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

2018 ANNUAL REPORT

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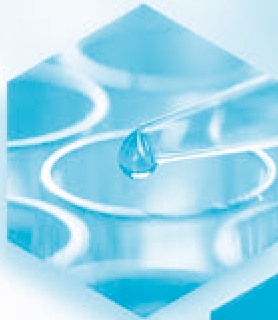

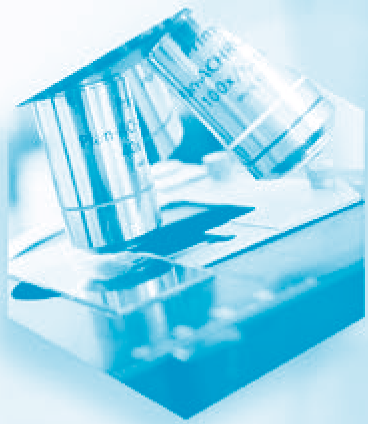

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Mr. Huang Ming *(Secretary of the Board)*
Ms. Chen Yiyi
Mr. Tang Minjie *(Chief Financial Officer)*

Non-executive Directors:
Ms. You Jie
Mr. Gan Renbao

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

THIRD SESSION OF THE SUPERVISOR COMMITTEE

Mr. Liu Yuanzhong
Ms. Yang Qing
Mr. Tang Yuejun
Mr. Wei Changzheng
Mr. Yang Linfeng

AUTHORIZED REPRESENTATIVES

Mr. Huang Ming
Mr. Chiu Ming King

JOINT COMPANY SECRETARIES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGY COMMITTEE

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

LEGAL ADVISERS

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Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
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Central, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Shanghai, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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33 Hysan Avenue
Causeway Bay, Hong Kong

H SHARE REGISTRAR

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

INFORMATION OF H SHARES

Place of listing:	The Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	6826
Number of H shares issued:	40,045,300 H shares
Nominal value:	RMB1.00 per H share
Stock short name:	HAOHAI BIOTEC

REGISTERED OFFICE

No. 5 Dongjing Road
Songjiang Industrial Zone
Shanghai, China

PRINCIPAL BANKERS

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

Bank of Shanghai, Co., Ltd
(Changning Branch, Shanghai)
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Changning District
Shanghai, China

INVESTOR ENQUIRIES

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FINANCIAL HIGHLIGHTS

	31 December 2018 RMB'000	31 December 2017(Note 2) RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
Results of operation					
Revenue	1,545,824	1,344,856	851,157	663,917	515,940
Gross Profit	1,211,538	1,057,389	709,606	558,844	450,057
Profit before tax	525,185	461,621	365,885	320,647	215,616
Net profit attributable to owners of the parent	414,540	372,415	305,052	273,474	183,582
Profitability					
Gross profit margin	78.4%	78.6%	83.4%	84.2%	87.2%
Net profit margin	26.8%	27.7%	35.8%	41.2%	35.6%
Earnings per share (RMB)					
Basic earnings per share(Note 1)	2.59	2.33	1.91	1.86	1.53
Assets					
Total assets	4,436,352	4,109,323	3,693,412	2,821,910	751,903
Total liabilities	600,905	724,059	707,552	156,476	157,743
Total equity attributable to ordinary equity holders of the parent	3,611,511	3,200,562	2,903,992	2,661,911	594,160
Gearing ratio	13.5%	17.6%	19.2%	5.5%	21.0%

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.

Note 2: As the Group adjusted the carrying value of goodwill and other items of certain subsidiaries as at 31 December 2017 pursuant to certain accounting standards; hence, the asset status of 2017 are restated, correspondingly. For details, please see note 42 to the consolidated financial statements.

Dear Shareholders,

I herein represent the Group to present the annual performance of the Group for the year ended 31 December 2018.

2018 was a key year for the implementation of the "13th Five-Year Plan" for deepening the reforms of the pharmaceuticals and healthcare system, and a year facing major changes. With continued deepening of a series of reform policies, China's pharmaceutical and medical device industry were facing severe challenges. However, the rigid market demand brought about by aging population and urbanization has been still driving the steady growth of the industry scale. Meanwhile, under the background of the rapid growth of diversified medical needs, the gradually refining medical insurance payment system and the improving payment capacity of Chinese people, enterprises with economies of scale, brand value and innovation capability are expected to meet with significant development opportunities, and a number of policy guidance from the top down will also have a positive contribution to the healthy and innovative development of the entire industry.

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB1,545.82 million, representing an increase of RMB200.96 million, or approximately 14.9%, as compared to that in 2017. During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB414.54 million, representing an increase of approximately 11.3% as compared to that in 2017. The amortization and depreciation charge attributable to ordinary equity holders of the Company on intangible assets and fixed assets from business acquisition of the Group was approximately RMB22.76 million, after excluding the impact of such charge, the profit attributable to ordinary equity holders of the Company was approximately RMB437.30 million, representing an increase of approximately 13.6% as compared to that in 2017.

Since 2016, through a series of investments and acquisitions, the Group has completed the integration of resources in respect of raw materials, production and sales services of IOL products, and the layout of global industrial chain has taken shape accordingly. Integrated with its original ophthalmology business, the Group has established several high-valued ophthalmic product lines centered around IOL and OVD products, covering therapidic areas in cataract, glaucoma, dry eyes, fundus diseases and refractive therapy. Meanwhile, the Group will continue to expand into ophthalmic innovative medicine as well as diagnostic and therapeutic devices. During the Reporting Period, the Group continued to deepen the integration of industrial chain for ophthalmology business and focused on the resource rationalization and optimization of marketing channels, while leveraging on the support of the National Key Research and Development Programs under the "13th Five-Year Plan", creating synergy among the ophthalmology research and development 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.

During the Reporting Period, the Company passed an appraisal and was awarded the title of Intellectual Property Right Demonstration Enterprise of China in 2018. The Group owns its national-level enterprise technology center and national postdoctoral R&D workstation and two national R&D platforms, and 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 forming an international R&D layout.

CHAIRMAN'S STATEMENT

In 2019, the Group will continue to deepen the integration of its internal resources, so that the acquired companies can be consolidated into the Group's management system rapidly and the Group can enhance its core competitiveness continuously; will take a series of marketing measures to intensify market penetration of competitive products and expand the coverage of the new products in key hospitals and regions via a refined multi-dimensional marketing strategy. In addition, the Group will effectively make use of its own funds, proactively extend the innovative area and business scale to the deeper and broader market of ophthalmology on the basis of the whole existing industry chain layout centered on intraocular lens products; explore the fast-growing therapeutic fields of medical aesthetic, orthopedics and surgery; actively identify suitable target companies and to achieve expansionary business growth through acquisitions, capital increase or equity participation.

Hou Yongtai
Executive Director and Chairman of the Board

14 March 2019

BUSINESS REVIEW AND PROSPECT

2018 was a key year for the implementation of the "13th Five-Year Plan" for deepening the reforms of the pharmaceuticals and healthcare system (the "**Plan**"), and a year facing major changes. With the implementation of the Plan, a series of reform policies such as reform of medical insurance payment methods, supply of pharmaceuticals and medical devices, circulation, centralized tendering and large-scale procurement had continued to deepen, exerting a profound impact on the overall pharmaceutical industry in China. In this year, despite severe challenges in operating results of China's pharmaceutical and medical device industry as affected by the above factors, the rigid market demand brought about by aging population and urbanization has been still driving the steady growth of the industry scale. Meanwhile, under the background of the rapid growth of diversified medical needs, the gradually refining medical insurance payment system and the improving payment capacity of Chinese people, enterprises with economies of scale, brand value and innovation capability are expected to meet with significant development opportunities, and a number of policy guidance from the top down will also have a positive contribution to the healthy and innovative development of the entire industry.

