai Haohai Biological Technology Co., Ltd." ("Management System") in accordance with requirements of the Company Law, Securities Law of the People's Republic of China, Supervision Guide No. 2 on Listed Companies – Regulatory Requirements on the Management and Use of Raised Fund of Listed Companies, Listing Rules of the Shanghai Stock Exchange (Revised in 2019), STAR Market Listing Rules, Administrative Measures on Raised Fund by Listed Companies on the Shanghai Stock Exchange (Revised in 2013) and other applicable laws and regulations, together with the actual situation of the Company. According to the "Management System", the company adopts a dedicated account storage system for the share proceeds, establishes a dedicated account for the share proceeds in the bank, and signed the "Tripartite Supervision Agreement on Dedicated Account for Share Proceeds" with the sponsor UBS Securities Co., Ltd., Shanghai Songjiang Sub-branch of China Everbright Bank Co., Ltd. and Shanghai Putuo Sub-branch of Bank of Ningbo Co., Ltd., which clarified the rights and obligations of all parties. There is no significant difference between the above-mentioned Tripartite Supervision Agreement and the Model Shanghai Stock Exchange Tripartite Supervision Agreement. The Company has strictly followed the performance when using the share proceeds, in order to facilitate the management and use of the share proceeds and to monitor their use and ensure that the special funds are used exclusively.

II. Actual use of share proceeds

The Company strictly uses the share proceeds in accordance with the Management System. For details of the actual use of share proceeds by the raised capital investment projects, please refer to the appendix: "Comparison Table of Use of Share Proceeds for the 2019 A Share Offering".

Comparison Table of Use of Share Proceeds for 2019 A Share

Unit: RMB ten thousand

Net amount of share proceeds	152,926.88	Total share proceeds invested during the year	28,538.03
Total amount of share proceeds involving changes in investment purpose	-	Accumulated total of share proceed investments	28,538.03
As a percentage of the total amount of share proceeds	-		

Committed Projects	If Changed (including partial changes)	Committed Total Investment from Proceeds	Total Investment after Adjustments	Total Amount Committed for Investment as of the end of the reporting period (1)	Total Amount Invested during the year	Accumulated Amount Invested as of the end of the reporting period (2)	Difference between Accumulated Total Amount Invested and the Total Amount Committed for Investment as of the end of the reporting period (3)=(2)-(1)	Investment Rate (%) as of the end of the reporting period (%) (4)=(2)/(1)	Date of Projects becoming Ready for Intended Use Year	Profits Achieved during the year	Whether the Expected Profits have been Achieved	Whether there were any Material Changes in relation to the Feasibility of the Projects
R&D and industrialization project by Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生科國際醫藥研發及產業化項目)(note 1)	-	128,413.00	128,413.00	128,413.00	25,388.46	25,388.46	-103,024.54	19.77	2023	-	N/A(note2)	No
Supplementary liquidity	-	20,000.00	20,000.00	20,000.00	3,149.57	3,149.57	-16,850.43	15.75	N/A	N/A	N/A	No
Subtotal of committed investment projects	-	148,413.00	148,413.00	148,413.00	28,538.03	28,538.03	-119,874.97	19.23	-	-	-	-
Surplus proceeds investment (note 3)												
Supplementary liquidity	-	-	-	1,300.00	-	-	-1,300.00	-	N/A	N/A	N/A	No
Sub-total of surplus proceeds	-	-	-	1,300.00	-	-	-1,300.00	-	-	-	-	-
Total	-	148,413.00	148,413.00	149,713.00	28,538.03	28,538.03	-121,174.97	19.06	-	-	-	-
Reasons for projects not progressing as scheduled (by specific fundraising projects)	N/A											
Explanation for material changes in the feasibility of projects	N/A											

Initial investment in share proceed projects and replacement with share proceeds	The "Resolution on the Replacement of self-share proceeds Previously Invested in Fund Raised Investment Projects with Fund from the Fund Raised" was considered and approved at the sixth meeting of the fourth session of the Board and the fourth meeting of the fourth session of the supervisor committee of the Company held on 6 November 2019, the Company replaced a total of RMB146,578,985.00 self-share proceeds previously invested in fund raised investment projects with fund from the fund raised and replaced a total of RMB4,089,919.91 self-funded A share issue fees with fund from the fund raised. A total of RMB150,668,904.91 was used to replace the self-share proceeds previously invested.
Idle share proceeds used for short-term liquidity	During the reporting period, there is no idle share proceeds used for short-term liquidity of the Company.
Cash management of idle share proceeds and investment in related products	After considered and approved at the sixth meeting of the fourth session of the Board and the fourth meeting of the fourth session of the supervisor committee of the Company held on 6 November 2019, it is agreed that the Company uses the idle share proceeds up to RMB800 million for cash management for the purchase of investment products with high security, good liquidity and guaranteed capital, and the use period does not exceed the construction period of the fundraising investment project, which will be effective for twelve months from the date of approval by the Board of directors. Within the aforementioned quota and period, the Company can use it cyclically. After considered and approved at the eighth meeting of the fourth session of the board and the fifth meeting of the fourth session of the supervisor committee of the company were held on 22 November 2019, it is agreed that the Company uses the idle share proceeds up to RMB450 million for cash management for the purchase of investment products with high security, good liquidity and guaranteed capital, and the use period does not exceed the construction period of the fundraising investment project, which will be effective for twelve months from the date of approval by the Board of directors. Within the aforementioned quota and period, the Company can use it cyclically. The sponsor has issued a verification opinion on the matter. As of 31 December 2019, the balance of the Company's investment products with high security, good liquidity and guaranteed capital purchased with idle share proceeds was RMB1,240,000,000.00, of which: investment products purchased from Shanghai Songjiang Sub-branch of China Everbright Bank Co., Ltd. had a closing balance of RMB1,030,000,000.00; investment products purchased from Shanghai Putuo Sub-branch of Bank of Ningbo Co., Ltd. had a closing balance of RMB210,000,000.00.
Surplus share proceeds used for permanently replenishing liquidity or returning bank loans	After considered and approved at the tenth meeting of the fourth session of the board and the sixth meeting of the fourth session of the supervisor committee of the company were held on 30 December 2019, the "Proposal on Surplus Share Proceeds Using for Permanently Replenishing Liquidity", it is agreed that the Company will use part of the surplus share proceeds of RMB13,000,000.00 for permanent replenishment of liquidity. The use of some surplus share proceeds to permanently replenish liquidity will not affect the capital requirements for investment project construction. High-risk investments and financial assistance to others will not be made within twelve months after replenishing liquidity. The matter has been reviewed and approved by the Company's first extraordinary general meeting of shareholders in 2020 on 14 February 2020, and the sponsor has issued a verification opinion on the matter. As of 31 December 2019, there is no surplus share proceeds used for permanently replenishing liquidity or returning bank loans of the Company.
Surplus share proceeds of projects and the reasons	N/A
Other uses of share proceeds	During the reporting period, there is no other uses of the share proceeds of the Company.

Note 1: The amounts in this column are tax-included amounts.

Note 2: As of 31 December 2019, the construction of the international medical R&D and industrialization project by Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生科國際醫藥研發及產業化項目) has not been completed.

Note 3: The total amount of surplus share proceeds was RMB45,138,800.

SHARE CAPITAL

Share capital of the Company as at 31 December 2019 was as follows:

	Number of shares	Percentage of total issued share capital
A shares	137,800,000	77.483%
H shares	40,045,300	22.517%

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

Neither the Company nor any of its subsidiaries have 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. 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 62.37% of the Group's total purchases for the year ended 31 December 2019, among which, the purchases attributable to the Group's largest supplier during the Reporting Period was 30.62%.

During the Reporting Period, the aggregate sales attributable to the Group's five largest distributors comprised 9.24% of the Group's total sales for the year ended 31 December 2019, among which, the sales attributable to the Group's largest distributor during the Reporting Period was 4.36%. 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 16.99% of the Group's total sales for the year ended 31 December 2019, among which, the sales attributable to the Group's largest customer during the Reporting Period was 4.37%.

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 reserves 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 2019, Shenzhen NIMO and Contamac Holdings, two subsidiaries of the Company, had interest-bearing bank borrowings of approximately RMB5.30 million and GBP1.00 million (equivalent to approximately RMB9.14 million), respectively. As at 31 December 2018, Shenzhen NIMO and Contamac Holdings, had interest bearing bank borrowings of approximately RMB18.89 million and GBP2.05 million (equivalent to approximately RMB17.76 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 and senior management after the Reporting Period and as at the date of this annual report:

Name	Capacity
Dr. Hou Yongtai	Chairman and Executive Director
Mr. Wu Jianying	Executive Director and General Manager
Mr. Tang Minjie	Executive Director and Chief Financial Officer
Ms. Chen Yiyi	Executive Director
Ms. You Jie	Non-executive Director
Mr. Huang Ming	Non-executive Director (re-designated from Executive Director to Non-executive Director on 19 December 2019)
Mr. Chen Huabin	Independent Non-executive Director
Mr. Shen Hongbo	Independent Non-executive Director
Mr. Zhu Qin	Independent Non-executive Director
Mr. Wong Kwan Kit	Independent Non-executive Director
Mr. Liu Yuanzhong	Chairman of the Supervisory Committee and shareholder Supervisor
Ms. Yang Qing	Independent Supervisor
Mr. Tang Yuejun	Independent Supervisor
Mr. Wei Changzheng	Employee representative Supervisor
Mr. Yang Linfeng	Employee representative Supervisor
Ms. Ren Caixia	Deputy general manager
Mr. Zhang Jundong	Deputy general manager
Mr. Wang Wenbin	Deputy general manager
Ms. Tian Min	Secretary of the Board and one of the joint company secretaries (appointed as Secretary of the Board on 19 December 2019 and joint company secretary on 1 January 2020)

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from all independent non-executive Directors, namely Mr. Li Yuanxu (retired on 27 June 2019), Mr. Chen Huabin, Mr. Shen Hongbo, Mr. Zhu Qin and Mr. Wong Kwan Kit the confirmation letters of their independence pursuant to Rule 3.13 of the Hong Kong 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 73 to 80 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 2019 interim report are set out below:

1. Mr. Huang Ming, Executive Director, Secretary of the Board and joint company secretary of the Company, has been re-designated as a Non-executive Director of the Company since 19 December 2019 and will no longer serve as the Secretary of the Board of the Company; since 1 January 2020, he has ceased to be the Company's joint company secretary.

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of our Directors (including our non-executive and independent non-executive 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 of Association 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 Group 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 2019, 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 2019, (b) no new competing business was reported by the Covenantors as at 31 December 2019, (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 2019, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined in the Hong Kong 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 2019, the Group had 1,338 employees in total. The remuneration package for our employees generally includes salary, allowances and bonuses. Employees can 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 2019, 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 Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows. 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 Hong Kong 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 Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS HOLDING A SHARES OF THE COMPANY

Name	Number of A shares (shares)	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Jiang Wei[1]	44,449,000 (L)	32.26	24.99	Beneficial owner
	28,800,000 (L)	20.90	16.19	Interest of spouse
	6,471,000 (L)	4.70	3.64	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanxi Corporate Management Limited Company[2]	6,471,000 (L)	4.70	3.64	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership)[2]	6,471,000 (L)	4.70	3.64	Beneficial owner
Lou Guoliang	9,500,000 (L)	6.89	5.34	Beneficial owner

Note: L denotes long position

1. Mr. Jiang Wei directly holds 44,449,000 A 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 A shares held by Ms. You Jie in the Company. He holds 6,471,000 A shares in the Company through his interest in controlling Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) and its executive partner Shanghai Zhanxi Corporate Management Limited Company.

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

SUBSTANTIAL SHAREHOLDERS HOLDING H SHARES OF THE COMPANY

Name	Number of H shares (shares)	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Prime Capital Management Company Limited	5,186,120 (L)	12.95	2.92	Investment Manager
Prudence Investment Management (Hong Kong) Limited	3,619,200 (L)	9.04	2.04	Investment Manager
UBS Group AG[(1)]	3,069,059 (L)	7.66	1.73	Person having a security interest in shares
	91,602 (L)	0.23	0.05	Interest of corporation controlled by the substantial shareholder
Morgan Stanley[(2)]	2,984,347 (L)	7.44	1.68	Interest of corporation controlled by the substantial shareholder
	132 (S)	0.00	0.00	Interest of corporation controlled by the substantial shareholder
Templeton Investment Counsel, LLC	2,869,400 (L)	7.17	1.61	Investment Manager
Dalton Investments LLC	2,484,300 (L)	6.20	1.40	Investment Manager

Notes: L denotes long position, S denotes short position

1. UBS Group AG was deemed to hold long position of 3,069,059 H Shares through its security interest in those shares. In addition, UBS Group AG was deemed to have interest in long position of 91,602 H Shares both UBS AG and UBS Fund Management (Switzerland) AG were wholly owned by UBS Group AG, and was beneficially holding long position of 87,802 H Shares and 3,800 H Shares in the Company respectively.

2. Long position of these 2,984,347 H shares and short position of these 132 H shares are held by Morgan Stanley through its interest in a series of controlled corporations and in its capacity as interest of corporation controlled by the substantial shareholder.

Save as disclosed above, as at 31 December 2019, 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 2019, 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 Hong Kong 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 Hong Kong 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 Hong Kong Listing Rules were as follows:

Name	Number of H shares of the Company (shares)	Number of A shares of the Company (shares)	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
You Jie[1]		28,800,000 (L)		20.90	16.19	Beneficial owner
		50,920,000 (L)		36.95	28.63	Interest of spouse
Hou Yongtai		6,000,000 (L)		4.35	3.37	Beneficial owner
Wu Jianying		6,000,000 (L)		4.35	3.37	Beneficial owner
Huang Ming		2,000,000 (L)		1.45	1.12	Beneficial owner
Gan Renbao		500,000 (L)		0.36	0.28	Beneficial owner
Chen Yiyi		400,000 (L)		0.29	0.22	Beneficial owner
Liu Yuanzhong		2,000,000 (L)		1.45	1.12	Beneficial owner
Tang Minjie	7,000 (L)		0.02		0.004	Beneficial owner

Note: L denotes long position

1. Ms. You Jie directly holds 28,800,000 A 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 44,449,000 A shares directly held by Mr. Jiang Wei and 6,471,000 A 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 2019, 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 Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

CONNECTED TRANSACTIONS

On 26 March 2018 (after trading hours), (1) the Company entered into the Spray Pump Customization Agreement with Haohai Technology (Changxing) Company Limited (昊海科技（長興）有限公司) ("Haohai Changxing"), pursuant to which the Company agreed to engage Haohai Changxing to process spray pumps for use in the Company's product packaging until 31 December 2020; and (2) the Company entered into the Plastic Syringe Accessories Customization Agreement with Haohai Changxing, pursuant to which the Company (on behalf of the Group) agreed to engage Haohai Changxing to process plastic syringe accessories for use in the Group's product packaging until 31 December 2020. At that time, Haohai Changxing is held indirectly as to 49% by Mr. Jiang Wei, a controlling shareholder of the Company and the spouse of Ms. You Jie, a controlling shareholder and director of the Company, and held indirectly as to 50% by Mr. Huang Ming, a director of the Company. The Company published an announcement dated the same date in accordance with Chapter 14A of the Hong Kong Listing Rules. On 31 December 2019, Mr. Huang Ming transferred his 50% equity interest in Haohai Changxing held indirectly by him to a corporation controlled by Ms. You Jie, a non-executive director and a controlling shareholder of the Company. Accordingly, Ms. You Jie indirectly holds 51% equity interest in Haohai Changxing.

The annual caps for the amount payable by the Company to Haohai Changxing under the Spray Pump Customization Agreement and the Plastic Syringe Accessories Customization Agreement will be aggregated in accordance with the requirements under Rule 14A.81 of the Hong Kong Listing Rules. As the applicable percentage ratios (other than the profit ratio) of the Product Customization Agreements calculated with reference to the aggregated annual caps are less than 5%, the transactions contemplated under the Product Customization Agreements are subject to annual review, reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules, but are exempted from the requirement of the circular including independent financial advice, and approval by independent shareholders.

In 2019, the Group's total transaction amount with Haohai Changxing contemplated under Spray Pump Customization Agreement and the Plastic Syringe Accessories Customization Agreement was RMB4,588,237 and RMB624,120 respectively. The annual cap for the year 2019 was RMB5,800,000 and RMB3,600,000 respectively.

The above annual caps were determined according to (1) the historical transaction volume between the Company and other suppliers; (2) the expected growth of sales volume of relevant products; and (3) the prevailing price in market.

During the period, the Company followed the pricing policies and mechanisms set out in the respective agreements for the above continuing connected transactions when determining the prices and terms of those transactions.

The independent non-executive Directors and the audit committee of the Company (the "**Audit Committee**") have reviewed the above continuing connected transactions for the year ended 31 December 2019 and have confirmed that these continuing connected transactions were:

(1) entered into in the ordinary and usual course of business of the Group;

(2) entered into on normal commercial terms or better to the Group; and

(3) in accordance with the terms of respective agreements governing the transactions that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In accordance with the requirement of Rule 14A.56 of the Hong Kong Listing Rules, the Board has engaged the auditors to perform certain procedures on the above continuing connected transactions. The auditors have reviewed the above transactions in accordance with Hong Kong standards on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions Under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and confirmed by way of letter to the Board that continuing connected transactions:

(1) have received the approval of the Board;

(2) are, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

(3) have been entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(4) have not exceeded the caps.

Save as disclosed above, during the year ended 31 December 2019, the Group has not entered into any connected transactions or continuing connected transactions which were subject to disclosure in this annual report under Chapter 14A of the Hong Kong Listing Rules.

In January 2020, the Company subscribed 19% equity interest in Shanghai Lun Sheng Information Technology Company Limited (上海倫勝信息科技有限公司), 30.77% in which was indirectly controlled by Ms. You Jie, Mr. Huang Ming and Mr. Wu Jianying, the non-executive directors and executive director of the Company. The transaction constituted a connected transaction under Chapter 14A of the Hong Kong Listing Rules. As all of the percentage ratios (other than profits ratio) are less than 0.1%, the connected transaction is fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1)(a) and Rule 14A.74 of the Hong Kong Listing Rules.

Information on connected transactions effective during the Reporting Period are contained in note 37(a)(i) and note 37(b) to the consolidated financial statements in this annual report, among which, note 37(b) is fully exempt connected transactions pursuant to the Rule 14A.76 of the Hong Kong Listing Rules.

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 Hong Kong Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong 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 Hong Kong Listing Rules.

RELATED PARTY TRANSACTIONS

The details on the related party transactions of the Group for the year ended 31 December 2019 are set out in note 37 to the consolidated financial statements in this annual report.

Save as disclosed above, 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 Hong Kong 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 Hong Kong 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 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 Hong Kong 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 RMB1,012,700.

INDEMNITY OF THE DIRECTORS

Pursuant to provisions of the Articles of Association, 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

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. Wong Kwan Kit and Mr. Zhu Qin. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting procedures, risk management and internal control system. The 2019 annual results and financial statements of the Group for the year ended 31 December 2019 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 2019 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 reappointment at the forthcoming annual general meeting.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE HONG KONG LISTING RULES

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

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

26 March 2020

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, the Securities Law of the People's Republic of China and the Listing Rules of the place where the Shares are listed. 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 of Association. 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

During the Reporting Period, the Board comprised of ten members, consisting of four executive Directors, two non-executive Directors and four independent non-executive Directors. Listed below are incumbent Directors of the Company:

Executive Directors
Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Mr. Tang Minjie *(Chief Financial Officer)*
Ms. Chen Yiyi

Non-executive Directors
Ms. You Jie
Mr. Gan Renbao(1)
Mr. Huang Ming(2)

Independent Non-executive Directors
Mr. Chen Huabin
Mr. Shen Hongbo
Mr. Zhu Qin
Mr. Wong Kwan Kit
Mr. Li Yuanxu(3)

Note: (1) Due to his age, Mr. Gan Renbao no longer seeks re-election in the general election of the Board, and will no longer serve as a director of the Company since 27 June 2019.

(2) Mr. Huang Ming was re-designated from an executive Director of the Company to a non-executive Director of the Company on 19 December 2019.

(3) Since Mr. Li Yuanxu has been serving as an independent non-executive Director of the Company for almost nine years, he no longer seeks re-election in the general election of the Board, and will no longer serve as a director of the Company since 27 June 2019.

During the Reporting Period, the Board has complied with the requirements of the Hong Kong 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 Hong Kong 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 Hong Kong Listing Rules. Accordingly, the Company is of the opinion that all the independent non-executive Directors are independent under Rule 3.13 of the Hong Kong Listing Rules.

The detailed biographies of the Directors are set out on pages 73 to 77 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 of Association, 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 16 meetings in total, with details of the attendance of Directors specified as follows:

Name	Meetings attended/ Meetings eligible to attend
Dr. Hou Yongtai	16/16
Mr. Wu Jianying	16/16
Mr. Huang Ming	16/16
Ms. Chen Yiyi	16/16
Mr. Tang Minjie	16/16
Ms. You Jie	16/16
Mr. Gan Renbao(1)	6/6
Mr. Chen Huabin	16/16
Mr. Shen Hongbo	16/16
Mr. Li Yuanxu(2)	6/6
Mr. Zhu Qin	16/16
Mr. Wong Kwan Kit	16/16

Note: (1) Mr. Gan Renbao ceased to serve as a Director of the Company since 27 June 2019.

(2) Mr. Li Yuanxu ceased to serve as a Director of the Company since 27 June 2019.

Authority Exercised by the Board and the Management

The functions and powers of the Board and the management are well defined in the Articles of Association, 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 were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. During the Reporting Period, according to the records maintained by the Company, all Directors of the Company participated in the online trainings regarding the "ESG Governance and Reporting" provided by the Hong Kong Stock Exchange, 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 of Association 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 of Association, 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 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.

The Company has a Director nomination policy. As evaluating and determining the candidates of Directors, the Nomination Committee and the Board of Directors shall consider the following factors: personal characters; professional qualifications, skills, knowledge, and experience related to the Group's business and strategy; willing to devote sufficient time to fulfill the duties of the Directors and members of the special committees of the Board of Directors; whether their appointment is in compliance with the requirements of the Listing Rules of the places where the Shares are listed regarding the independence of the Board of Directors and Directors (including the independence requirements of independent non-executive Directors); whether their appointment is in compliance with the Company's Board diversity policy and any measurable targets adopted by the Nomination Committee to diversify the members of the Board.

The nomination procedures for company Directors include:

I. Nomination procedures for appointment of new Directors

Upon receipt of the proposal on appointment of new Director and the biographical information of the candidate, the Nominating Committee should require the nominee to submit biographical information and the consent to be appointed as a Director, and evaluate the candidate based on the criteria for Director selection to determine whether such candidate is qualified for Directorship. The Nominating Committee should then make recommendations to the Board on the appointment of a suitable candidate to serve as a Director; if an independent non-executive Director is to be appointed, the recommendations should include the process of identifying the candidate, the reasons for recommending the candidate, the independence of the candidate, the views, perspectives, skills and experience that the candidate can bring to the Board, the candidate's role in promoting the diversity of Board members, etc..

II. Re-election of Directors at shareholders' meeting

The Nomination Committee should review the overall contribution and service to the Company of the retiring Directors, including its attendance at Board meetings and general meetings (if applicable), and his/her level of participation and performance on the Board. The Nominating Committee should require the nominee to submit biographical information and the consent to be appointed as a Director; and should review and determine whether retiring Directors still meet the criteria for Director selection. The Nominating Committee should then make recommendations to the Board on the re-election of Directors; if an independent non-executive Director is to be re-elected, the recommendations should include the process of identifying the candidate, the reasons for recommending the candidate, the independence of the candidate, the views, perspectives, skills and experience that the candidate can bring to the Board, the candidate's role in promoting the diversity of Board members, etc..

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

Emoluments of Directors and Supervisors shall be proposed by the remuneration and review 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.

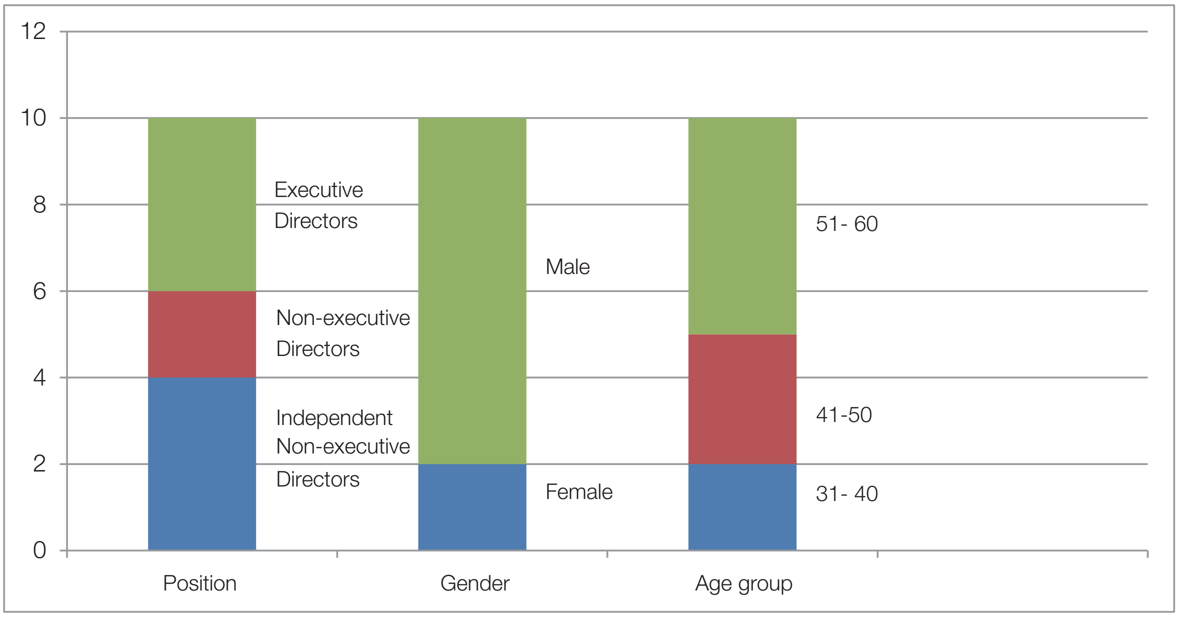
Board Diversity Policy

In accordance with the requirements of Corporate Governance Code and Corporate Governance Report, 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 "**Diversity 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.

During the Reporting Period, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 73 to page 77 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.

During the Reporting Period, the Board has not set any measurable objectives: in addition to meeting the requirements of the Company Law, the STAR Market Listing Rules, and the Hong Kong Listing Rules, the selection of candidates will be based on a range of diversified areas, including but not limited to gender, age, professional experience, education background and term of service. The final decision will be based on the strengths of the candidate and the contributions he can make to the Board. The Nomination Committee considers that the Board has maintained an appropriate balance in all aspects of member diversity, and satisfy with the current situation and progress.


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 mainly performed the following duties relating to corporate governance:

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

(b) to review the effectiveness of the internal controls and risk management systems of the Company; and

(c) 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 and Review Committee, Nomination Committee and Strategy Committee.

Audit Committee

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. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong 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. Wong Kwan Kit (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 Hong Kong Listing Rules. Mr. Shen Hongbo is the chairman of the Audit Committee.

During the Reporting Period, the Audit Committee held three meetings in total and reviewed the audited financial statements, results announcement and annual report for the year ended 31 December 2018, reviewed the unaudited financial statements, results announcement and interim report for the six months ended 30 June 2019, reviewed the onshore and offshore audit firms' expenses in 2018, recommendation to engage onshore and offshore audit firms in 2019, as well as reviewed the 2018 work summary and 2019 work plan of the audit department of the Company. The table below sets out the details of attendance of each member at meetings of the Audit Committee held during the Reporting Period:

Name	Meetings attended/ Meetings held
Mr. Chen Huabin	3/3
Mr. Shen Hongbo	3/3
Mr. Li Yuanxu[(1)]	1/1
Mr. Zhu Qin	3/3
Ms. You Jie	3/3
Mr. Wong Kwan Kit[(2)]	2/2

Note:

(1) Mr. Li Yuanxu has ceased to be a member of the Audit Committee of the Company since 27 June 2019.

(2) Mr. Wong Kwan Kit has been a member of the Audit Committee of the Company since 27 June 2019.

Remuneration and Review Committee

The Remuneration and Review Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Hong Kong 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 and Review 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. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

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

During the Reporting Period, the Remuneration and Review Committee held a meeting to review and pass remuneration of Directors and senior management personnel in 2018 and remuneration proposal of Directors and senior management personnel in 2019. The table below sets out the details of attendance of each member at meetings of the Remuneration and Review Committee held during the Reporting Period:

Name	Meetings attended/ Meetings held
Mr. Wu Jianying	1/1
Mr. Huang Ming	1/1
Mr. Shen Hongbo	1/1
Mr. Li Yuanxu(1)	1/1
Mr. Zhu Qin	1/1
Mr. Chen Huabin(2)	0/0

Note:

(1) Mr. Li Yuanxu has ceased to be a member of the Remuneration and Review Committee of the Company since 27 June 2019.