During the Reporting Period, the Group improved operational efficiency through refined management. The Group also focused on increasing investment in research and development, optimizing its product portfolio 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 RMB1,545.82 million (2017: approximately RMB1,344.86 million), representing an increase of RMB200.96 million, or approximately 14.9%, as compared to that in 2017. The breakdown of the Group's revenue by therapeutic areas is as follows (by amount and as a percentage of the total revenue of the Group):

	2018		2017		Change
	RMB'000	%	RMB'000	%	%
Ophthalmology products *(Note)*	**672,075**	**43.5**	545,144	40.5	23.3
Medical aesthetics and wound care products	**337,375**	**21.8**	306,602	22.8	10.0
Orthopedics products	**298,933**	**19.4**	266,090	19.8	12.3
Anti-adhesion and hemostasis products	**199,949**	**12.9**	212,083	15.8	-5.7
Other products *(Note)*	**37,492**	**2.4**	14,937	1.1	151.0
Total	**1,545,824**	**100.0**	1,344,856	100.0	14.9

Note: *As the Group has adjusted the therapeutic area of individual products from "ophthalmology products" to "other products" in 2018, the revenue of ophthalmic products and other products listed in this table for 2017 and the percentage of the Group's total revenue are different from the corresponding revenue and corresponding percentage as stated in the Company's 2017 Annual Report.*

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB414.54 million (2017: RMB372.42 million), representing an increase of approximately 11.3% as compared to that in 2017. The amortisation and depreciation charge attributable to ordinary equity holders of the Company on intangible assets and fixed assets from business acquisition of the Group (after tax) was approximately RMB22.76 million (2017: RMB12.50 million), after excluding the impact of such charge, the profit attributable to ordinary equity holders of the Company was approximately RMB437.30 million (2017: RMB384.92 million), representing an increase of approximately 13.6% as compared to that in 2017.

The increase in profit attributable to ordinary equity holders of the Company for the Reporting Period was mainly attributable to the further synergy effect of continued deepening of internal and external resource integration and integration of ophthalmology merger and acquisition business by the Group, growing market share of core competitive varieties in medical aesthetic and orthopedics sectors and significant effects of product portfolio optimization and other measures.

During the Reporting Period, the total comprehensive income for the year attributable to ordinary equity holders of the Company was approximately RMB490.97 million (2017: RMB382.95 million), representing an increase of approximately 28.2% as compared to that in 2017. In addition to the increase in profit attributable to ordinary equity holders of the Company, the Group's investment in Bonti Inc. recorded an investment income of approximately RMB44.63 million in other comprehensive income, and the continued increase in fair value of the shares of Union Medical Healthcare Limited held by the Group amounted to approximately RMB32.70 million, which also made a large contribution to the growth of total comprehensive income.

During the Reporting Period, the basic earnings per share were RMB2.59 (2017: RMB2.33).

During the Reporting Period, the overall gross profit margin of the Group was 78.4%, basically in line with 78.6% in 2017.

Ophthalmology Products

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

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

	2018		2017		Change
	RMB'000	%	RMB'000	%	%
IOL products and ophthalmic materials(Note)	**553,470**	**35.8**	437,423	32.5	26. 5
OVD products	**105,752**	**6.9**	97,990	7.3	7.9
Other ophthalmology products	**12,853**	**0.8**	9,731	0.7	32.1
	672,075	43.5	545,144	40.5	23.3

Note: As the Group has adjusted the therapeutic area of individual products from "ophthalmology products" to "other products" in 2018, the revenue of "IOL products and ophthalmic materials" listed in this table for 2017 and the percentage of the Group's total revenue are different from the corresponding revenue and corresponding percentage as stated in the Company's 2017 Annual Report; in addition, the total revenue of the Group's ophthalmic products in 2017 listed in this table and the percentage of the Group's total revenue are also different from the corresponding revenue and corresponding percentage as stated in the Company's 2017 Annual Report.

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was approximately RMB672.08 million, representing an increase of approximately RMB126.94 million, or 23.3%, from RMB545.14 million in 2017.

Cataract is the number one blindness-causing disease in the world. Currently, the only effective treatment for cataract is IOL implantation through cataract surgery. In 2017, the cataract surgery rate ("**CSR**") per million of Europe, the United States, Japan and other developed countries has exceeded 10,000. In contrast, the CSR of China is only 2,205 in 2017, far below the data of developed countries. According to a calculation based on CSR, there are only approximately 3.05 million cataract surgeries were performed in China in 2017. However, 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. There is still greater room to improve the cataract surgery operation rate since the market penetration rate of relevant ophthalmic products is relatively low to date. On the other hand, with the constantly deepened degree of aging, continuously improved ophthalmic awareness of the public, gradually enhanced healthcare concept and payment ability as well as sustained investment in public and private medical resources, the PRC ophthalmology market scale has shown rapid growth year by year, displaying huge potentials for future development.

Since 2016, through a series of investments and acquisitions, the Group has completed the integration of resources in respect of raw materials, production and sales services of IOL products, and the layout of global industrial chain has taken shape accordingly. Integrated with its original ophthalmology business, the Group has established several high-valued ophthalmic product lines centered around IOL and OVD products, covering therapidic areas in cataract, glaucoma, dry eyes, fundus diseases and refractive therapy. Meanwhile, the Group will continue to expand into ophthalmic innovative medicine as well as diagnostic and therapeutic devices.

Among them, IOL is the core material for cataract surgery. Leveraging on its six domestic and foreign brands, the Group has covered a full range of products from PMMA hard IOL to multifocal foldable IOL. Based on the sales volume of the Group's IOL products and the number of national cataract surgery cases, the Group had captured about 30% of the IOL market in the PRC in 2017.

OVD products are necessary devices for cataract surgery and can be used for other ophthalmic operations. Among the main brands of OVD products in the PRC, the Group's products have prominent competitive advantages such as advanced technology, high quality, high price-performance ratio and diversified specifications and densities. According to the research reports of China Food and Drug Administration ("**CFDA**") Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the market share of the Group's OVD products was 45.9% in 2017, with a market share of over 40% for the past eleven consecutive years, making the Group the largest OVD product manufacturer in the PRC.

During the Reporting Period, the Group continued to deepen the integration of industrial chain for ophthalmology business and focused on the resource rationalization and optimization of marketing channels, while leveraging on the support of the National Key Research and Development Programs under the "13th Five-Year Plan", creating synergy among the ophthalmology research and development 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 addition, the Group continued to focus on investment, merger and acquisition opportunities in the global ophthalmology sector, and has been committed to facilitating the localization process of the ophthalmology industry in the PRC, promoting technological advancement and industrial upgrading of high-end ophthalmic products in the PRC, so as to become an important player and promoter of the rise of domestic forces in China's ophthalmology industry.

Medical Aesthetics and Wound Care Products

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

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

	2018		2017		Change
	RMB'000	%	RMB'000	%	%
HA Dermal Filler Products	265,173	17.2	253,575	18.9	4.6
rhEGF "Healin"	72,202	4.6	53,027	3.9	36.2
	337,375	21.8	306,602	22.8	10.0

During the Reporting Period, the Group's revenue from the sales of medical aesthetics and wound care products was RMB337.38 million, representing an increase of approximately RMB30.78 million or approximately 10.0% from RMB306.60 million in 2017.

HA Dermal Filler Products

During the Reporting Period, the Group's revenue from the sales of HA Dermal Filler products was approximately RMB265.17 million, representing an increase of 4.6% from approximately RMB253.58 million in 2017.