(2) Mr. Chen Huabin has been a member of the Remuneration and Review Committee of the Company since 27 June 2019.

Nomination Committee

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 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. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong 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. Wong Kwan Kit (independent non-executive Director) and Mr. Zhu Qin (independent non-executive Director). Mr. Zhu Qin is the chairman of the Nomination Committee.

During the Reporting Period, the Nomination Committee held three meetings to review the Board diversity and achievement of objectives, review of the Board structure and the non-executive Directors' duties fulfillment to the Company, and review the candidates for Directors and Senior Management. The table below sets out the details of attendance of each member at meetings of the Nomination Committee held during the Reporting Period:

Name	Meetings attended/ Meetings held
Mr. Hou Yongtai	3/3
Ms. You Jie	3/3
Mr. Chen Huabin	3/3
Mr. Li Yuanxu(1)	1/1
Mr. Zhu Qin(2)	3/3
Mr. Wong Kwan Kit(3)	2/2

Note:

(1) Mr. Li Yuanxu has ceased to be a member of the Nomination Committee of the Company since 27 June 2019.

(2) Mr. Zhu Qin has been a member of the Nomination Committee of the Company since 27 June 2019.

(3) Mr. Wong Kwan Kit has been a member of the Nomination Committee of the Company since 27 June 2019.

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 of Association, the Listing Rules of the place where the shares are listed 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 (non-executive Director), Ms. You Jie (non-executive Director) and Mr. Chen Huabin (independent non-executive Director). Ms. You Jie is the chairwoman of the Strategy Committee.

During the Reporting Period, the Strategy Committee held a meeting to review the 2018 work report of the Board and the Company's future development plans and goals. The table below sets out the details of attendance of each member at meetings of the Strategy Committee held during the Reporting Period:

Name	Meetings attended/ Meetings held
Mr. Hou Yongtai	1/1
Mr. Wu Jianying	1/1
Mr. Huang Ming	1/1
Ms. You Jie	1/1
Mr. Li Yuanxu[1]	1/1
Mr. Chen Huabin[2]	0/0

Note:

(1) Mr. Li Yuanxu has ceased to be a member of the Strategy Committee of the Company since 27 June 2019.

(2) Mr. Chen Huabin has been a member of the Strategy Committee of the Company since 27 June 2019.

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 comply with the provisions and requirements of the laws, regulations and the Articles of Association. During the Reporting Period, the Supervisory Committee was comprised of five Supervisors, of whom two were employee representative Supervisors democratically elected by our employees. The background and biographical details of the Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report.

During the Reporting Period, the Supervisory Committee held nine meetings and has mainly performed, among others, the following:

- review of financial statements, results announcement and annual report for the year ended 31 December 2018, financial statements for the three months ended 31 March 2019, interim financial statements, results announcement and interim period for the six months ended 30 June 2019;

- review of related (connected) transactions of the Company;

- elect of the chairman of the fourth session of the Supervisory Committee; and

- supervise the use of share proceeds from the issue of A shares.

AUDITORS AND THEIR REMUNERATIONS

At the 2018 annual general meeting convened on 27 June 2019, the Company approved the appointment of Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young as the Company's domestic and international auditors for 2019, respectively, and authorized the Board to fix their respective remunerations. At the extraordinary general meeting convened on 12 March 2019, the Company approved the appointment of Ernst & Young Hua Ming LLP (Special General Partnership) as the Company's auditors for A share issue, respectively, and authorized the Board to fix their expenses. The fee in respect of the annual consolidated financial statement audit service provided by Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young to the Company for the Reporting Period was RMB1.25 million (excluding tax), the fee in respect of audit service for A share issue provided by Ernst & Young Hua Ming LLP was RMB4,769,829.8 (excluding tax) and the fee in respect of assurance services for the use of share proceeds for A Share Offering was RMB30,000 (excluding tax).

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 2019 which give a true and fair view of the state of affairs of the Group as at 31 December 2019 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 81 to 86.

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 of all Directors and Supervisors, all of them confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

INTERNAL CONTROL, AUDIT AND RISK MANAGEMENT

The Board acknowledges its responsibility for the risk management and internal control systems of the Group as well as their effectiveness. 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 joint work of the Board, the Audit Committee, the audit department and management. 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 over 10 internal audit projects, and submitted the results to the Board via the Audit Committee. On 28 March 2019, 21 August 2019, and 26 March 2020, the Board convened meetings, to review the effectiveness of the risk management and internal control system of the Group, 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 faced by the Group. The potential risks taken by the Group are set out below:

I. Core competitiveness Risk

The technological advancement of products is the basis for forming the Group's core competitiveness. However, in recent years, the field of biomedical materials has developed rapidly, and technical capabilities have been continuously upgraded. If breakthrough new technologies or products appear internationally or domestically in the indication area of the Group's products in the future, and the Group's failure to adjust the technical route in a timely manner may cause the Group's technological level to lag behind, which will adversely affect the competitiveness of the product market influences.

In order to maintain and strengthen its core competitiveness, the Group continued to focus on the four major technology R&D platforms of IOL and optical materials technology platform, medical chitosan, medical sodium hyaluronate/sodium hyaluronate, and rhEGF technology, to develop new products in related fields. However, the R&D of biomedical materials has the characteristics of long cycle, high technical difficulty, large capital investment, high added value and return, and long product market life cycle. If the R&D project fails to make R&D results, or the market acceptance of the new product developed does not meet expectations, it will adversely affect the long-term core competitiveness of the Group and create uncertainty on the Group's profitability and operating results.

II. Operating Risk

In recent years, adverse reactions caused by the safety of pharmaceutical products have received close attention from the whole society. If the Group fails to strictly abide by the production safety system, which may lead to quality problems or adverse reactions of the Group's products, it will cause the Group to face the risks of compensation, product recall and social responsibility, as well as administrative penalties, which will adversely affect the Group's operating performance and reputation.

At present, the Group's main business areas are characterized by good market prospects and high gross profit levels. However, this will also attract new capital into these areas, which will intensify market competition in the medium and long term. The Group's market share and gross profit margin are affected by the intensified market competition, which in turn affects profitability.

In order to complete the industrial chain layout of the Group, the Group has conducted a number of upstream and downstream industry mergers and acquisitions around its main business, forming a certain scale of goodwill. If the integration effect of the company or business acquired in the future fails to meet expectations, adverse changes in operating conditions may cause the Group to make provision for impairment of the goodwill generated by the investment and adversely affect the Group's performance.

(i) Foreign Investment Risk

Although the Company has a management system in place in relation to foreign investments and conducts thorough due diligence prior to investing. However, if the investee companies are affected by objective factors such as policy, macroeconomics, market environment, industry cycle, exchange rate fluctuations, or if the investee companies have problems such as research and development results that are not as expected, new products that are not available on time or have not been approved for listing by the regulatory authorities, poor operation and the inability of the relevant subjects to fulfil their commitments, which will lead to a decrease in profitability or loss of assets, the Company will face the risk of a decrease in investment returns or a loss of investment, and part or all of the invested funds cannot be fully recovered.

(ii) Risk of Fluctuations in Operating Performance

In the event of a decline in macroeconomic conditions in the future, a decline in demand from end-consumers, a reduction in purchasing demand or prices by the Group's major customers for various reasons, and increased competition in the industries in which the Group operates, the Group's business, operations and financial position may be adversely affected, resulting in certain fluctuations in the Group's future operating results.

(iii) Operational Efficiency Risk of Fixed Assets

During 2019, the Company's related machinery and equipment additions required for production and research and development resulted in an increase in the carrying value of fixed assets. If market demand for such products declines in the future, or if research and development results do not meet expectations, there is a risk that the Company's investment in fixed assets may not achieve the expected increase in operating income and that the operational efficiency of fixed assets may decline.

(iv) Impairment Risk of Goodwill and Intangible Assets

In recent years, the Company has acquired a number of domestic and foreign companies. In the course of the acquisition, a larger amount of goodwill and intangible assets were formed. If the acquired companies' future operating conditions and profitability do not meet expectations due to a downturn in its industry, a decline in its own business or other factors, there is a risk of impairment of its brand and goodwill, which could adversely affect the Group's profit and loss for the current period.

III. Industry Risk

At present, the reform of China's medical and health system is gradually deepening, involving the approval, registration, manufacturing, packaging, licensing, and sales of medicine and medical devices. Major industry policies such as the basic list of medicines, list of medicines, the "Two-Invoice System", and large-scale procurement have been introduced. If the Group fails to make timely adjustments in accordance with the ongoing regulatory policies of the pharmaceutical industry, it may lead to increased compliance costs and reduced product demand of the Group, which will adversely affect the Group's financial position and operating performance.

IV. Macro Environmental Risk

The growth of the Group's performance has benefited in part from the improvement of Chinese residents' payment ability and health awareness, which in turn is reflected in the continued growth of China's biopharmaceutical industry. If the overall growth rate of the biopharmaceutical industry slows down in the future, or if public events that are adverse to the quality of the biopharmaceutical industry or related to public safety affect the overall image of the industry, it may cause the market demand for the Group's products to slow down, thereby adversely affecting the financial position and operating performance of the Group.

Internationalization is one of the key strategies for the development of the Group. The Group has acquired a number of companies overseas to promote the transfer of advanced technologies and products to China. If the overseas business conditions are affected by major changes in the laws and regulations, industrial policies or political and economic environment of the country and region where the overseas business is located, or unforeseen factors such as tension in international relations, war, trade sanctions or other force majeure, the normal development and sustainable development of the Group's overseas business may potentially be adversely affected.

ARTICLES OF ASSOCIATION

Pursuant to the special resolution passed at the Company's extraordinary general meeting on 12 March 2019, the Company resolved to amend the articles of association of the Company ("Proposed Amendments to the Articles of Association") for the purposes of A share issue; pursuant to the special resolution passed at the Company's annual general meeting on 27 June 2019, the Company further resolved to amend the Proposed Amendments to the Articles of Association for the purposes of ensuring compliance of the Articles of Association with the relevant laws, provisions and regulatory policies of the PRC.

Details of the above amendments are set out in Appendix VII to the circular of the Company dated 25 February 2019 and the Annual General Meeting Supplementary Notice dated 12 June 2019.

Apart from the above, there is no significant change in the Articles of Association during the Reporting Period. The currently valid Articles of Association is available on the websites of the Hong Kong Stock Exchange and 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 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 Hong Kong 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 2019.

Since 1 January 2020, Mr. Huang Ming ceases to be the joint company secretary of the Company and Ms. Tian Min serves as the joint company secretary of the Company.

SHAREHOLDERS' RIGHTS

I. Procedures for Shareholders to Convene an Extraordinary General Meeting

Shareholders who individually or in aggregate hold more than 10% of the shares carrying the right to vote at the meeting sought to be held requesting the convening of an extraordinary general meeting or a meeting of shareholders of different classes shall proceed in accordance with the procedures set forth below:

1. Two or more shareholders holding a total of more than 10% 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 make a written response as to whether or not it agrees to hold the extraordinary general meeting or the class meeting within ten (10) days after having received 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 shareholder(s).

2. If the Board agrees to convene the extraordinary general meeting or the class meeting, it shall issue the notice of the extraordinary general meeting or the class meeting in 5 days after making the resolution of the Board. If there is any change to the original proposal in the notice, it shall be approved by the original proposer.

3. If the Board disapproves the proposal to convene the extraordinary general meeting or the class meeting, or fails to provide a response in 10 days after receiving the request, shareholders shall be entitled to propose to the Supervisory Committee in writing for the purpose of convening the extraordinary general meeting or the class meeting.

4. If the Supervisory Committee approves the convening of the extraordinary general meeting or the class meeting, it shall issue a notice thereof within 5 days of receipt of said request, provided that any changes made in such notice to the original proposal shall be subject to prior consent from the original proposer.

5. If no notice is issued by the Supervisory Committee of the extraordinary general meeting or the class meeting within the stipulated period, the Supervisory Committee shall be deemed to have failed to convene and chair the general meeting, in which case the shareholder(s) individually or jointly holding more than 10% of the Company's shares for consecutive 90 days may convene and chair such meeting on their own. 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. The shareholding proportion of the convening shareholders before the announcement of the resolutions passed at the shareholders' general meeting shall not be under 10%. The convening shareholders shall submit the relevant evidentiary materials to the dispatched office of the securities regulatory authorities of the PRC and the stock exchange(s) when the convening shareholders issue the notice of shareholders' general meeting and the announcement of the resolutions passed at the shareholders' general meeting.

II. Procedures for Directing Shareholders' Enquiries to the Board

According to the Articles of Association, in the case that a shareholder proposes to access or obtain relevant information provided for in the Articles of Association of the Company, the Company shall provide relevant information according to the request after the Company checks and confirms the identity of the shareholder and the shareholder pays for the cost and expenses incurred.

The Company has disclosed its address, hotline for investor relationship, fax and email in the Company website and the periodical reports, and arranges manpower specially for taking calls from investors, handling investors' emails, and timely reporting to the Company's management.

III. Procedures to Propose Motions at General Meetings

According to the provisions of the Articles of Association, 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.

IV. General Meetings

For the year ended 31 December 2019, four general meetings of the Company were held. Details are as follows:

Date	Venue	Meeting
12 March 2019	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2019 Extraordinary General Meeting
12 March 2019	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2019 First Domestic Shareholders' General Meeting
12 March 2019	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2019 First H Shareholders' General Meeting
27 June 2019	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2018 Annual General Meeting

Statistics on Directors' attendance at meetings:

Name	Meetings attended/ Meetings held
Dr. Hou Yongtai	4/4
Mr. Wu Jianying	4/4
Mr. Tang Minjie	4/4
Ms. Chen Yiyi	4/4
Ms. You Jie	4/4
Mr. Huang Ming	4/4
Mr. Gan Renbao	4/4
Mr. Li Yuanxu	4/4
Mr. Chen Huabin	4/4
Mr. Shen Hongbo	4/4
Mr. Zhu Qin	4/4
Mr. Wong Kwan Kit	4/4

V. Communications with Shareholders and Investor Relations

The Company attaches great importance to maintaining and developing investor relations and 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.

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. At the same time, the Company communicates and exchanges with investors through road shows, visiting receptions, investor relations hotlines, dedicated mailboxes, and the "SSE E-networking(上證e互動)" platform, and strengthens communication with investors and analysts to effectively protect the legitimate rights and interests of investors, especially small and medium investors.

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.

OUTLINE OF 2019 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) REPORT

I. ENVIRONMENTAL POLICY PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY

As the Group takes ESG management as an important part of its daily operation and management, it continuously deepens the integration of the idea of ESG responsibility and its business operational strategy. It upholds operation with integrity and scientific development, and strives to implement corporate social responsibility and sustainable development in every business segment.

The Company has completed a certification on environmental management system. Through the establishment of environmental management system and standardizing corporate environmental management behavior, sustainable improvements have been made. All infrastructure projects, including new construction, expansion or reconstruction projects, of the Group located inside China have strictly implemented the “Three Simultaneous” environmental protection policy according to requirements of laws and regulations. The construction and operation of pollution prevention facilities started simultaneously to ensure that the increase in pollutant discharge caused by new projects is minimized.

The Group highly values the enhancement of innovation and R&D capabilities and has a full set of management and control system for R&D projects to develop new technology and products and to transform technological results. We also pay attention to the protection of intellectual property rights, and through a series of measures such as analysis of the state of intellectual property rights during project approval, improvement of the transformation mechanism of R&D results, and strengthening of patent training, we will continue to improve the standardization of intellectual property rights. During the Reporting Period, the Company and Shanghai Jianhua obtained the intellectual property rights management system certification.

The quality management of products of the Group covers the entire lifecycle of the pharmaceutical product from design to development, production, storage, sales and after-sales services. We value quality-related training. During the Reporting Period, we passed internal and external training on product quality, such as pharmacovigilance management the newly revised Pharmaceutical Administration Law of the PRC, production specifications for sterile medical devices, and production operation skills, to further enhance the quality awareness and operation standards of the Group.

The Group has formulated policies to ensure that the Group’s operations comply with laws and regulations related to labor welfare, safety and health, and the environment. During the Reporting Period, the Group did not have any serious violations of laws and regulations that have a significant impact on the Group.

II. RELATIONSHIP WITH STAKEHOLDERS

We consider our customers, shareholders, government institutions, employees, suppliers, communities etc. as our important stakeholders. In order to actively respond to the opinions and demands of stakeholders, we have established various aspects of communication and exchanges with various types of stakeholders, gained in-depth understanding of the concerns of all parties and collect opinions from all parties. In accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 of the Hong Kong Listing Rules, benchmarking in the same industry, and combined with the Group's business development and the results of the 2018 criticality assessment, we identified and determined issue lists of the "2019 Environmental, Social and Governance", designed questionnaires, and invited stakeholders to evaluate the importance of issues as the basis for preparing ESG report.

For more information about the ESG performance of the Group during the Reporting Period, please refer to the independent ESG report published by the Company on the same date as this report, which will be available for viewing or downloading at the website of the Hong Kong Stock Exchange headlined "Financial Statement/Environmental, Social and Governance information" and the website of the Company.

EXECUTIVE DIRECTORS

Dr. Hou Yongtai (侯永泰), aged 58, 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wu Jianying (吳劍英), aged 56, 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 NIMO since November 2016 and the executive director of Zhuhai Eyegood 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 (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since November 2017. He also served as a director of Shanghai Pacific Biological Technology Co., Ltd. (上海太平洋生物高科技有限公司), a subsidiary of the Company since May 2018 and served as a director of Shanghai Pacific Pharmaceutical Co., Ltd. (上海太平洋藥業有限公司), a subsidiary of the Company since May 2018. 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.

Ms. Chen Yiyi (陳奕奕), aged 38, 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 NIMO since November 2016 and the supervisor of Zhuhai Eyegood since December 2016. She also served as an executive director of Qingdao Huayuan since April 2018, and a director of Henan Saimeishi Biotech Co., Ltd (河南賽美視生物科技有限公司), a subsidiary of the Company since February 2019. 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

Mr. Tang Minjie (唐敏捷), aged 44, is an executive Director of the Company joined the Company in August 2016 as an employee, became a director of NIMO 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 & 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 57, 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) from August 2014 until present, and held a position as a director of Shanghai Haolan Corporate Management Co., Ltd (上海昊瀾企業管理有限公司). She has been appointed as a 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 80, ceased to be a non-executive Director of the Company with effect from 27 June 2019. 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.

Mr. Huang Ming (黃明), aged 44, was re-designated from an executive Director of the Company to be a non-executive Director of the Company on 19 December 2019, and no longer serves as the Secretary of the Board. Since 1 January 2020, he ceases to be the joint company secretary 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 NIMO since December 2016 the director of Contamac Holdings Limited, a subsidiary of the Company since June 2017, and the director of China Ocean Group Limited, an indirectly wholly-owned subsidiary of the Company, since December 2017. He also served as a supervisor of Shanghai Qisheng Medical Technology Development Co., Ltd. (上海旗盛醫藥科技發展有限公司), a subsidiary of the Company since April 2018 and served as a supervisor of Shanghai Pacific Biological Technology Co., Ltd., a subsidiary of the Company since May 2018 and also served as a supervisor of Shanghai Pacific Pharmaceutical Co., Ltd., a subsidiary of the Company since May 2018. 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, with former name Huang Ping (黃平), 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Huabin (陳華彬), aged 52, 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 40, 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 serving as a supervisor in Hygea Medical Technology Co., Ltd (海杰亞(北京) 醫療器械有限公司) from January 2011 to November 2019. He served 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 August 2018, 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 been serving as an independent director of Ashtronic Technology (Shanghai) Co., Ltd (亞士創能科技(上海)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603378), since December 2013. He has 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 August 2016. He served as an independent director of Zhejiang Chenguang Cable Co., Ltd. (浙江晨光電纜股份有限公司) from March 2016 to March 2019. He has also been serving as an independent director of Yalong Intelligent Equipment Group Co., Ltd. (亞龍智能裝備集團股份有限公司) since December 2015 and as an independent director of STO Express Co., Ltd. (申通快遞股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002468), since December 2016. 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 53, ceased to be independent non-executive Director of the Company since 27 June 2019. Mr. Li is a professor at the School of Management, Fudan University. He served as an independent director of YAPP Automotive Parts Co., Ltd. (亞普汽車部件股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603013), from June 2014 to June 2018. He has also been serving as an independent director of ABA Chemicals (雅本化學股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300261), since February 2016, as an independent director of Xiamen Unigroup Xue Co., Ltd. (廈門紫光學大股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000526), since February 2016 and as director of Zhang Xiaoquan Co., Ltd. (張小泉股份有限公司) since May 2018. 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 56, 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 June 2015, where he is mainly responsible for the area of pharmaceutical and healthcare. He has been serving as an executive director of Shanghai Chengyan Pharmaceutical Technology Development Co., Ltd. (上海晟燕醫藥科技發展有限公司) since July 2016, as a supervisor of Shanghai Kaoen Optoelectronics Technology Co., Ltd. (上海考恩光電科技有限公司) since July 2016 and as the general manager of Shanghai First Corporate Governance Consulting Co., Ltd. (上海複石商務諮詢有限公司) since March 2017. 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 50, is an independent non-executive Director of the Company. He has served as the chief agency officer of FWD Life Insurance Company (Bermuda) Limited Since May 2018. He joined Prudential Hong Kong Limited as an insurance agent in July 1991 and served as a regional director since May 2006 until April 2018. 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 April 2018 and a member of the Mandatory Provident Fund Schemes Appeal Board from 2012 to 2018. 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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Liu Yuanzhong (劉遠中), aged 51, 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 also been a supervisor of (寧波朗格昊海新材料有限公司) since September 2013. He has been appointed as our 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 48, 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 41, 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 acted as a visiting scholar at the Arizona State University WP Carey School of Business in US from August 2017 to July 2018. 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 40, 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 April 2016, and a director in the department of research and development since April 2016 to 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. He also served as a director of Shanghai Qisheng Medical Technology Development Co., Ltd., a subsidiary of the Company, since April 2018.

Mr. Yang Linfeng (楊林鋒), aged 38, 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 (EXCEPT DIRECTORS AND SUPERVISORS)

Ms. Ren Caixia (任彩霞), aged 62, 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 an executive director of Shanghai Lianhua from November 2010 to December 2018. 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 53, 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, and has been serving as the general manager of Qingdao Huayuan since April 2018. He served as the deputy general manager of the company from September 2014 to September 2017 and from March 2019 to present. 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang Jundong (張軍東), aged 46, 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 served as the deputy general manager of the company from September 2014 to September 2017 and from March 2019 to present. Mr. Zhang obtained a bachelor's degree in pharmacy in July 1994 and a doctor's degree in medicine in June 2006 from the Second Military Medical University.

Ms. Tian Min (田敏), aged 30, is the Secretary of the Board and the joint company secretary of the Company. She joined the Group in July 2015, worked in the office of the Board of the Company, and was appointed as the Company's securities affairs representative in August 2019. Since 1 January 2020, she has served as the joint company secretary of the Company. She has obtained the "People's Republic of China Legal Professional Qualification Certificate" issued by the Ministry of Justice of the PRC in March 2014, and obtained the qualification certificate of the secretary of the board of directors of the Shanghai Stock Exchange in July 2019. Ms. Tian obtained a Master of Laws degree from East China University of Political Science and Law in July 2015.

JOINT COMPANY SECRETARIES

Mr. Huang Ming (黃明), aged 44, 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.

Ms. Tian Min (田敏), aged 30, has served as the joint company secretary of the Company since 1 January 2020 and is also the Secretary of the Board. For the resume of Ms. Tian, please refer to "Senior Management" above.

Mr. Chiu Ming King (趙明璟), aged 42, was appointed as a joint company secretary of the Company on 17 November 2014. He joined Vistra Corporate Services (HK) Limited since June 2012 and currently serves as an executive director of corporate services of Vistra Corporate Services (HK) Limited, and 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 13 years of experience in the company secretarial field. He is currently the company secretary of several companies listed on the Stock Exchange.

Mr. Chiu has been an associate member of The Chartered Governance Institute (formerly known as 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 87 to 182, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 RMB1,595 million in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019. Revenue from contracts with customers is recognised when control of goods is transferred to the customers. We focused on this area because revenue recognition contains higher assessed risks of material misstatement, including significant risks, due to its large transaction volume. The Group's specific disclosures about revenue recognition are included in note 2.4 "Summary of significant accounting policies" and note 5 "Revenue, other income and gains" to the financial statements.	Our audit procedures included, among others, discussing with management and understanding the revenue recognition policy, performing tests of controls on revenue recognition, performing tests of details of revenue records selected by sampling method to check the occurrence and accuracy, 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 management by checking related documents. We performed alternative procedures for non-replied confirmations and subsequent review. We performed analytical procedures by comparing revenue to that of 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	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 subject to impairment test arising from business combination amounted to RMB333 million and RMB108 million, respectively, as at 31 December 2019. 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 focused 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 “Other 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 historical 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 Yin Guowei.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**1,595,498**	1,545,824
Cost of sales		**(363,999)**	(334,286)
Gross profit		**1,231,499**	1,211,538
Other income and gains, net	5	**129,498**	143,840
Selling and distribution expenses		**(544,128)**	(495,075)
Administrative expenses		**(268,985)**	(242,410)
Impairment losses on financial assets		**923**	(2,508)
Research and development costs		**(116,076)**	(95,370)
Other expenses		**(21,756)**	(4,196)
Finance costs	7	**(4,538)**	(2,148)
Share of profits and losses of:			
A joint venture/Joint ventures		**27,550**	10,315
An associate		**362**	1,199
PROFIT BEFORE TAX	6	**434,349**	525,185
Income tax expense	10	**(57,972)**	(70,106)
PROFIT FOR THE YEAR		**376,377**	455,079
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**22,019**	(2,205)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**22,019**	(2,205)


CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		(80)	32,704
Gain on disposal		8,269	52,504
Income tax effect		(1,365)	(7,876)
		6,824	77,332
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		6,824	77,332
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		28,843	75,127
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		405,220	530,206
Profit attributable to:			
Owners of the parent		370,779	414,540
Non-controlling interests		5,598	40,539
		376,377	455,079
Total comprehensive income attributable to:			
Owners of the parent		394,023	490,972
Non-controlling interests		11,197	39,234
		405,220	530,206
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the year	12	2.27	2.59

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**895,071**	703,852
Right-of-use assets	14	**216,714**	–
Prepaid land lease payments	14	**–**	38,722
Other intangible assets	15	**430,609**	428,394
Goodwill	16	**333,493**	332,003
Investment in a joint venture	17	**–**	350,000
Investment in an associate	18	**5,329**	4,700
Equity investments designated at fair value through other comprehensive income	19	**292,630**	236,900
Deferred tax assets	28	**18,393**	17,013
Other non-current assets	20	**14,257**	30,877
Total non-current assets		**2,206,496**	2,142,461
CURRENT ASSETS			
Inventories	21	**239,988**	197,631
Trade and bills receivables	22	**389,999**	384,829
Prepayments, other receivables and other assets	23	**92,880**	187,401
Pledged deposits		**–**	4,340
Cash and bank balances	24	**3,222,508**	1,438,407
A joint venture classified as held for sale	17	**–**	81,283
Total current assets		**3,945,375**	2,293,891
CURRENT LIABILITIES			
Trade and bills payables	25	**36,786**	41,183
Other payables and accruals	26	**263,319**	364,589
Interest-bearing bank and other borrowings	27	**25,710**	20,269
Tax payable		**34,152**	25,276
Total current liabilities		**359,967**	451,317
NET CURRENT ASSETS		**3,585,408**	1,842,574
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,791,904**	3,985,035

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**24,002**	16,386
Deferred tax liabilities	28	**110,950**	126,998
Deferred income	29	**3,599**	6,204
Total non-current liabilities		**138,551**	149,588
NET ASSETS		**5,653,353**	3,835,447
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital	30	**177,845**	160,045
Reserves	31	**5,276,935**	3,451,466
		5,454,780	3,611,511
Non-controlling interests		**198,573**	223,936
Total equity		**5,653,353**	3,835,447

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to ordinary equity holders of the parent									
	Share capital RMB'000	Share premium account* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* 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
At 1 January 2019	160,045	1,770,386	48,344	80,023	(4,957)	(264)	1,557,934	3,611,511	223,936	3,835,447
Profit for the year	–	–	–	–	–	–	370,779	370,779	5,598	376,377
Other comprehensive income for the year:										
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	6,824	–	–	–	–	6,824	–	6,824
Exchange differences on translation of foreign operations	–	–	–	–	16,420	–	–	16,420	5,599	22,019
Total comprehensive income for the year	–	–	6,824	–	16,420	–	370,779	394,023	11,197	405,220
Issue of shares	17,800	1,511,469	–	–	–	–	–	1,529,269	–	1,529,269
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	15,000	15,000
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(51,560)	(51,560)
Dividend declared	–	–	–	–	–	–	(80,023)	(80,023)	–	(80,023)
Transfer to statutory reserve funds	–	–	–	8,900	–	–	(8,900)	–	–	–
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	(6,827)	–	–	–	6,827	–	–	–
At 31 December 2019	177,845	3,281,855	48,341	88,923	11,463	(264)	1,846,617	5,454,780	198,573	5,653,353