In recent years, demand for aesthetics has been growing increasingly, and development of medical aesthetic products and related technology has 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 projects among consumers with relatively higher repurchase rate over time for its safety, effectiveness, high price-performance ratio and other features. However, after experiencing the initial spurt of growth, the domestic medical aesthetic industry has been confronted with market consolidation with tightening regulation by governments, persistent high cost in customer acquisitions by institutions, decreasing profit margins and increasing similar competitive products. This poses a higher demand on upstream manufacturing enterprises in terms of strength in research and development, technology innovation, product quality control and marketing reforms. Only by constantly innovating and promoting technological innovation and enhancing brand value can enterprises meet with higher professional demands of new generation consumers.

The Group has been able to sustain its leading market position as the products in the medical aesthetic and wound care sector have formed combined effects of serialization and differentiation and can meet the increasingly segmental and diversified market needs.

The Group's HA Dermal Filler "Matrifill" is the first mono-phase sodium hyaluronate gel for injection approved by the former CFDA in the PRC. Since launching, the market share of "Matrifill" products continued to expand, and had thus become a leading domestic brand of HA Dermal Filler products in PRC. The Group's self-developed second generation of HA dermal filler "Janlane", based on its characteristics and efficacy, has established the differentiated positioning from and supplementary development with the HA dermal filler "Matrifill" that focuses on shaping, thus leading the trend of combined application of HA dermal filler in the non-invasive medical aesthetic market in the PRC. Moreover, the Group's self-developed third generation of HA Product (i.e., **QST gel**) completed the clinical trial phase, and the Group submitted the application materials for new products to Medical Device Evaluation Center (醫療器械技術審評中心) under the National Medical Products Administration.

Leveraging on its highly competitive research and development efforts in biomedical materials, manufacturing and marketing platforms and comprehensive strengths in the technology and quality control of sodium hyaluronate products, the Group fostered the market recognition of domestic HA dermal filler "Matrifill" and "Janlane" products with professional attitudes 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 products.

As of 31 December 2018, 25 HA Dermal Filler products have been approved by former CFDA. The sharp decline in prices of competitive products since the second half of 2018 has dampened the procurement sentiment of certain distributors to some extent. Nevertheless, the Group's HA Dermal Filler series products have maintained a stable and good price system due to outstanding brand foundation, ensuring the sustainable and healthy vitality of its brands. In the second half of 2018, the Group has maintained rapid growth in direct sales business by proactively adopting a series of effective and professional market services in response to near-term impact. On the other hand, leveraging on early market preparation and accumulation, the Group's "Janlane" products recorded rapid growth in sales since the fourth quarter of 2018 and is expected to contribute new growth drivers in the future.

China has become the third largest medical aesthetic market in the world. Compared with other major medical aesthetic markets of other countries, despite the gradually increasing market scale and the share of global market, China's penetration rate of medical aesthetic projects is still at a low level, and the potential for growth in the market is still significant.

The Group will continue to focus on the industrial layout in the field of medical aesthetics, aiming to integrate domestic industrial resources and introduce new technologies and products through various approaches such as investment, mergers and acquisitions and cooperation. At the same time, the Group will continue to leverage on its continuous innovation in research and development as well as innovation, 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.

rhEGF "Healin"

We utilize genetic engineering technology to manufacture innovative biological products that used for wound care. The Group's rhEGF "Healin" is the only product in China that has the same amino acid structure as the epidermal growth factors in human bodies and the first registered rhEGF product in the world. It was approved as Class I new drug by the 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 rhEGF "Healin", which is relatively more active biologically with significant efficacy in the treatment of wound care. The sales volume of "Healin" products in recent years showed a constantly increasing trend with outstanding market performance.

According to the research reports of CFDA Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the Group strengthened its market position as the second largest manufacturer of rhEGF products in China in 2017, whereas the market share of rhEGF "Healin" products continued to increase from 16.4% in 2016 to 18.6% in 2017.

On 23 February 2017, the Ministry of Human Resources and Social Security of the PRC officially issued the 2017 NRDL, and upon experts' appraisal, rhEGF "Healin" was reclassified to Class B medical insurance products by lifting the limitation on the work-related injury insurance products on the 2009 NRDL. Advanced jointly by the favourable policies and the Group's efforts on marketing, the Group's revenue from the sales of "Healin" products increased rapidly to approximately RMB72.20 million during the Reporting Period from approximately RMB53.03 million in 2017, representing an increase of approximately 36.2%.

Orthopedics Products

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

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

	2018		2017		Change
	RMB'000	%	RMB'000	%	%
Sodium hyaluronate injection "騰立克"(Note)	210,152	13.6	182,377	13.6	15.2
Medical chitosan "力保希"(Note)	88,781	5.8	83,713	6.2	6.1
	298,933	19.4	266,090	19.8	12.3

Note: "騰立克" is the new brand name of the Group's orthopedics products sodium hyaluronate injection; "力保希" is the new brand name of the Group's orthopedics products medical Chitosan, the brand name of the anti-adhesion and hemostasis products medical Chitosan is still "Chitogel".

During the Reporting Period, the Group's revenue from the sales of orthopedics products increased by approximately RMB32.84 million to RMB298.93 million from RMB266.09 million in 2017, representing an increase of approximately 12.3%.

According to the research reports of CFDA Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., we were the largest manufacturer of intra-articular viscosupplement products in China in 2017 for the fourth consecutive year where our market share increased to 36.2% in 2017 from 35.4% in 2016.

Sodium Hyaluronate Injection "騰立克"

Since 2015, due to the implementation and advancing of the national policies in respect of adjusting drug purchasing models and the comprehensive enforcement of reform of medical insurance payment methods, the price of drug bidding has significantly decreased. In the process of sustained adjustment of the pharmaceutical market system, the Group made proper adjustment to the tendering and selling prices of its products in order to endure its market share, as a result of which, the overall revenue from the sales of the orthopedic sodium hyaluronate injection "騰立克" continued to decrease in 2016 and 2017. During the Reporting Period, the selling price of orthopedic sodium hyaluronate injection "騰立克" became stable and a new specification of 2.5ml was launched to the market by the Group in March 2018, making the Group the only enterprise having sodium hyaluronate injection products with full series of specifications of 2ml, 2.5ml and 3ml in the PRC market. The Group achieved a marked turnaround from decline in the sales of sodium hyaluronate injection "騰立克". Revenue from the products was approximately RMB210.15 million during the Reporting Period, representing an increase of approximately RMB27.77 million, or approximately 15.2%, from RMB182.38 million in 2017.

In terms of clinical application, the clinical application of orthopedic sodium hyaluronate injection has been included in the Osteoarthritis Clinical Pathway (2017 version) ("**2017 Sodium Hyaluronate Consesus**") issued by the National Health and Family Planning Commission, which established the important position of sodium hyaluronate in the treatment of osteoarthritis ("**OA**"). This was another important revision following the first publication of expert consensus in 2012 ("**2012 Sodium Hyaluronate Consensus**"), 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.

As a significantly efficacious product extensively used in the world, 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. 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. In addition, 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 "騰立克" in the future.

Medical Chitosan "力保希"

During the Reporting Period, the Group's revenue from the sales of medical chitosan "力保希" products was approximately RMB88.78 million, representing an increase of approximately RMB5.07 million or approximately 6.1% from RMB83.71 million in 2017.

Medical chitosan "力保希" 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 "力保希" 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(二零一八年版)》) ("**2018 Medical Chitosan Consensus**") 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)》) ("**Guidelines**"), respectively. The above expert consensus and Guidelines prove 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 "力保希" product is in the process of being steadily added into the charges catalogue of various provinces and local health insurance, and has successively completed the inclusion into the charges catalogue of Shaanxi, Hubei and Inner Mongolia. The management of the Company believes that, with the successive completion of inclusion of medical chitosan "力保希" product into the health insurance and charges catalogue of various provinces and cities, and through insisting upon professional promotion and market expansion improvement for medical chitosan "力保希" product, the stable quality and significant efficacy of such product will be recognized by an increasing number of doctors and patients, thus presenting significant development opportunity for medical chitosan "力保希" product in the future.