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to ordinary equity holders of the parent									
	Share capital RMB'000	Share premium account* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* 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
At 1 January 2018	160,045	1,770,386	15,640	80,023	(4,057)	(264)	1,178,789	3,200,562	184,702	3,385,264
Profit for the year	–	–	–	–	–	–	414,540	414,540	40,539	455,079
Other comprehensive income for the year:										
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	77,332	–	–	–	–	77,332	–	77,332
Exchange differences on translation of foreign operations	–	–	–	–	(900)	–	–	(900)	(1,305)	(2,205)
Total comprehensive income for the year	–	–	77,332	–	(900)	–	414,540	490,972	39,234	530,206
Dividend declared	–	–	–	–	–	–	(80,023)	(80,023)	–	(80,023)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	(44,628)	–	–	–	44,628	–	–	–
At 31 December 2018	160,045	1,770,386	48,344	80,023	(4,957)	(264)	1,557,934	3,611,511	223,936	3,835,447

* These reserve accounts comprise the consolidated reserves of approximately RMB5,276,935,000 (2018: RMB3,451,466,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		434,349	525,185
Adjustments for:			
Finance costs	7	4,538	2,148
Share of profits and losses of:			
A joint venture/Joint ventures	17	(27,550)	(10,315)
An associate	18	(362)	(1,199)
Interest income	5	(66,571)	(59,087)
Interest income from equity investments at fair value through profit or loss		(2,418)	(1,766)
Dividend income from equity investments at fair value through other comprehensive income	5	(9,756)	(9,426)
Investment loss on a subsidiary	6	9,982	–
Loss on disposal of a joint venture classified as held for sale	6/17	9,531	–
Net (gain)/loss on disposal of items of property, plant and equipment	6	(248)	1,259
Depreciation of property, plant and equipment	6	68,499	53,901
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	6	17,201	1,328
Amortisation of other intangible assets	6	29,727	28,384
Impairment of trade and other receivables	6	(923)	2,508
Write-down of inventories to net realisable value	6	558	427
Recognition of government grants related to assets	29	(2,605)	(2,903)
Unrealised gains from changes in foreign currency exchange		(2,150)	(4,011)
		461,802	526,433
Increase in inventories		(27,868)	(23,186)
Increase in trade and bills receivables		(18,874)	(60,105)
(Increase)/decrease in prepayments, other receivables and other assets		(2,129)	40,239
Decrease/(increase) in pledged deposits		4,340	(4,340)
Increase in trade and bills payables		9,155	2,174
(Decrease)/increase in other payables and accruals		(5,110)	4,148
Cash generated from operations		421,316	485,363
Income tax paid		(72,405)	(94,079)
Net cash flows generated from operating activities		348,911	391,284

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**66,571**	59,087
Interest income received from equity investments designated at fair value through profit or loss		**2,420**	1,766
Purchases of items of property, plant and equipment		**(249,177)**	(151,208)
Purchase of land use rights		**(150,037)**	–
Purchase of other intangible assets		**(86)**	(665)
Proceeds from disposal of items of property, plant and equipment		**489**	1,338
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**166,331**	–
Payment for acquisition of subsidiaries		**(106,087)**	(74,246)
Payment for liabilities arising from the acquisition of subsidiaries		**(22,580)**	(19,217)
Payment for investments in a joint venture		**–**	(340,000)
Payment for investments in an associate		**–**	(337)
Proceeds from disposal of a joint venture classified as held for sale		**71,573**	–
Cash distribution received from a joint venture	17	**377,550**	10,500
Purchase of equity investments designated at fair value through other comprehensive income		**(127,242)**	(154,316)
Increase in time deposits with original maturity of more than three months		**(1,175,221)**	(127,250)
Dividends received from equity investments designated at fair value through other comprehensive income		**9,756**	6,683
Dividends arising from business combination paid to non-controlling shareholders		**–**	(6,774)
Net cash flows used in investing activities		**(1,135,740)**	(794,639)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the A Share Offering		**1,539,057**	–
Listing fees for A Share Offering		**(12,749)**	–
Principal portion of lease payment		**(14,292)**	–
Dividends paid to non-controlling shareholders		**(8,343)**	–
New bank loans		**52,885**	40,364
Repayment of bank loans		**(79,515)**	(42,278)
Interest paid		**(4,474)**	(2,183)
Acquisition of non-controlling interests		**–**	(1,210)
Dividends paid	11	**(80,023)**	(80,023)
Net cash flows generated from/(used in) financing activities		**1,392,546**	(85,330)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		605,717	(488,685)
Cash and cash equivalents at beginning of year		335,626	821,889
Effect of foreign exchange rate changes, net		3,163	2,422
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	944,506	335,626
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	24	3,222,508	1,442,747
Time deposits with original maturity of more than three months when acquired	24	(2,278,002)	(1,102,781)
		944,506	339,966
Less: Pledged time deposits:			
Pledged for bills payable		–	(4,340)
Cash and cash equivalents as stated in the statement of cash flows		944,506	335,626

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 "HKSE") since 30 April 2015. The Company issued 17,800,000 A shares on 30 October 2019 ("A Share Offering"). The A shares of the Company have been listed on the Sci-tech Innovation Board of the Shanghai Stock Exchange (the "SSE") since 30 October 2019. Total number of issued shares of the Company after the A Share Offering was 177,845,300 shares (comprising 40,045,300 H Shares and 137,800,000 A Shares).

During the year, the Group was principally engaged in the manufacture and sale of biologicals, medical hyaluronate and 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 Direct %	Indirect %	Principal activities
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
Haohai Healthcare Holdings Co., Limited. ("Haohai Holdings")	Hong Kong 17 July 2015	HKD153,000,000	100	–	Investment and trading business

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 %	
河南宇宙人工晶狀體研制有限公司 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
Contamac Limited	U.K. 10 May 1991	GBP1,000	–	70	Manufacture and sale of contact lens and intraocular lens material, machines and accessories

* English translations of names for identification purposes only

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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 convention, except for certain equity investments and certain other payables and accruals, which have been measured at fair value. Non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. 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 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PRESENTATION (Continued)

Basis of consolidation (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

*Impact on transition **(Continued)***

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	83,733
Decrease in prepaid land lease payment	(38,722)
Decrease in prepayments, other receivables and other assets	(1,328)
	43,683
Liabilities	
Increase in interest-bearing bank and other borrowings	43,683

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	**51,538**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	2,241
	49,297
Weighted average incremental borrowing rate as at 1 January 2019	4.24%
Discounted operating lease commitments as at 1 January 2019	43,683
Lease liabilities as at 1 January 2019	**43,683**

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in an associate and a joint venture upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) IFRIC 23 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

The amendments to IAS 1 clarify (i) what is meant by a right to defer settlement; (ii) that a right to defer must exist at the end of the reporting period; (iii) that classification is unaffected by the likelihood that an entity will exercise its deferral right; and (iv) that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments also clarify amendments that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The management is currently in the process of assessing the impact to 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 consolidated 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

Items	Principal annual rate
Land and buildings	2.4%-5.0%
Plant and machinery	9.0%-33.3%
Motor vehicles	9.5%-47.5%
Office equipment and others	9.5%-33.3%
Leasehold improvements	20.0%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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.

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 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 do not meet these criteria are expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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 13 to 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.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	2 to 10 years
Leasehold land	20 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

*Group as a lessee **(Continued)***

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of motor vehicles that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

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 the statement of 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 the statement of 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 subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

*Initial recognition and measurement **(Continued)***

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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 recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been an increase in credit risk when ageing of contractual payments increases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

*General approach **(Continued)***

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and which apply the simplified approach as detailed below.

Stage 1 - Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 - Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 - Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, 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 and payables, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other 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.

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 labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 statements 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 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, and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

A government grant related to income is accounted for as follows: (a) if the grant is a compensation for related costs or expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss or offset against relevant costs over the periods in which the related costs are recognised; (b) if the grant is a compensation for related costs or expenses or losses already incurred, it is recognised immediately in profit or loss or offset against relevant costs for the current period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

- Sale of goods

  Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Other 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 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 note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 profit or loss.

Differences arising on settlement or translation of monetary items are recognised in 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 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 weighted average exchange rates for the year. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Business model

The classification of financial assets at initial recognition depends on the business model of the Group's management of financial assets. In judging the business model, the Group considers corporate appraisal, methods of reporting the results of financial assets to key management members, risks affecting the results of financial assets and its management, as well as the methods of remunerating relevant business managers and so forth. In assessing whether the objective is to collect contractual cash flows, the Group needs to analyze and judge the reasons for disposing of the financial assets before maturity, time, frequency and value of the financial assets and so forth.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow. For financial assets with advanced payment characteristics, it is necessary to judge whether the fair value of the advanced payment characteristics is minimal.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed.


3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Groups' trade receivables is disclosed in note 41 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 subject to impairment test at 31 December 2019 were approximately RMB333,493,000 (2018: RMB332,003,000) and RMB108,023,000 (2018: RMB103,699,000), respectively. Further details are given in notes 16 and 15.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable to items with similar terms and risk characteristics. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2019 was RMB154,080,000 (2018: RMB120,000,000). Further details are included in note 19 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 and intraocular lens, research and development of biological engineering and pharmaceutical products and the provision of related services. Therefore, management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	**1,399,528**	1,380,919
USA	**78,081**	81,403
U.K.	**10,333**	10,367
Other regions and countries	**107,556**	73,135
	1,595,498	1,545,824

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	**1,495,695**	1,543,218
USA	**108,610**	92,342
U.K.	**276,674**	252,425
Other regions and countries	**14,494**	563
	1,895,473	1,888,548

The non-current asset information of continuing operations above is based on the locations of the assets and excludes equity investments designated at fair value through other comprehensive income and deferred tax assets.

Information about major customers

No revenue from a single customer contributed to 10% or more of the Group's revenue during the year.


5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**1,595,498**	1,545,824

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
(a) Disaggregated revenue information		
Type of goods sold		
Ophthalmology products	**709,768**	672,075
Orthopedics products	**357,932**	298,933
Medical aesthetics and wound care products	**299,140**	337,375
Anti-adhesion and hemostasis products	**188,877**	199,949
Other products	**39,781**	37,492
Total	**1,595,498**	1,545,824
Timing of revenue recognition		
Goods transferred at a point in time	**1,595,498**	1,545,824

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**22,418**	41,802

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(b) Performance obligation

Information about the Group's performance obligation is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of products and payment is generally due within six months from delivery, except for distributors, where payment in advance is normally required.

	2019 RMB'000	2018 RMB'000
Other income and gains		
Bank interest income	66,571	59,087
Government grants (note)	46,325	64,440
Dividend income from equity investments designated at fair value through other comprehensive income	9,756	9,426
Exchange gains	2,150	6,350
Gain on disposal of items of property, plant and equipment	248	–
Others	4,448	4,537
	129,498	143,840

Note:

Various government grants have been received from local government authorities in various regions in the PRC, for compensating research activities. The government grants released have been recorded in other income and gains, among which there were no unfulfilled conditions or contingencies relating to these recognized government grants.

6. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	363,999	334,286
Depreciation of property, plant and equipment (note 13)	68,499	53,901
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments) (note 14)	17,201	1,328
Amortisation of other intangible assets (note 15)	29,727	28,384
Auditor's remuneration	1,250	1,850
Research and development costs	116,076	95,370
Minimum lease payments under operating leases:		
Land and buildings	–	15,387
Lease payments not included in the measurement of lease liabilities (note 14)	3,575	–
Employee benefit expense (excluding directors' remuneration as set out in note 8)		
– Wages and salaries	298,815	220,990
– Pension scheme contributions	26,872	19,300
Foreign exchange differences, net	(2,150)	(6,350)
Impairment losses on financial assets, net:		
Impairment of trade receivables, net	(794)	8,277
Impairment of financial assets included in prepayments, other receivables and other assets, net	(129)	(5,769)
Write-down of inventories to net realisable value	558	427
Bank interest income	(66,571)	(59,087)
Net loss on disposal of a joint venture classified as held for sale	9,531	–
Investment loss on a subsidiary	9,982	–
Net (gain)/loss on disposal of items of property, plant and equipment	(248)	1,259

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans and other loans	2,475	2,148
Interest on lease liabilities	2,063	–
	4,538	2,148

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:

	2019 RMB'000	2018 RMB'000
Fees	595	688
Other emoluments:		
Salaries, allowances and benefits in kind	3,642	3,570
Performance related bonuses	3,329	2,970
Pension scheme contributions	294	300
	7,265	6,840
	7,860	7,528

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. Li Yuanxu*	42	84
Mr. Chen Huabin	84	84
Mr. Zhu Qin	84	84
Mr. Shen Hongbo	84	84
Mr. Wong Kwan Kit	84	84
	378	420

* Mr. Li Yuanxu no longer served as Directors or held any positions in the Board committees in the Company from the date of approval of election of the Fourth Session of the Board at the Annual General Meeting ("AGM") held on 27 June 2019.

There were no other emoluments payable to the independent non-executive directors during the year (2018: 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
2019					
Executive directors:					
Dr. Hou Yongtai	–	628	708	49	1,385
Mr. Wu Jianying[1]	–	742	728	49	1,519
Mr. Huang Ming[2]	–	438	420	–	858
Mr. Tang Minjie	–	610	597	49	1,256
Ms. Chen Yiyi	–	490	466	49	1,005
Non-executive directors:					
Ms. You Jie	–	–	–	–	–
Mr. Gan Renbao[3]	49	–	–	–	49
Supervisors:					
Mr. Liu Yuanzhong	–	–	–	–	–
Mr. Wei Changzheng	–	418	251	49	718
Mr. Yang Qing	84	–	–	–	84
Mr. Tang Yuejun	84	–	–	–	84
Mr. Yang Linfeng	–	316	159	49	524
	217	3,642	3,329	294	7,482

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
2018					
Executive directors:					
Dr. Hou Yongtai	–	615	501	50	1,166
Mr. Wu Jianying[1]	–	712	683	50	1,445
Mr. Tang Minjie	–	572	544	50	1,166
Mr. Huang Ming	–	405	420	–	825
Ms. Chen Yiyi	–	450	420	50	920
Non-executive directors:					
Ms. You Jie	–	–	–	–	–
Mr. Gan Renbao	100	100	–	–	200
Supervisors:					
Mr. Liu Yuanzhong	–	–	–	–	–
Mr. Wei Changzheng	–	427	225	50	702
Mr. Yang Qing	84	–	–	–	84
Mr. Tang Yuejun	84	–	–	–	84
Mr. Yang Linfeng	–	289	177	50	516
	268	3,570	2,970	300	7,108

1 Mr. Wu Jianying is the chief executive of the Group during the year.

2 Mr. Huang Ming had been re-designated as an non-executive Director from an executive Director with effect from 19 December 2019.