Anti-Adhesion and Hemostasis Products

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

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

	2018		2017		Change
	RMB'000	%	RMB'000	%	%
Medical chitosan "Chitogel"	**108,336**	**7.0**	128,495	9.6	-15.7
Medical sodium hyaluronate gel	**76,708**	**5.0**	68,604	5.1	11.8
Medical collagen sponge	**14,905**	**0.9**	14,984	1.1	-0.5
	199,949	**12.9**	212,083	15.8	-5.7

During the Reporting Period, the Group's revenue from the sales of anti-adhesion and hemostasis products was approximately RMB199.95 million, representing a decrease of approximately RMB12.13 million or approximately 5.7% as compared to RMB212.08 million in 2017.

Anti-Adhesion Products

According to the research reports of CFDA Southern Medicine Economic Research Institute and Guangzhou Biaodian Medical Information Co., Ltd., the market share of the anti-adhesion products of the Group maintained at 49.0% in 2017, making the Group the largest anti-adhesion product manufacturer in the PRC for the past eleven consecutive years.

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 ("**Expert Consensus**"), 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.

Collagen Sponge "奇特邦"

Medical collagen has good hemostatic and tissue filling effect, and thus becomes a unique biomedical material used in surgical operations for gynaecology and obstetrics, otolaryngology, brain surgery and general surgery. The medical collagen sponge "奇特邦" product of 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, collagen sponge "奇特邦" in various specifications can be used for hemostasis, and various tissues and organs cavity filling to eliminate the residual cavity, thereby shortening the operation time and accelerating wound and tissue healing process after surgeries.

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 new hemostasis materials in many regions is limited. The Group's whole series of surgical products were restricted in hospital use, as a result of which, the Group's revenue from the sales of surgical products during the Reporting Period failed to grow as expected, and in particular, medical chitosan products with relatively high unit prices are severely affected. In addition, the joint procurement by public hospitals in certain regions, centering around Beijing, Tianjin and Hebei, also caused the decline in the bidding price of the Group's surgical products, which in turn has had some impact on the Group's sales revenue. Nevertheless, the management of the Company believes that, the Group is able to continue to maintain its market share of surgical products by making more efforts in marketing and promotion.

Research and Development ("R&D")

The Group continued to put more effort on R&D. During the Reporting Period, the total R&D expenses amounted to RMB95.37 million, representing an increase of 24.9% over RMB76.33 million in 2017.

The Group, an Intellectual Property Right Demonstration Enterprise of China, owns its national-level enterprise technology center and national postdoctoral R&D workstation and two national R&D platforms, and 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 forming an international R&D layout.

As at 31 December 2018, the Group's in-house R&D team comprised of 202 staff members, of which 164 were bachelor degree holders or above, 15 were doctorate degree holders and 57 were master's degree holders. All core products of the Group were primarily developed by its in-house R&D team with the support of various colleges and universities, research institutes and sizable "Grade III" hospitals across China.

As at 31 December 2018, there are a total of 59 certificates of Chinese medicines, medical device registration and CE under the Group and over 60 product pipelines in different stages of R&D.

In the short to medium term, the Group will continue to focus on the R&D of innovative tissue filler material, fibrin sealant products, smart gel, innovative IOL products, and certain programs in ophthalmic treatment areas covering optical, dry eyes and glaucoma, and will also expand specification and indication of the Group's existing products in the market.

In the long term, the Group will insist on expanding its R&D capabilities to further develop the new IOL and high-end ophthalmic implant materials R&D platform, which is elected as one of the National Key Research and Development Programs under the "13th Five-Year Plan". The medical chitosan technology platform, which is elected and supported by the National High-Tech R&D Program (863 Program) and the major project of National Science and Technology under the "12th Five-Year Plan", as well as the electrospinning technology platform (elected as the major project of National Science and Technology) will further expand the Group's product offerings in the product sectors of innovative ophthalmic implant materials, sustained-release preparations, new compound anti-adhesion and hemostasis membrane products.

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

Sales and Product Marketing

The Group operates a marketing model that combines with distribution and direct sales, and owns extensive and effective sales network in China.

As at 31 December 2018, the Group's distribution network comprised over 2,100 distributors. With such distribution network, products of the Group were sold across provinces, municipals and autonomous regions in China and approximately 70 countries and regions in the world. In addition to the distribution network, the Group also had four professional teams, namely, specific markets, medical, commercial and sales teams who are responsible for formulating standardized marketing and sales policies, product trainings, academic promotions, clinical services, selecting and managing distributors, maintaining direct sales to certain core regions and key hospitals to ensure professional promotion and brand building of the Group's products and keeping abreast of any changes to market needs. The four teams work independently yet complementing each other, centralizing the beneficial resources of the Group to assist the Group's products to expand their market shares rapidly and effectively. The management of the Company believes that the Group's broad coverage of hospitals and other medical institutions and its capabilities of identifying and managing distributors are serving as the major competitive strengths. Accordingly, the Group is able to effectively promote its products to the target market by means of its sales network with broad coverage. As a result, this lays a solid foundation for continuously enhancing the reputation of the Group's products and brand, expanding the market share and increasing the sales of the products.

During the Reporting Period, the Group derived revenue of approximately RMB839.70 million (2017: RMB819.36 million) and RMB706.12 million (2017: RMB525.50 million) from the sales of its products through distributors and from direct sales, respectively, which accounted for 54.3% and 45.7% (2017: 60.9% and 39.1%) respectively of the Group's sales revenue.

OPERATING PROSPECTS OF 2019

Recently, the continual growth of the pharmaceutical and healthcare industry in China is driven by a combination of favourable socioeconomic factors. Nevertheless, following the announcement and implementation of various policies, the reform of pharmaceutical and healthcare system in China has been further deepened. A series of policies which have a profound influence on the industry, such as two-invoice system and the cross-regional joint procurement are propelling integration of the industry, transformation of the operating models and price competition within the industry. Meanwhile, along with the efforts in advancing the notion of building a healthy China, the domestic industrialization progress of medical and pharmaceutical industry and reforms of weeding out obsolete capacities, enterprises which benefit from the advantages of scale and in possession of technological innovation, well-established brands, marketing competitive edges and industrial integration capabilities will experience invaluable development opportunities.

In 2019, the Group will continue to deepen the integration of its internal resources, and further strengthen the integration of acquired companies in respect of R&D, production, sales and services for the purpose of maximizing synergies, improving operating efficiency, developing innovative technologies and expanding market space, so that the acquired companies can be consolidated into the Group's management system rapidly and the Group can enhance its core competitiveness continuously. The Group will expand investment in R&D of innovative products and constantly promote the optimization and upgrade of product portfolio by integrating its advanced R&D resources in China, the United States and the United Kingdom, so as to promote the clinical applications of products, support the technical improvements of IOL products and other ophthalmic high-valued materials and accelerate the replacement of imported goods with domestic products, with a view to secure our technological leadership position in medical aesthetic, orthopedic and surgical products. Meanwhile, the Group will take a series of marketing measures to intensify market penetration of competitive products and expand the coverage of the new products in key hospitals and regions via a refined multi-dimensional marketing strategy. Under the new pharmaceutical marketing environment, we will increasingly emphasize on compliance management, and further advance the development of professional marketing services. In addition, the Group will effectively make use of its own funds, proactively extend the innovative area and business scale to the deeper and broader market of ophthalmology on the basis of the whole existing industry chain layout centered on IOL products; explore the fast-growing therapeutic fields of medical aesthetic, orthopedics and surgery; actively identify suitable target companies and to achieve expansionary business growth through acquisitions, capital increase or equity participation.