3 Mr. Gan Renbao no longer served as Directors or held any positions in the Board committees in the Company from the date of approval of election of the Fourth Session of the Board at the AGM held on 27 June 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2018: five directors), details of whose remuneration are set out in note 8 above. None of the highest paid employees is neither a director nor chief executive of the Company in 2019 and 2018.

10. INCOME TAX

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

In 2019, the Company, Shanghai Qisheng, Shanghai Jianhua Fine Biological Products Co., Ltd. ("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 also accredited with the HNTE Status, effective for the three years from 2018 to 2020 by the relevant authorities. Therefore, the preferential income tax rate of 15% is applied during the years from 2018 to 2020.

The applicable tax rate for the other subsidiaries registered in the Mainland China was 25% during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The profits tax for subsidiaries in the USA has been provided at the rate of 21% 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.

10. INCOME TAX (Continued)

The profits tax for subsidiaries in France has been provided at the rate of 28% on the estimated assessable profits arising in France during the year.

	2019 RMB'000	2018 RMB'000
Current		
Charge for the year	81,335	76,330
Underprovision in prior years	(54)	597
Deferred (note 28)	(23,309)	(6,821)
Total tax charge for the year	57,972	70,106

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:

2019

	Mainland China		Hong Kong		USA		U.K.		France		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	399,642		32,250		(1,118)		9,214		(5,639)		434,349	
Tax at the statutory tax rate	100,010	25.0	5,321	16.5	(235)	20.9	1,751	19.0	(1,579)	28.0	105,268	24.2
Lower tax rate for specific provinces or enacted by local authority	-	-	146	0.5	-	-	-	-	-	-	146	-
Adjustments in respect of current tax of previous years	508	0.1	92	0.3	(654)	58.5	-	-	-	-	(54)	-
Profit and loss attributable to an associate	-	-	-	-	-	-	(69)	(0.7)	-	-	(69)	-
Additional deductible allowance for research and development expenses	(18,698)	(4.7)	-	-	-	-	(843)	(9.1)	-	-	(19,541)	(4.6)
Expenses not deductible for tax	2,002	0.5	67	0.2	82	(7.3)	383	4.1	257	(4.6)	2,791	0.6
Deductible temporary differences and tax losses not recognised	7,655	2.0	-	-	-	-	-	-	1,322	(23.4)	8,977	2.1
Income not subject to tax	-	-	(1,317)	(4.1)	-	-	-	-	-	-	(1,317)	(0.3)
Tax losses utilised from previous periods	(668)	(0.2)	-	-	-	-	-	-	-	-	(668)	(0.2)
Tax saving from preferential tax rate due to HNTE status	(37,561)	(9.4)	-	-	-	-	-	-	-	-	(37,561)	(8.5)
Tax charge at the Group's effective rate	53,248	13.3	4,309	13.4	(807)	72.1	1,222	13.3	-	-	57,972	13.3

10. INCOME TAX (Continued)

2018

	Mainland China		Hong Kong		USA		U.K.		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	433,136		41,285		9,233		41,531		525,185	
Tax at the statutory tax rate	108,279	25.0	6,812	16.5	1,939	21.0	7,891	19.0	124,921	23.8
Adjustments in respect of current tax of previous years	1,429	0.3	(502)	(1.2)	50	0.5	(380)	(0.9)	597	0.1
Profit and loss attributable to an associate and a joint venture	–	–	–	–	–	–	(193)	(0.5)	(193)	–
Additional deductible allowance for research and development expenses	(15,121)	(3.5)	–	–	–	–	(1,540)	(3.8)	(16,661)	(3.2)
Expenses not deductible for tax	2,993	0.7	–	–	241	2.6	31	0.1	3,265	0.6
Deductible temporary differences and tax losses not recognised	1,680	0.4	–	–	–	–	(208)	(0.5)	1,472	0.3
Income not subject to tax	–	–	(1,723)	(4.2)	–	–	–	–	(1,723)	(0.3)
Tax losses utilised from previous periods	–	–	–	–	(670)	(7.3)	–	–	(670)	(0.1)
Tax saving from preferential tax rate due to HNTE status	(40,902)	(9.4)	–	–	–	–	–	–	(40,902)	(7.9)
Tax charge at the Group's effective rate	58,358	13.5	4,587	11.1	1,560	16.8	5,601	13.4	70,106	13.3

The effective tax rate of the Group was 13.3% during the year ended 31 December 2019 (2018: 13.3%).

11. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Proposed 2019 final dividend – RMB0.70 per ordinary share	**124,492**	–
Proposed 2018 dividend – RMB0.50 per ordinary share	**–**	80,023
	124,492	80,023

On 26 March 2020, the Directors proposed to declare the final dividend of RMB0.70 (inclusive of tax) per ordinary share, amounting to RMB124,491,710 for the year ended 31 December 2019.

The Directors declared and paid the dividend of RMB0.50 (inclusive of tax) per ordinary share, amounting to RMB80,022,650 for the six months ended 30 June 2018 during the year.

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 163,011,967 (2018: 160,045,300) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**370,779**	414,540
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculations	**163,011,967**	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 2019							
At 1 January 2019:							
Cost	210,330	329,962	10,820	48,384	278,272	51,357	929,125
Accumulated depreciation and impairment	(23,017)	(122,376)	(8,977)	(31,179)	–	(39,724)	(225,273)
Net carrying amount	187,313	207,586	1,843	17,205	278,272	11,633	703,852
At 1 January 2019, net of accumulated depreciation and impairment	187,313	207,586	1,843	17,205	278,272	11,633	703,852
Additions	40,632	19,663	1,568	7,763	177,767	3,300	250,693
Acquisition of a subsidiary (note 33)	–	4,425	222	–	–	1,093	5,740
Disposals	–	(46)	(154)	(41)	–	–	(241)
Depreciation provided during the year	(12,337)	(40,400)	(1,356)	(5,545)	–	(8,861)	(68,499)
Transfers	9,968	65,464	123	3,439	(99,531)	20,537	–
Exchange realignment	1,710	1,551	52	204	–	9	3,526
At 31 December 2019, net of accumulated depreciation and impairment	227,286	258,243	2,298	23,025	356,508	27,711	895,071
At 31 December 2019:							
Cost	262,894	420,809	12,053	59,130	356,508	75,958	1,187,352
Accumulated depreciation and impairment	(35,608)	(162,566)	(9,755)	(36,105)	–	(48,247)	(292,281)
Net carrying amount	227,286	258,243	2,298	23,025	356,508	27,711	895,071

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2018							
At 1 January 2018:							
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 1 January 2018, net of accumulated depreciation and impairment	99,468	161,914	2,690	13,425	293,212	15,048	585,757
Additions	48,812	16,758	917	7,655	101,134	4,290	179,566
Disposals	–	(1,864)	(154)	(43)	–	(536)	(2,597)
Depreciation provided during the year	(7,188)	(31,771)	(1,606)	(5,488)	–	(7,848)	(53,901)
Transfers	46,538	62,034	–	1,677	(116,074)	679	(5,146)
Exchange realignment	(317)	515	(4)	(21)	–	–	173
At 31 December 2018, net of accumulated depreciation and impairment	187,313	207,586	1,843	17,205	278,272	11,633	703,852
At 31 December 2018:							
Cost	210,330	329,962	10,820	48,384	278,272	51,357	929,125
Accumulated depreciation and impairment	(23,017)	(122,376)	(8,977)	(31,179)	–	(39,724)	(225,273)
Net carrying amount	187,313	207,586	1,843	17,205	278,272	11,633	703,852

* At 31 December 2019, certain of the Group's land and buildings in the U.K. and certain of the Group's motor vehicles with a net carrying amount of approximately RMB13,281,000 and RMB342,000, respectively (2018: RMB12,593,000 and nil, respectively), were pledged to secure the bank borrowings, as further detailed in note 27 to the financial statements.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 and 10 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There is no lease contract that include extension and termination options and variable lease payments.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 RMB'000
Carrying amount at 1 January	41,378
Recognised during the year	(1,328)
Carrying amount at 31 December	40,050
Current portion included in prepayments, other receivables and other assets	(1,328)
Non-current portion	38,722

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	**Buildings RMB'000**	**Total RMB'000**
As at 1 January 2019	40,050	43,683	83,733
Additions	150,037	5,031	155,068
Depreciation charge	(6,702)	(15,385)	(22,087)
As at 31 December 2019	183,385	33,329	216,714

14. LEASES (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	43,683
New leases	5,031
Accretion of interest recognised during the year	2,063
Payments	(16,355)
Carrying amount at 31 December	34,422
Analysed into:	
Current portion	11,073
Non-current portion	23,349

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	2,063
Depreciation charge of right-of-use assets	22,087
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	3,575
Total amount recognised in profit or loss	27,725

15. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brands* RMB'000	Total RMB'000
31 December 2019						
Cost at 1 January 2019, net of accumulated amortisation	1,147	133,551	5,145	184,852	103,699	428,394
Additions	–	–	88	–	–	88
Capital contribution from non-controlling shareholders of a subsidiary	–	15,000	–	–	–	15,000
Amortisation provided during the year	(569)	(11,288)	(1,345)	(16,525)	–	(29,727)
Acquisition of a subsidiary (note 33)	–	5,733	496	–	–	6,229
Exchange realignment	–	6,284	17	–	4,324	10,625
At 31 December 2019	578	149,280	4,401	168,327	108,023	430,609
31 December 2019:						
Cost	11,588	179,543	7,029	220,401	108,023	526,584
Accumulated amortisation	(11,010)	(30,263)	(2,628)	(52,074)	–	(95,975)
Net carrying amount	578	149,280	4,401	168,327	108,023	430,609

15. OTHER INTANGIBLE ASSETS (Continued)

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brands* RMB'000	Total RMB'000
31 December 2018						
Cost at 1 January 2018, net of accumulated amortisation	1,714	143,144	448	201,378	102,830	449,514
Additions	–	–	665	–	–	665
Transferred from construction in progress	–	–	5,146	–	–	5,146
Amortisation provided during the year	(567)	(10,157)	(1,134)	(16,526)	–	(28,384)
Exchange realignment	–	564	20	–	869	1,453
At 31 December 2018	1,147	133,551	5,145	184,852	103,699	428,394
31 December 2018:						
Cost	11,588	151,566	6,423	220,401	103,699	493,677
Accumulated amortisation	(10,441)	(18,015)	(1,278)	(35,549)	–	(65,283)
Net carrying amount	1,147	133,551	5,145	184,852	103,699	428,394

* The brands consisted of one brand of approximately RMB35,706,000 (2018: RMB35,127,000) that was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc. ("Aaren Business"), a legal entity registered in the USA, with an indefinite useful life in 2016, and the other brand of approximately RMB72,317,000 (2018: RMB68,572,000) that was acquired from the business combination of Contamac Group with an indefinite useful life in 2017.

During the year ended 31 December 2019, the Group determined that there was no impairment of intangible assets with indefinite useful lives using the income approach – relief-from-royalty method. The value in use was determined under this method, cash flow projections of which were based on financial budgets approved by senior management. The discount rate applied to the cash flow projections named Aaren Business was 13% (2018: 12%). The growth rate used to extrapolate the cash flows of Aaren Business beyond the five-year period was 2% (2018: 2%). The discount rate applied to the cash flow projections named Contamac Group was 12% (2018: 11.7%). The growth rate used to extrapolate the cash flows of Contamac Group beyond the five-year period was 2% (2018: 2%).

15. OTHER INTANGIBLE ASSETS (Continued)

Assumptions were used in the value-in-use calculation of cash-generating units for 31 December 2019. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of the other intangible assets:

- Discount rates – The discount rates used were before tax and reflect specific risks relating to the relevant units.
- Growth rates – The growth rates were based on industry growth forecasts.
- Changes in selling prices and direct costs – These were 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 were consistent with external information sources.

16. GOODWILL

	2019 RMB'000	2018 RMB'000
At the beginning of the year	332,003	331,841
Exchange realignment	1,490	162
At the end of the year	333,493	332,003

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 was 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 China Ocean Group*

* During the year ended 31 December 2017, the Group acquired a total of 100% of equity shares of China Ocean Group Limited and its subsidiaries ("China Ocean Group"), including Qingdao Huayuan Fine Biological Product Co., Ltd., Shanghai Pacific Biological Technology Co., Ltd. and Shanghai Pacific Pharmaceutical Co., Ltd..

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named NIMO

The recoverable amount of the 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 was 14% (2018: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period was 3% (2018: 3%).

Cash-generating unit named Aaren Business

The recoverable amount of the 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 was 13% (2018: 13%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2018: 2%).

Cash-generating unit named Zhuhai Eyegood

The recoverable amount of the 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 was 16% (2018: 18%). The growth rate used to extrapolate the cash flows beyond the five-year period was 3% (2018: 3%).

Cash-generating unit named Contamac Group

The recoverable amount of the 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 was 12% (2018: 13%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2018: 2%).

Cash-generating unit named China Ocean Group

The recoverable amount of the 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 was 16% (2018: 18%). The growth rate used to extrapolate the cash flows beyond the five-year period was 3% (2018: 3%).

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named China Ocean Group ***(Continued)***

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 2019						
Carrying amount of goodwill	**249,996**	**9,589**	**16,030**	**25,763**	**32,115**	**333,493**

	NIMO RMB'000	Aaren Business RMB'000	Zhuhai Eyegood RMB'000	Contamac Group RMB'000 (Restated)	China Ocean Group RMB'000 (Restated)	Total RMB'000 (Restated)
31 December 2018						
Carrying amount of goodwill	249,996	9,434	16,030	24,428	32,115	332,003

Assumptions were used in the value-in-use calculation of cash-generating units for 31 December 2019. 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 were before tax and reflect specific risks relating to the relevant units.
- Growth rates – The growth rates were based on industry growth forecasts.
- Changes in selling prices and direct costs – These were 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 were consistent with external information sources.

17. INVESTMENT IN A JOINT VENTURE/A JOINT VENTURE CLASSIFIED AS HELD FOR SALE

	2019 RMB'000	2018 RMB'000
Share of net assets	–	350,000

As of 31 December 2018, the Group invested a total of RMB350,000,000 in Changxing Tongrui Investment Partnership Enterprise (Limited Partnership) ("Changxing Tongrui") on which the Group has joint control with a third party. Therefore, the Group recorded its investment in Changxing Tongrui as an investment in a joint venture. As of 31 December 2019, as the target investment project held by Changxing Tongrui was completed, pursuant to the terms of the Changxing Tongrui Limited Partnership Agreement dated 6 November 2017, the Group received all cash distribution from Changxing Tongrui amounted to RMB377,550,000, which consisted of net investment income in the amount of RMB27,550,000 and a refund of the corresponding original principal investment amount contributed by the Group at RMB350,000,000. There's no remaining investment portfolio as of 31 December 2019. Accordingly, share of Changxing Tongrui's profit of RMB27,550,000 was recognised in profit or loss during the reporting period (year ended 31 December 2018: RMB10,500,000).