On 12 March 2019, the extraordinary general meeting ("**EGM**") and class meetings, upon consideration, approved (among others) the relevant resolutions on the Company's application for the A Share Offering to relevant securities regulatory authorities. The total number of A Shares to be issued under the A Share Offering will be no more than 17.8 million Shares (such number will be adjusted accordingly if ex-rights events such as stock dividend and transfer of capital reserve into capital occur prior to the A Share Offering), accounting for 10.01% of the Company's total issued share capital after the A Share Offering. The Board proposed that the proceeds from the A Share Offering, upon deduction of the offering expenses, will be invested in the International Medical Research and Development 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 used to replenish working capital. The implementation of International Medical Research and Development and Industrialization Project by Shanghai Haohai Biological Technology Co., Ltd., will strengthen the Company's capability of researching, developing, upgrading and producing a variety of innovative medical products which cover the Group's four major business segments and mainly include medical sodium hyaluronate, medical chitosan and recombinant human epidermal growth factor to meet the growing market demand. For further details, please refer to the announcement and circular of the Company dated 3 January 2019 and 25 February 2019, respectively.

Ophthalmology Products

The Group focuses on investment and industrial integration of the ophthalmic high-valued materials, pharmaceuticals and advanced diagnosing equipment in China. In 2019, leveraging on its management team's brilliant track record, resource advantages and rich experience in integrating strategic assets, the Group will seek to streamline and integrate internal and external products, technology, talents and other resources, aiming to promote the application of new materials and leverage on the advantages of overseas technological platform. The Group is committed to develop a full series of IOL products and promote the domestic industrialization of high-end IOL production technology, aiming to enhance the innovation capability, productivity scale, quality and market competitiveness of local enterprises, which in turn accelerates import substitution and catches up with internationally leading players, to explore the potential ophthalmology market with global customers. In addition, the Group will explore the expansion of ophthalmic treatments in glaucoma, fundus diseases and dry eyes and build a foundation for its future business growth with efficient industry merger and acquisition and integration.

Medical Aesthetics and Wound Care Products

In 2019, the Group will advance, with all efforts, the registration of the third generation of HA QST gel product, and promote the marketing initiatives of "Matrifill" and "Janlane" HA products steadily with a view to constantly increasing the market share and sales revenue. Meanwhile, leveraging on its highly competitive product and R&D strength in medical biological materials, the Group is committed to the R&D and sale of other high-end medical aesthetic products to meet the growing demand of medical aesthetic market of China, expand product lines, meet increasingly segmented and diversified market demands, and build a leading Chinese medical aesthetic brand.

Orthopedics Products

The management of the Company has well positioned the two types of orthopedics products of the Group. Sodium hyaluronate injection, which has a longer cultivation cycle, possesses the advantages of high clinical recognition and relatively broad application. In 2019, the Group will, as guided by the 2012 Sodium Hyaluronate Consensus and 2017 Sodium Hyaluronate Consensus, continue to advance marketing and provide academic support for the sufficient and regulated use of sodium hyaluronate injection products by the Chinese clinicians in orthopedic and sports medicine areas. Meanwhile, the Group is able to gain competitive edges in bidding and tendering by its products with whole series of specifications, which is helpful to stabilize the extensive coverage of the Group's sodium hyaluronate injection "騰立克" for intraarticular viscosupplement products market and benefit more patients.

On the other hand, the Group's exclusively-owned medical chitosan "力保希" product used for intra-articular viscosupplement, is the only Class III medical device product with the registration certificate in China. Such product has significant advantages of minimized injection dosage and long-lasting therapeutic effect. For medical chitosan "力保希" product, the Group has designated (i) differentiated clinical applications; (ii) differentiated target market and price positioning, (iii) actively enhanced their marketing promotion and sales, and (iv) strived to penetrate the market in various regions, in a hope to secure the continuous growth in sales of such product and the overall profitability of orthopedics products as the inclusion of medical chitosan "力保希" product into the health insurance and charges catalogue of various provinces and cities in China has been successively completed.

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 gradually eliminated. The market entry barrier for new competitors has been raised progressively. 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 new hemostasis materials in many regions is limited. The Group continues to put more efforts in improving the specifications and packaging of the anti-adhesion and hemostasis products. The Group is able to provide a series of products with the most comprehensive and integrated specifications. The detailed designs can render more user-friendly products and further cater for clinical needs, thus cultivating a brand preference for medical practitioners. In 2019, 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 an aggregate revenue of approximately RMB1,545.82 million (2017: approximately RMB1,344.86 million), representing an increase of RMB200.96 million, approximately 14.9%, as compared to 2017, which was primarily attributable to the revenue contributed by the ophthalmic high-value materials business and the increase of sales of medical aesthetics and wound care products and orthopedics products of the Group. Following the growth in revenue, the sales cost of the Group amounted to approximately RMB334.29 million, representing an increase of 16.3% as compared to approximately RMB287.47 million in 2017.

During the Reporting Period, the overall gross profit margin of the Group was 78.4%, basically in line with 78.6% in 2017.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group was approximately RMB495.08 million, representing an increase of approximately RMB81.00 million or approximately 19.6% from approximately RMB414.08 million in 2017. The proportion of selling and distribution expenses to the Group's total revenue was 32.0%, representing a slight increase from 30.8% in 2017. The increase in total amount of the selling and distribution expenses was mainly attributable to the increase in relevant academic promotion expenses undertaken by the Group, which was due to the increase in the proportion of revenue from direct sales for the Reporting Period as compared to 2017. Besides, the increase in sales performance awards distributed by the Group and business expenses also contributed to increased sales and distribution expenses.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group was approximately RMB242.41 million, representing an increase of approximately RMB47.66 million or approximately 24.5% from approximately RMB194.75 million in 2017. During the Reporting Period, the proportion of administrative expenses to the Group's total revenue was 15.7%, representing a slight increase from 14.5% in 2017. The general increase in the administrative expenses of the Group during the Reporting Period was primarily due to approximately RMB30.01 million arising from the consolidation of the statements of Contamac Group, the subsidiary of the Company in the UK, into the statements of the Group since June 2017. In addition, the increase in relevant salary and bonuses due to increasing number of administrative staff, as well as increase in domestic and overseas travelling expenses with respect to the business acquisitions and intermediary fees also contributed to the increased administrative expenses.

R&D Expenses

During the Reporting Period, the R&D expenses of the Group was approximately RMB95.37 million, representing an increase of approximately RMB19.04 million or approximately 24.9% from approximately RMB76.33 million in 2017. The growth of R&D expenses was primarily due to the continuous increase of R&D investments 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 5.7% in 2017 to 6.2%. With the Group's rich product pipeline under development and its continued investment in R&D activities, the management of the Company believes that the Group has built a solid foundation for its sustainable growth in the future.

Income Tax Expense

During the Reporting Period, the income tax expense of the Group increased from approximately RMB61.61 million in 2017 to approximately RMB70.11 million for the Reporting Period, representing an increase of approximately RMB8.50 million.

During the Reporting Period, the effective rate of income tax for the Group was 13.3%, which was in line with that in 2017.

Results of the Year

Due to the above reasons, during the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB414.54 million (2017: RMB372.42 million), representing an increase of approximately 11.3% as compared to that in 2017. The amortisation and depreciation charge attributable to ordinary equity holders of the Company on intangible assets and fixed assets from business acquisition of the Group (after tax) was approximately RMB22.76 million (2017: RMB12.50 million), after excluding the impact of such charge, the profit attributable to ordinary equity holders of the Company was approximately RMB437.30 million (2017: RMB384.92 million), representing an increase of approximately 13.6% as compared to that in 2017.

The increase in profit attributable to ordinary equity holders of the Company for the Reporting Period was mainly attributable to the further synergy effect of continued deepening of internal and external resource integration and integration of ophthalmology merger and acquisition business by the Group, growing market share of core competitive varieties in medical aesthetic and orthopedics sectors and significant effects of product portfolio optimization and other measures.

During the Reporting Period, the basic earnings per share were RMB2.59 (2017: RMB2.33).

Liquidity and Capital Resources

As at 31 December 2018, the total current assets of the Group was approximately RMB2,293.89 million, representing a decrease of approximately RMB92.08 million as compared to the amount as at 31 December 2017, and the total current liabilities was approximately RMB451.32 million, representing a decrease of approximately RMB26.44 million as compared to the amount as at 31 December 2017. As at 31 December 2018, the Group's current assets to liabilities ratio was approximately 5.08 (31 December 2017: 4.99).

Employees and Remuneration Policy

The Group had 1,226 employees as of 31 December 2018. The breakdown of our total number of employees by function was as follows:

Production	469
Research and Development	202
Sales and Marketing	332
Supply	24
Administration	199
Total	1,226

The Group's remuneration policy for its employees is based on their working experience, daily performance, sales performance of the Company and external market competition. The Group provides 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 RMB240.29 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 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 a carrying amount of approximately GBP1.45 million (equivalent to approximately RMB12.59 million).

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

As at 31 December 2018, the notes payable of approximately RMB4.34 million of the Company's subsidiary Shanghai Qisheng were secured by the pledge of bank deposit with a carrying amount of approximately RMB4.34 million (31 December 2017: nil).

Gearing

As at 31 December 2018, the total liabilities of the Group amounted to approximately RMB600.91 million and the gearing ratio ((total liabilities/total assets) x 100%) was 13.5%, representing a slight decrease as compared to 17.6% as at 31 December 2017, which was primarily attributable to the decrease in total liabilities due to the final payment for part of the business acquisitions and the increase in assets due to the income from investment projects receivable.

Bank Borrowings

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 (totaling approximately RMB17.76 million) respectively.

As at 31 December 2017, NIMO and Contamac Holdings, both subsidiaries of the Group, had interest-bearing bank borrowings of approximately RMB18.50 million and GBP2.16 million (totaling approximately RMB18.98 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 2018, the Group did not enter into any hedging transactions.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities.

Events after the Reporting Period

In December 2018, Contamac Holdings and Contamac Limited entered into an agreement with Innovalens B.V. ("**Innovalens**") and Contateq B.V. ("**Contateq**") for disposal of the equity interest in Contateq (a joint venture) held by Contamac Holdings. Pursuant to the agreement, Contamac Holdings agreed to sell its 50% equity interest in Contateq (a joint venture) to Innovalens, for a total consideration of EUR8,500,000 and inventory with fair value of approximately US$1,300,000. The above transaction was completed in January 2019.

On 12 March 2019, the EGM and class meetings, upon consideration, approved (among others) the relevant resolutions on the Company's application for the A share offering to relevant securities regulatory authorities. For further information, please refer to the section headed "Operating Prospects of 2019" in "Management Discussion and Analysis".

On 12 March 2019, the payment of dividends of RMB0.50 (inclusive of tax) per Share representing an aggregate of RMB80,022,650 for the six months ended 30 June 2018 proposed by the Board was approved by the EGM.

Material Acquisitions and Disposals of Subsidiaries and Associates

The Group did not have any material acquisitions and disposals related to subsidiaries and affiliated companies during the year ended 31 December 2018.

Significant Investment

The Group has no other significant investment during the year ended 31 December 2018.

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

PRINCIPAL BUSINESS

We focus on the research and development, manufacturing and sales of biomedical materials. We strategically target the fast-growing therapeutic areas in the biomedical material market in China, including 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 pages 5 to 6 and the Management Discussion and Analysis on pages 7 to 24 of this annual report. Description of the risks and uncertainties that the Group may face can be found in the Internal Control, Audit and Risk Management on pages 50 to 52 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 23 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 56 in this annual report. The probable future business development of the Company is discussed in Management Discussion and Analysis on page 17 of this annual report.

RESULTS

The Group's results for the Reporting Period and the financial position of the Group as at 31 December 2018 are set out in the audited consolidated financial statements on pages 71 to 79 of this annual report.

A discussion and analysis of the Company's performance during the year and the material factors underlying its results and financial position are set out in the Management Discussion and Analysis on pages 7 to 24 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 are expected to be paid on or before Friday, 26 April 2019. The Board did not recommend the payment of a final dividend for the year ended 31 December 2018.

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 of the Company 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.

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 80 to 81 of this annual report.

USE OF NET PROCEEDS FROM THE LISTING

The Company issued an aggregate of 40,045,300 H shares of RMB1.00 each at a price of HK$59.00 per H share, raising a total amount of HK$2,362.67 million in its Global Offering on 30 April 2015. Netting of the paid and accrued listing expenses amounting to RMB69.42 million, the net proceeds raised was RMB1,794.28 million. The Board has resolved at its meeting held on 18 March 2016 to propose to reallocate and change the use of the remaining balance of unutilized net proceeds of approximately RMB1,424.64 million. The aforesaid proposal was duly passed at the annual general meeting held on 3 June 2016. 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 2018, the net proceeds of the Company were applied as follows:

Use of Proceeds from the Global Offering	Remaining Balance of Unutilized Net Proceeds up to 8 June 2016[1] *(RMB million) approximately*	Remaining Balance of Unutilized Net Proceeds up to 14 February 2017[2] *(RMB million) approximately*	Approximate Percentage of Remaining Balance of Unutilized Net Proceeds up to 14 February 2017	Proposed Reallocation on the Use of Remaining Balance of Unutilized Net Proceeds up to 14 February 2017 *(RMB million) approximately*	Utilized Net Proceeds up to 31 December 2018 *(RMB million) approximately*	Remaining Balance of Utilized Net Proceeds up to 31 December 2018 *(RMB million) approximately*
1. Acquiring Suitable Businesses	694.28	0.02	80%	284.26	36.52	7.41
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				7.41

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.

(3) Remaining balance of utilized net proceeds from the listing up to 31 December 2018 of the Company of approximately RMB7.41 million is intended to be used for the capital increase of the wholly-owned subsidiary Jianhua Biological. The payment of the relevant capital increase will be completed on or before 30 June 2019.

SHARE CAPITAL

Share capital of the Company as at 31 December 2018 was as follows:

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

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

Neither the Company nor any of its subsidiaries 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 of the company (the "**Articles**"). During the Reporting Period, the Company does not have any arrangement on options of shares.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers comprised 55.6% of the Group's total purchases for the year ended 31 December 2018, among which, the purchases attributable to the Group's largest supplier during the Reporting Period was 28.0%.

During the Reporting Period, the aggregate sales attributable to the Group's five largest distributors comprised 8.7% of the Group's total sales for the year ended 31 December 2018, among which, the sales attributable to the Group's largest distributor during the Reporting Period was 3.9%. 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 15.6% of the Group's total sales for the year ended 31 December 2018, among which, the sales attributable to the Group's largest customer during the Reporting Period was 3.9%.

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 44 to the consolidated financial statements and details of the reserves distributable to shareholders are set out in note 44 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 2018, Shenzhen NIMO and Contamac Holdings, two 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.