A joint venture classified as held for sale

On 21 December 2018, Contamac Holdings, Contamac Limited, Innovalens B.V. ("Innovalens") and Contateq B.V. ("Contateq", a former joint venture of Contamac Holdings) entered into an agreement ("Agreement"), pursuant to which, (i) Contamac Holdings agreed to sell its entire equity interest in Contateq to Innovalens at a consideration of approximately EUR8,500,000; (ii) Contateq agreed to transfer all of its product inventories at the transaction completion date to Contamac Holdings free of charge; (iii) Contateq agreed to repay the loans to the joint venture (the "JV Loan") principal and accrued interest to Contamac Holdings on the transaction completion date; and (iv) the managing director nominated by Contamac Holdings resigned from Contateq. Therefore, the Group's investment in Contateq was classified as a held for sale from 22 December 2018.

In January 2019, the transaction was completed, pursuant to which, the Group recognised a disposal loss of approximately RMB9,531,000 in profit or loss.

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

The following table illustrates the financial information of the Group's joint ventures that are not individually material, Changxing Tongrui and Contateq (not included in 2019):

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' profit for year	27,550	10,315
Share of the joint ventures' total comprehensive income for the year	27,550	10,315
Aggregate carrying amount of the Group's investment in the joint venture	–	350,000

18. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	2,940	2,435
Loan to an associate	2,389	2,265
	5,329	4,700

The loan to the associate was unsecured, interest free with no fixed term of repayment. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associate. There was no recent history of default and past due amounts for loans to joint ventures. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

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

The following table illustrates the financial information of the Group's associate that is not individually material, Lifeline Medical Devices Private Limited ("Lifeline"):

	2019 RMB'000	2018 RMB'000
Share of the associate's profit for the year	362	1,199
Share of the associate's total comprehensive income for the year	362	1,199
Aggregate carrying amount of the Group's investment in the associate	5,329	4,700

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
Union Medical Healthcare Limited	127,353	116,900
Aesthetic Medical International Holdings Group Limited	11,197	–
	138,550	116,900
Unlisted equity investments		
Shenwu Private Equity Fund	98,056	120,000
Recros Medica	56,024	–
	154,080	120,000
	292,630	236,900

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In June 2019, the Group disposal a portion of its investment in Shenwu Private Equity Fund. The fair value on the date of sale was approximately RMB70,092,000 and the accumulated gain recognised in other comprehensive income of approximately RMB1,340,000 was transferred to retained earnings. During the year ended 31 December 2019, the Group received dividends in the amounts of RMB4,688,000 (2018: RMB9,426,000) and RMB5,068,000 (2018: Nil) from Union Medical Healthcare Limited and Shenwu Private Equity Fund, respectively.

20. OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments for property, plant and equipment	14,257	30,877

21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	52,221	51,077
Work in progress	37,429	32,722
Finished goods	97,004	63,716
Merchandises	55,845	52,007
	242,499	199,522
Less: Provision for inventories	2,511	1,891
	239,988	197,631

None of the Group's inventories was pledged during the years ended 31 December 2019 and 2018.

22. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Bills receivable	8,008	312
Trade receivables	414,704	417,928
Impairment	(32,713)	(33,411)
	389,999	384,829

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 twelve 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.

Included in the Group's trade and bills receivables were amounts due from the Group's joint venture and associate of nil (2018: RMB206,000) and approximately RMB3,032,000 (2018: RMB1,769,000), respectively, which were repayable on credit terms similar to those offered to the major customers of the Group.

22. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within one year	378,334	374,726
1 to 2 years	10,118	8,954
2 to 3 years	1,547	1,149
	389,999	384,829

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	33,411	25,093
Impairment losses (reversed)/recognised	(794)	8,277
Exchange realignment	96	41
	32,713	33,411

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 41 to the financial statements.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**37,428**	34,926
Deposits and other receivables	**16,502**	26,857
Compensation derived from the relocation of aborted plant	**45,000**	45,000
Consideration receivable from disposal of an equity investment designated at fair value through other comprehensive income	**–**	86,778
Impairment allowance	**(6,050)**	(6,160)
	92,880	187,401

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

	2019 RMB'000	2018 RMB'000
At 1 January	**6,160**	11,931
Impairment losses reversed	**(129)**	(5,769)
Exchange realignment	**19**	(2)
	6,050	6,160

Included in the above provision for impairment allowance of deposits and other receivables was the provision for individually fully impaired other receivables of RMB3,967,000 (2018: RMB3,517,000).

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for as at 31 December 2019 is disclosed in note 41 to the financial statements.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

24. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances and pledged deposits	3,222,508	1,442,747
Time deposits with original maturity of more than three months when acquired	(2,278,002)	(1,102,781)
	944,506	339,966
Less: Pledged time deposits:		
Pledged for bills payable	–	(4,340)
Cash and cash equivalents	944,506	335,626

At the end of the reporting period, nearly 96% (2018: 93%) 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 AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	36,786	36,843
Bills payable	–	4,340
	36,786	41,183

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

	2019 RMB'000	2018 RMB'000
Within 3 months	30,341	40,842
3 months to 1 year	6,377	292
Over 1 year	68	49
	36,786	41,183

25. TRADE AND BILLS PAYABLES (Continued)

Included in the trade and bills payables were trade payables of nil (2018: RMB263,000) due to a joint venture. These trade payables were normally settled within 90 days, which represented credit terms similar to those offered by the joint venture to its major customers.

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

26. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Current:			
Payroll and welfare payable		59,634	44,107
Other taxes payable		12,494	25,657
Accrued expenses		29,703	49,109
Contract liabilities – short-term advances received from customers	(a)	18,069	22,418
Payables related to:			
Government grants received		27,013	28,935
Purchases of property, plant and equipment		29,565	32,104
Deposits received		29,835	32,980
Others		13,789	14,158
Dividends payable to non-controlling shareholders of subsidiaries		43,217	–
Payables for acquisition of the subsidiaries and contingent consideration	(b)	–	92,654
Payables arising from business combination to an ex-director of the subsidiary		–	22,391
Interest payable		–	76
		263,319	364,589

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

26. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers			
Sale of goods	18,069	22,418	41,802

(b) On 2 June 2017, the Group acquired a 70% interest in Contamac Group from third parties. 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) has been fully paid as at 31 December 2019.

(c) There has been no change in "Other payables and accruals", as a result of the initial application of IFRS 16.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Lease liabilities (note 14(c))	4.24	2020	11,073	13,510	–	–	–
Bank loans							
– secured (a)	4.01	2020	5,302	18,894	3.40-3.48	2019	18,894
Current portion of long term other loans							
– unsecured (d)	–	2020	113	–	–	–	–
Current portion of long term bank loans							
– secured (b)/(c)	0.89-2.92	2020	9,222	1,375	2.92	2035	1,375
			25,710	33,779			20,269
Non-current							
Lease liabilities (note 14(c))	4.24	2021-2028	23,349	30,173	–	–	–
Bank loans							
– secured (c)	0.89	2022	144	16,386	2.92	2035	16,386
Other loans							
– unsecured (d)	–	2023	509	–	–	–	–
			24,002	46,559			16,386
			49,712	80,338			36,655

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	14,524	20,810
In the second year	79	1,375
In the third to fifth years, inclusive	65	4,124
Beyond five year	–	10,346
	14,668	36,655
Other borrowings repayable:		
Within one year or on demand	11,186	–
In the second year	7,908	–
In the third to fifth years, inclusive	12,063	–
Beyond five year	3,887	–
	35,044	–
	49,712	36,655

Notes:

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

(b) Certain of the Group's bank loan at the interest rate of 2.92% is secured by mortgages over Contamac Limited's properties situated in the U.K., with an aggregate carrying value of approximately RMB13,281,000 (2018: RMB12,593,000).

(c) A bank loan of ODC Industries ("ODC") at the interest rate of 0.89% was secured by mortgages over a vehicle of ODC with a carrying value of approximately RMB342,000.

(d) The unsecured loan represents an interest-free government loan obtained by ODC.

28. DEFERRED TAX

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

Deferred tax liabilities

2019

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2019	3,573	115,549	7,876	126,998
Deferred tax arising from acquisition of subsidiaries	–	1,842	–	1,842
Deferred tax charged/(credited) to profit or loss	513	(22,675)	–	(22,162)
Deferred tax charged to other comprehensive income	–	–	1,442	1,442
Exchange realignment	165	2,542	123	2,830
Gross deferred tax liabilities at 31 December 2019	4,251	97,258	9,441	110,950

2018

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2018	1,319	125,040	–	126,359
Deferred tax charged/(credited) to profit or loss	2,213	(9,609)	–	(7,396)
Deferred tax charged to other comprehensive income	–	–	7,876	7,876
Exchange realignment	41	118	–	159
Gross deferred tax liabilities at 31 December 2018	3,573	115,549	7,876	126,998

28. DEFERRED TAX (Continued)

Deferred tax assets

2019

	Lease liabilities RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	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 2019	–	–	4,424	6,302	931	5,356	–	17,013
Deferred tax credited/ (charged)	207	–	(1,169)	(46)	(391)	768	1,778	1,147
Deferred tax charged to other comprehensive income	–	77	–	–	–	–	–	77
Exchange differences	–	–	14	23	–	–	119	156
Gross deferred tax assets at 31 December 2019	207	77	3,269	6,279	540	6,124	1,897	18,393

2018

	Accrual 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 2018	4,414	5,813	1,366	4,695	1,222	17,510
Deferred tax credited/(charged)	(27)	479	(435)	661	(1,253)	(575)
Exchange differences	37	10	–	–	31	78
Gross deferred tax assets at 31 December 2018	4,424	6,302	931	5,356	–	17,013

The Group has tax losses of approximately RMB61,537,000 (2018: RMB34,283,000) 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.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary, Contamac. In the opinion of the Directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in Contamac in U.K. for which deferred tax liabilities have not been recognised amounted to approximately RMB34,440,000 at 31 December 2019 (2018: RMB33,941,000).

29. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants		
At 1 January	6,204	9,107
Released during the year	(2,605)	(2,903)
At 31 December	3,599	6,204

30. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
177,845,300 (2018: 160,045,300) ordinary shares of RMB1.00 each	177,845	160,045

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2019	160,045,300	160,045
A Shares issue (note)	17,800,000	17,800
At 31 December 2019	177,845,300	177,845
At 1 January 2018 and 31 December 2018	160,045,300	160,045

Note：

As approved by the document "Approval in Relation to Registration of the Initial Public Offering of Shanghai Haohai Biological Technology Co., Ltd" (Zheng Jian Xuke [2019] No.1793) granted by China Securities Regulatory Commission, the Company was permitted to issue 17,800,000 ordinary shares (A Share) in RMB to the public at an issue price of RMB89.23 per share. The total amount raised amounted to RMB1,588,294,000. After deducting the issuing expenses, the proceeds amounted to approximately RMB1,529,269,000. The raised funds have been fully received, and have been verified by Ernst & Young Hua Ming LLP (Special General Partnership), which has issued the Capital Verification report (An Yong Hua Ming (2019) Yan Zi No. 60798948_B04). The proceeds are held in dedicated accounts of the Company.17,800,000 A Shares of the Company were listed and commenced trading on the Sci-tech Innovation Board of the Shanghai Stock Exchange on 30 October 2019.

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 was transferred to statutory reserve funds which are restricted as to use.

32. PARTLY-OWNED SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

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

	2019	2018
Percentage of equity interest held by non-controlling interests:		
NIMO	40%	40%
Henan Simedice Biotechnologies Co. Ltd. ("Henan Simedice")	40%	–
Contamac Group	30%	30%

	2019 RMB'000	2018 RMB'000
Accumulated balances of non-controlling interests:		
NIMO	83,822	129,155
Henan Simedice	12,911	–
Contamac Group	101,840	94,781
	198,573	223,936

	2019 RMB'000	2018 RMB'000
Profit allocated to non-controlling interests:		
NIMO	6,226	29,757
Henan Simedice	(2,089)	–
Contamac Group	1,461	10,782
	5,598	40,539

33. BUSINESS COMBINATION

On 25 April 2019, the Group acquired 100% equity interest in ODC from the third parties. ODC is engaged in development and manufacture of moulded medical devices. The acquisition was made as part of the Group's strategy to expand its product portfolio of IOL related accessories. The purchase consideration for the acquisition is Euro1,909,000 (approximately RMB14,366,000), which was paid upon completion of the transaction.

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	5,740
Other intangible assets	15	6,229
Cash and bank balances		14
Trade receivables		43
Inventories		6,408
Prepayments, other receivables and other assets		1,679
Interest-bearing bank and other borrowings		(4,761)
Trade payables		(893)
Deferred tax liabilities		(1,842)
Other payables and accruals		(8,233)
Total identifiable net assets at fair value		4,384
Investment loss on a subsidiary	6	9,982
Satisfied by		
Cash		12,794
Prepayment		1,572
		14,366

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to approximately RMB43,000 and RMB360,000 respectively. No impairment allowances were provided for trade receivables and other receivables as at the date of acquisition.

An investment loss of RMB9,982,000 was recognised immediately upon completion of the acquisition, by charging to other expense during the year ended 31 December 2019.

33. BUSINESS COMBINATION (Continued)

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

	RMB'000
Cash consideration paid	12,794
Cash and bank balances acquired	(14)
Net outflow of cash and cash equivalents included in cash flows from investing activities	12,780

Since the acquisition, ODC has contributed RMB1,515,000 to the Group's revenue and incurred net loss of approximately RMB4,436,000 to the consolidated profit or loss for the year ended 31 December 2019.

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 RMB1,597,952,000 and RMB370,851,000, respectively.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financial activities

2019

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 31 December 2018	36,655	–
Effect of adoption of IFRS 16	–	43,683
At 1 January 2019	36,655	43,683
Changes from financing cash flows	(26,630)	(16,355)
New leases	–	5,031
Acquisition of a subsidiary (note 33)	4,761	–
Interest expense	–	2,063
Foreign exchange movement	364	–
At 31 December 2019	15,150	34,422

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(a) Changes in liabilities arising from financial activities (Continued)

2018

	Bank and other loans RMB'000
At 1 January 2018	37,484
Changes from financing cash flows	(1,914)
Foreign exchange movement	1,085
At 31 December 2018	36,655

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	3,575
Within financing activities	16,355
	19,930

35. 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 consolidated financial statements.

36. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Plant and machinery	490,779	63,152

36. COMMITMENTS (Continued)

(b) Operating lease commitments as at 31 December 2018

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 eight years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	18,382
In the second to fifth years, inclusive	30,405
Over five years	2,751
	51,538

37. 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:

	Notes	2019 RMB'000	2018 RMB'000
Purchases			
Contateq		–	6,701
Haohai Technology (Changxing) Co., Ltd.	(i)	5,212	4,492
Sales			
Lifeline	(ii)	2,749	1,013
Contateq		–	1,559
Purchases of equipment			
Lifeline		–	323

37. RELATED PARTY TRANSACTIONS (Continued)

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

Notes:

(i) During the year, the Group purchased the production accessories of RMB5,212,000 (2018: RMB4,492,000) 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.

(ii) During the year, the Group sold the semi button of USD407,000 (approximately RMB2,749,000) (2018: RMB1,013,000) to the associate, Lifeline.

(b) Other transactions with related parties:

During the year, the Company rented the rooms in Shanghai, China with a total building area of 329.77 square metres at an annual rental fee of RMB350,000 (2018: RMB350,000) and the other rooms in Shanghai, China with the same total building area at an annual rental fee of RMB350,000 (2018: RMB350,000) with a lease period from 1 January 2018 to 31 December 2020 from Shanghai Haohai Chemical Company Limited and Ms. You Jie, respectively.

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

	2019 RMB'000	2018 RMB'000
Short term employee benefits	9,008	7,163
Pension scheme contributions	379	301
Total compensation paid to key management personnel	9,387	7,464

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

The related party transactions in respect of purchase from Haohai Technology (Changxing) Co., Ltd. above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. 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:

2019

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss – debt instruments RMB'000	Financial assets at fair value through other comprehensive income – equity investments RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	292,630	292,630
Trade and bills receivables	381,991	8,008	–	389,999
Financial assets included in prepayments, other receivables and other assets	10,452	–	–	10,452
Cash and bank balances	3,222,508	–	–	3,222,508
	3,614,951	8,008	292,630	3,915,589

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	36,786
Financial liabilities included in other payables and accruals	116,406
Interest-bearing bank and other borrowings	49,712
	202,904

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2018

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss – debt instruments RMB'000	Financial assets at fair value through other comprehensive income – equity investments RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	236,900	236,900
Trade and bills receivables	384,517	312	–	384,829
Financial assets included in prepayments, other receivables and other assets	107,475	–	–	107,475
Pledged deposits	4,340	–	–	4,340
Cash and bank balances	1,438,407	–	–	1,438,407
	1,934,739	312	236,900	2,171,951

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value RMB'000	Total RMB'000
Trade payables	41,183	–	41,183
Financial liabilities included in other payables and accruals	144,909	49,454	194,363
Interest-bearing bank borrowings	36,655	–	36,655
	222,747	49,454	272,201

39. 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, other receivables and other assets, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The corporate finance team headed by the chief financial officer (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 CFO.

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 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	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities:				
Interest-bearing bank and other borrowings (other than lease liabilities)	**653**	16,386	**646**	21,642

Fair value hierarchy

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

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

Liabilities for which fair values are disclosed:

As at 31 December 2019

	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 and other borrowings (other than lease liabilities)	–	646	–	646

As at 31 December 2018

	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	–	21,642	–	21,642

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

Fair value hierarchy (Continued)

Assets measured at fair value:

As at 31 December 2019

	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
Trade and bills receivables	–	8,008	–	8,008
Equity investments designated at fair value through other comprehensive income	138,550	98,056	56,024	292,630
	138,550	106,064	56,024	300,638

As at 31 December 2018

	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
Trade and bills receivables	–	312	–	312
Equity investments designated at fair value through other comprehensive income	116,900	120,000	–	236,900
	116,900	120,312	–	237,212

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

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Contingent consideration	–	–	49,454	49,454

40. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB8,984,000 (2018: RMB16,353,000). The Derecognised Bills had a maturity of one to seven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

41. 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 and bills 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 88% (2018: 90%) of the Group's sales were denominated in local currencies, which were the same with the units' functional currencies, while approximately 79% (2018: 74%) 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 in 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 and other 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 2019, there was no single customer from which the trade receivable exceeded 5% of the Group's total trade receivables, except for 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, Beijing Tongren Hospital, CMU (首都醫科大學附屬北京同仁醫院), which is a public hospital with good reputation, and Sun Champ International Trading, Ltd., which is a subsidiary of an A share listed company with good reputation. The trade receivables derived from Shannan Excellent Medical Equipment Co., Ltd., Beijing Tongren Hospital, CMU and Sun Champ International Trading, Ltd. accounted for 6.0%, 6.3% and 5.3%, respectively, of the Group's total trade receivables as at 31 December 2019 (2018: 12.0%, 7.6% and 2.5% of the Group's total trade receivable, respectively). The Directors are of the opinion that the Group was not exposed to any significant concentration of credit risk during the year.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-months ECLs	Lifetime ECLs	
		Simplified	
	Stage 1	Approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	381,991	381,991
Financial assets included in prepayments, other receivables and other assets	10,452	–	10,452
	10,452	381,991	392,443

As at 31 December 2018

	12-months ECLs	Lifetime ECLs	
		Simplified	
	Stage 1	Approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	384,517	384,517
Financial assets included in prepayments, other receivables and other assets	107,475	–	107,475
	107,475	384,517	491,992

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2019 (Continued)

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2019 was set as below:

As at 31 December 2019

	Ageing			
	Within one year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	5%	33%	64%	100%
Gross carrying amount (RMB'000)	389,818	15,352	4,303	5,231
Expected credit losses (RMB'000)	19,603	5,107	2,772	5,231

As at 31 December 2018

	Ageing			
	Within one year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	5%	35%	70%	100%
Gross carrying amount (RMB'000)	397,400	12,400	2,299	5,829
Expected credit losses (RMB'000)	21,670	4,312	1,600	5,829

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, information based on the provision matrix was set as below:

As at 31 December 2019

	Ageing			
	Within one year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	5%	20%	50%	100%
Gross carrying amount (RMB'000)	8,583	2,099	1,147	4,673
Loss allowance provision (RMB'000)	393	411	573	4,673

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2019 (Continued)

As at 31 December 2018

	Ageing			
	Within one year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	1%	20%	100%	100%
Gross carrying amount (RMB'000)	106,639	2,181	3,554	1,261
Loss allowance provision (RMB'000)	909	436	3,554	1,261

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

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 2019

	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 and bills payables	30,416	6,370	–	–	–	36,786
Financial liabilities included in other payables and accruals	73,189	–	–	43,217	–	116,406
Lease liabilities	–	3,133	9,398	21,725	4,194	38,450
Interest-bearing bank and other borrowings (other than lease liabilities)	–	5,162	9,335	660	–	15,157
	103,605	14,665	18,733	65,602	4,194	206,799

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

31 December 2018

	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 and bills payables	26,656	14,186	292	49	–	41,183
Financial liabilities included in other payables and accruals	79,242	76	115,045	–	–	194,363
Interest-bearing bank borrowings	–	344	20,172	5,498	17,216	43,230
	105,898	14,606	135,509	5,547	17,216	278,776

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 2019 and 31 December 2018.

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.

41. 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, and 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:

	2019 RMB'000	2018 RMB'000
Total current liabilities	359,967	451,317
Total non-current liabilities	138,551	149,588
Debt	498,518	600,905
Total assets	6,151,871	4,436,352
Debt to assets ratio	8.1%	13.5%

42. EVENTS AFTER THE REPORTING PERIOD

Coronavirus impact

The novel coronavirus (COVID-19) outbreak occurred at a time close to the reporting date and the condition has continued to evolve throughout the time line crossing 31 December 2019. Since January 2020, the coronavirus has already spread nationwide in China and has been spreading globally. The Government of the People's Republic of China has already implemented various emergency public health measures and various actions to combat the coronavirus, including, but not limited to, imposing restriction on the work resumption date after the statutory holidays of the Chinese New Year and lockdown policies in certain cities for prohibiting the movement of goods and people between provinces and/or within provinces and cities.

To ensure the health and safety of employees and customers, the Company has followed the guidelines and requirements of relevant local government departments to arrange its operation in an orderly manner. While the extent of the impact on the Group's business and financial condition is unknown at this time, the Company has begun to be negatively affected by actions taken to address and limit the spread of the coronavirus. Many provinces and cities in China have been resuming work and normal operation. The disrupted supply chain is expected to quickly return to normal with the relief of the coronavirus outbreak.


42. EVENTS AFTER THE REPORTING PERIOD (Continued)

Coronavirus impact (Continued)

The Company will keep continuous attention to the situation of the coronavirus, assess and react actively to its impacts on the financial position and operating results of the Company. Up to the date of the report, the assessment is still in progress.

Except for the proposed dividend as disclosed in note 11 to the financial statements and the impact of the coronavirus outbreak above, there was no material subsequent event undertaken by the Group after 31 December 2019.

43. COMPARATIVE FIGURES

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**316,180**	193,683
Right-of-use assets	**139,825**	–
Prepaid land lease payments	**–**	13,130
Other intangible assets	**1,579**	247
Investments in subsidiaries	**1,127,642**	1,097,642
Investment in a joint venture	**–**	350,000
Equity investments designated at fair value through other comprehensive income	**98,056**	120,000
Deferred tax assets	**2,669**	2,373
Other non-current assets	**7,195**	5,035
Total non-current assets	**1,693,146**	1,782,110
CURRENT ASSETS		
Due from subsidiaries	**1,064,131**	473,180
Inventories	**62,737**	36,898
Trade and bills receivables	**81,970**	73,639
Prepayments, other receivables and other assets	**6,072**	20,726
Cash and bank balances	**1,557,562**	671,404
Total current assets	**2,772,472**	1,275,847
CURRENT LIABILITIES		
Due to subsidiaries	**82,421**	266,721
Trade payables	**9,653**	5,370
Other payables and accruals	**84,041**	143,479
Interest-bearing bank and other borrowings	**1,268**	–
Tax payable	**–**	1,432
Total current liabilities	**177,383**	417,002
NET CURRENT ASSETS	**2,595,089**	858,845
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,288,235**	2,640,955

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

	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	29	–
Deferred income	321	1,104
Total non-current liabilities	350	1,104
NET ASSETS	4,287,885	2,639,851
EQUITY		
Share capital	177,845	160,045
Reserves (note)	4,110,040	2,479,806
TOTAL EQUITY	4,287,885	2,639,851

Note:

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

	Share premium account RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2018	1,759,449	–	80,023	564,720	2,404,192
Total comprehensive income for the year	–	–	–	155,637	155,637
Dividends declared	–	–	–	(80,023)	(80,023)
As at 31 December 2018 and 1 January 2019	1,759,449	–	80,023	640,334	2,479,806
Profit for the year	–	–	–	200,563	200,563
Other comprehensive income for the year:					
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	(1,775)	–	–	(1,775)
Total comprehensive income for the year	–	(1,775)	–	200,563	198,788
Issue of shares	1,511,469	–	–	–	1,511,469
Dividends declared	–	–	–	(80,023)	(80,023)
Transfer from retained profits	–	–	8,900	(8,900)	–
Others	–	1,340	–	(1,340)	–
As at 31 December 2019	3,270,918	(435)	88,923	750,634	4,110,040

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

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

"A Share(s)"	ordinary shares in the share capital of the Company with a par value of RMB1.00 each and listed on the Sci-Tech Innovation Board of the SSE and traded in RMB，including among others, ordinary shares issued under the A Share Offering
"A Share Offering"	the Company's initial public offering of 17.8 million A Shares and listing on the Sci-Tech Innovation Board of Shanghai Stock Exchange
"A Shareholder(s)"	holder(s) of A Shares
"Articles of Association"	the Articles of Association of the Company, as amended, revised or supplemented from time to time
"Board"	the board of Directors of the Company
"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 its H Shares and A shares are listed on the Hong Kong Stock Exchange (Stock Code: 6826) and the Sci-Tech Innovation Board of the SSE (Stock Code: 688366), respectively
"Company Law"	the Company Law of the People's Republic of China, as amended from time to time
"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
"CSRC"	China Securities Regulatory Commission
"Directors"	directors of the Company
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Haohai Holdings"	"Haohai Healthcare Holdings Co., Ltd. (昊海生物科技控股有限公司), a limited liability company established in Hong Kong, the PRC on 17 July 2015, which is a wholly-owned subsidiary of our Company

DEFINITIONS

"Haohai Development"	Shanghai Haohai Medical Technology Development Co., Ltd. (上海昊海醫藥科技發展有限公司), a 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 wholly-owned subsidiary of the Company
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"H Share(s)"	the overseas-listed foreign share(s) in the share capital of the Company with a par value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in Hong Kong dollars
"H Shareholder(s)"	holder(s) of H Shares
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"NMPA"	The National Medical Products Administration
"PRC", "China" or "People's Republic of China"	the People's Republic of China which, for the purpose of this report only, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
"Qingdao Huayuan"	Qingdao Huayuan Fine Biological Product Co., Ltd. (青島華元精細生物製品有限公司), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the 12-month period from 1 January 2019 to 31 December 2019
"Shanghai Qisheng"	Shanghai Qisheng Biologics Company Limited (上海其勝生物製劑有限公司), a wholly-owned subsidiary of the 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 wholly-owned subsidiary of the Company

"Shanghai Likangrui"	Shanghai Likangrui Biological Engineering Company Limited (上海利康瑞生物工程有限公司), a wholly-owned subsidiary of the Company
"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
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	A Share(s) and/or H Share(s)
"Shareholder(s)"	A Shareholder(s) and/or H Shareholder(s)
"SSE"	the Shanghai Stock Exchange
"Supervisor(s)"	the member(s) of the Supervisory Committee
"Supervisory Committee"	the supervisory committee of the Company
"STAR Market Listing Rules"	the Rules Governing the Listing of Securities on the Sci-Tech Innovation Board of the Shanghai Stock Exchange, as amended from time to time
"Zhuhai Eyegood"	Eyegood Medical (Zhuhai) Co. Ltd. (珠海艾格醫療科技開發有限公司), a wholly -owned subsidiary of the Company
"%"	per cent

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*
"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 National Medical Products Administration 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 National Medical Products Administration as a Class III medical device
"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
"sodium hyaluronate injection" (玻璃酸鈉注射液)	sodium hyaluronate gel solution used for the intra-articular injection, regulated by National Medical Products Administration as a prescription drug
"tissue filling"	a process to inject biomaterials under the skin and fill in the area