MANAGEMENT CONTRACTS

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Age	Capacity	Date of appointment
Dr. Hou Yongtai	57	Chairman and Executive Director	23 July 2010
Mr. Wu Jianying	55	Executive Director and General Manager	23 July 2010
Mr. Huang Ming	43	Executive Director, Secretary of the Board and one of our joint company secretaries	23 July 2010
Ms. Chen Yiyi	37	Executive Director	23 July 2010
Mr. Tang Minjie	43	Executive Director and Chief Financial Officer	14 February 2017
Ms. You Jie	56	Non-executive Director	23 July 2010
Mr. Gan Renbao	79	Non-executive Director	23 July 2010
Mr. Chen Huabin	51	Independent Non-executive Director	16 October 2014
Mr. Shen Hongbo	39	Independent Non-executive Director	16 October 2014
Mr. Li Yuanxu	52	Independent Non-executive Director	16 December 2010
Mr. Zhu Qin	55	Independent Non-executive Director	16 October 2014
Mr. Wong Kwan Kit	49	Independent Non-executive Director	6 April 2015
Mr. Liu Yuanzhong	50	Chairman of the Supervisory Committee and shareholder Supervisor	23 July 2010
Ms. Yang Qing	47	Independent Supervisor	16 October 2014
Mr. Tang Yuejun	40	Independent Supervisor	16 October 2014
Mr. Wei Changzheng	39	Employee representative Supervisor	23 July 2010
Mr. Yang Linfeng	37	Employee representative Supervisor	30 September 2014
Ms. Ren Caixia	61	Deputy general manager	23 July 2010
Mr. Zhang Jundong	45	Deputy general manager	14 March 2019 (Reappointment)
Mr. Wang Wenbin	52	Deputy general manager	14 March 2019 (Reappointment)

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The particulars of the profiles of the Directors, Supervisors and senior management are set out on pages 58 to 64 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 2018 interim report are set out below:

1. Ms. Chen Yiyi, an executive Director of the Company served as 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.

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of our Directors (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 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 2018, 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 2018, (b) no new competing business was reported by the Covenantors as at 31 December 2018, (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 2018, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined in the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Band	Number
RMB600,001-1,000,000	1

REMUNERATION OF EMPLOYEES AND POLICIES

As of 31 December 2018, the Group had 1,226 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 2018, to the knowledge of the Directors of the Company, the interests or short positions of persons other than Directors, chief executives or Supervisors of the Company in the shares and underlying shares of the Company as recorded in the register which were required to be notified to the Company and Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows. In the event of changes in the shareholding of the shareholders in the Company, the shareholders will not be required to notify the Company and the Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the shareholders in the Company may be different from the shareholding submitted to the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS HOLDING DOMESTIC SHARES OF THE COMPANY

Name	Number of domestic shares (shares)	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Jiang Wei[1]	44,449,000 (L)	37.04	27.77	Beneficial owner
	28,800,000 (L)	24.00	17.99	Interest of spouse
	6,471,000 (L)	5.39	4.04	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanxi Corporate Management Limited Company[2]	6,471,000 (L)	5.39	4.04	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership)[2]	6,471,000 (L)	5.39	4.04	Beneficial owner
Lou Guoliang	9,500,000 (L)	7.92	5.94	Beneficial owner

Note: L denotes long position

1. Mr. Jiang Wei directly holds 44,449,000 domestic shares in the Company. He is the spouse of Ms. You Jie, our non-executive Director, and therefore he is deemed under the SFO to be interested in the 28,800,000 domestic shares held by Ms. You Jie in the Company. He holds 6,471,000 domestic shares in the Company through his interest in controlling Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) and its 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	6,044,578 (L)	15.09	3.78	Investment Manager
Prudence Investment Management (Hong Kong) Limited	4,003,400 (L)	9.99	2.50	Investment Manager
UBS Group AG[1]	3,959,420 (L)	9.89	2.47	Person having a security interest in shares
	83,436 (L)	0.21	0.05	Interest of corporation controlled by the substantial shareholder
Templeton Investment Counsel, LLC	3,634,200 (L)	9.08	2.27	Investment Manager
Matthews International Capital Management, LLC	4,389,000 (L)	10.96	2.74	Investment Manager
Morgan Stanley[2]	2,408,517 (L)	6.01	1.50	Interest of corporation controlled by the substantial shareholder
	24,906 (S)	0.06	0.02	Interest of corporation controlled by the substantial shareholder

Notes: L denotes long position

1. UBS Group AG was deemed to hold long position of 3,959,420 H Shares through its security interest in those shares. In addition, UBS Group AG was deemed to have interest in long position of 83,436 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 81,036 H Shares and 2,400 H Shares in the Company respectively.

2. Long position of these 2,408,517 H shares and short position of these 24,906 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 2018, 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 2018, the interests or short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules were as follows:

Name	Number of H shares of the Company (shares)	Number of domestic shares of the Company (shares)	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
You Jie[1]		28,800,000 (L)		24.00	17.99	Beneficial owner
		50,920,000 (L)		42.43	31.81	Interest of spouse
Hou Yongtai		6,000,000 (L)		5.00	3.75	Beneficial owner
Wu Jianying		6,000,000 (L)		5.00	3.75	Beneficial owner
Huang Ming		2,000,000 (L)		1.67	1.25	Beneficial owner
Gan Renbao		500,000 (L)		0.42	0.31	Beneficial owner
Chen Yiyi		400,000 (L)		0.33	0.25	Beneficial owner
Liu Yuanzhong		2,000,000 (L)		1.67	1.25	Beneficial owner
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 domestic shares in the Company. She is the spouse of Mr. Jiang Wei and therefore she is deemed under the SFO to be interested in the 44,449,000 domestic shares directly held by Mr. Jiang Wei and 6,471,000 domestic shares held through Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) in the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2018, none of the other Directors, Supervisors or any of their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

CONNECTED TRANSACTIONS

On 26 March 2018 (after trading hours), (i) 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 (ii) 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. 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 Listing Rules.

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 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 Listing Rules, but are exempted from the requirement of the circular including independent financial advice, and approval by independent shareholders.

In 2018, the Group's total transaction amount with Haohai Changxing contemplated under Spray Pump Customization Agreement and the Plastic Syringe Accessories Customization Agreement was RMB3,584,919.93 and RMB907,537.58 respectively. The annual cap for the period from 27 March 2018 to 31 December 2018 was RMB3,750,000 and RMB2,000,000 respectively.

The above annual caps were determined according to (i) the historical transaction volume between the Company and other suppliers; (ii) the expected growth of sales volume of relevant products; and (iii) 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 (the "**Audit Committee**") have reviewed the above continuing connected transactions for the year ended 31 December 2018 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 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 2018, 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 Listing Rules.

Information on connected transactions effective during the Reporting Period are contained in note 37(a)(ii) 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 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 Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than Directors, Supervisors and chief executives) of the Company did not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

The details on the related party transactions of the Group for the year ended 31 December 2018 are set out in note 37 to the consolidated financial statements in this annual report.

None of the related party transactions constitutes a connected transaction or continuing connected transaction which is subject to the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE CODE

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

COMPLIANCE WITH THE MODEL CODE

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

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DONATIONS

During the Reporting Period, the Group made donations of RMB1,071,340.00.

INDEMNITY OF THE DIRECTORS

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

PUBLIC SHAREHOLDINGS

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

MATERIAL LITIGATION

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

AUDIT COMMITTEE

The Company has established an audit committee, which is comprised of five Directors, namely Mr. Shen Hongbo (chairman), Ms. You Jie, Mr. Chen Huabin, Mr. Li Yuanxu and Mr. Zhu Qin. The primary duties of the audit committee of the Company (the "**Audit Committee**") are to review and supervise the Company's financial reporting procedures, risk management and internal control system. The 2018 annual results and financial statements of the Group for the year ended 31 December 2018 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 2018 prepared in accordance with International Financial Reporting Standards. These financial statements have been audited by Ernst & Young. Since the date of preparation for the listing, the Company has been engaging Ernst & Young for their services. Ernst & Young will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

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

14 March 2019

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

SUMMARY OF CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE CODE

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

THE BOARD

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

Composition and Term of Office of the Board

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

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

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

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

The detailed biographies of the Directors are set out on pages 58 to 62 of this annual report. Members of the Board do not have any relationships between each other (including financial, business, family or other material or related relations). The Board is well-balanced in structure and each of its members possesses extensive knowledge, experience and talent in relation to the business operation and development of the Company. All the Directors are well aware of their joint and several responsibilities towards the shareholders of the Company.

Meetings of the Board

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

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

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

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

Authority Exercised by the Board and the Management

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

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

Directors' Continuous Training and Development

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

During the Reporting Period, the Directors 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 trainings regarding the knowledge of corporate governance and share incentives provided by the Company, in order to comply with the requirements of the Corporate Governance Code in relation to continuous professional development.

Chairman and General Manager

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

Appointment and Re-election of Directors

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

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

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

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

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

Emoluments of senior management shall be determined by the Board.

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

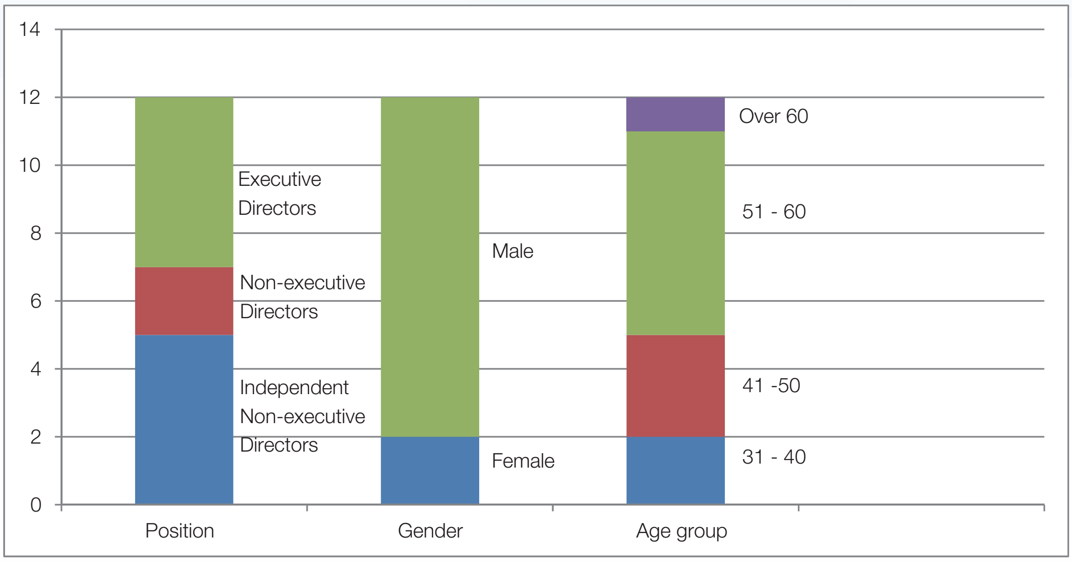
Board Diversity Policy

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

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

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

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 58 to page 62 of this annual report.



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

During the Reporting Period, the Board has not set any measurable objectives. In 2019, the Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

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 Committee, Nomination Committee and Strategy Committee.

Audit Committee

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

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

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

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

During the Reporting Period, the Audit Committee, through its meetings held on 26 March, 24 August and 29 December 2018 respectively, has performed, among others, the following:

- review and discussion of the audited financial statements, annual results announcement and annual report for the year ended 31 December 2017, review and discussion of the onshore and offshore audit firms' expenses in 2017, recommendation to the Board to engage onshore and offshore audit firms in 2018, as well as review and discussion of audit work of the Group and internal control self-valuation report in 2017;

- review and discussion of the financial statements and interim report and results announcement for the six months ended 30 June 2018; and

- review and discussion of the Risk Management and Internal Control System Assessment Report and the Risk Assessment Report of the Company, and recommendation to the Board of the Company's Risk Management and Internal Control System Assessment Report and the Risk Assessment Report.

Remuneration Committee

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

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

During the Reporting Period, the Remuneration Committee held a meeting on 26 March 2018 to review and pass remuneration of Directors and senior management personnel in 2017 and remuneration proposal of Directors and senior management personnel in 2018. All members of the Remuneration Committee attended the meeting.

Nomination Committee

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

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

During the Reporting Period, the Nomination Committee held a meeting on 26 March 2018 to review and pass the proposals on the review of the Board diversity and achievement of objectives pursuant to the board diversity policy and effectiveness of the board diversity policy, evaluation of the independence of independent non-executive Directors, and review of the Board structure and the non-executive Directors' duties fulfillment to the Company. All members of the Nomination Committee attended the meeting.

Strategy Committee

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

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

During the Reporting Period, the Strategy Committee held a meeting on 26 March 2018 to review and pass the proposal of requesting the Board to propose the resolution of granting the Board a general mandate to issue Shares at the general meeting. All members of the Strategy Committee attended the meeting.

SUPERVISORY COMMITTEE

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

During the Reporting Period, the Supervisory Committee through its meetings held on 26 March and 24 August 2018 respectively, has mainly performed, among others, the following:

- review of the audited financial statements for the year ended 31 December 2017;
- review of the financial statements for the six months ended 30 June 2018; and
- review of the proposal on amendments to the Articles of Association.

AUDITORS AND THEIR REMUNERATIONS

At the 2017 annual general meeting convened on 11 June 2018, the Company approved the appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the Company's domestic and international auditors for 2018, respectively, and authorized the Board to fix their respective remunerations. The fee in respect of the consolidated financial statement audit service provided by Ernst & Young Hua Ming LLP and Ernst & Young to the Company for the Reporting Period was RMB1.85 million and no non-audit related services were provided by Ernst & Young Hua Ming LLP and Ernst & Young.

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 2018 which give a true and fair view of the state of affairs of the Group as at 31 December 2018 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 65 to 70.

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 of the Company. The Board is responsible for maintaining a sound and effective risk management and internal control system, and assessing the effectiveness of the said system annually through the Audit Committee, which shall cover all significant monitoring including finance, operation and compliance monitoring as well as risk management function. The Audit Committee is responsible for assisting the Board in monitoring the Group's risk management and internal control system, and review and discussion with the management annually to ensure the discharging of duties by the management so as to maintain the effectiveness of the said system, and is responsible for considering the important survey results in relation to risk management and internal control and making recommendations to the Board. The audit department, the executive body for the work of the Audit Committee, is responsible for facilitating the effective operation and management of the Company and providing support to the Board and the Audit Committee in discharging their duties. The management is responsible for designing, implementing and monitoring the Group's risk management and internal control system, and reporting to the Board and the Audit Committee the effectiveness of the said system.

During the Reporting Period, under the leadership of the Audit Committee, the audit department analyzed the effectiveness of the risk management and internal control system of the Company through over 10 internal audit projects, and submitted the results to the Board via the Audit Committee. On 29 December 2018, the Board convened meeting, to review the effectiveness of the risk management and internal control system of the Company during the Reporting Period, concluding the said system and the internal audit function was adequate and effective, but only made reasonable but not absolute assurance against material misstatements or losses. The Board has considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting departments and their training programs and budgets.

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

SIGNIFICANT RISKS

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

Internal Management Risk

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

Business Risk

In 2018, a series of reform policies such as reform of medical insurance payment methods, supply of pharmaceuticals and medical devices, circulation, centralized tendering and large-scale procurement had continued to deepen, exerting a profound impact on the overall pharmaceutical industry in China. Due to these factors, operating results of China's pharmaceutical and medical device industry face severe challenges. During the Reporting Period, the Group improved operational efficiency through refined management. The Group also focused on increasing investment in research and development, optimizing its product portfolio and advancing service upgrade so as to secure the steady growth of the entire principal business.

Financial Risk

Major financial risks are set out in note 41 to the consolidated financial statements.

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

ARTICLES OF ASSOCIATION

Pursuant to the special resolution passed at the Company's annual general meeting on 11 June 2018, the shareholders of the Company resolved to amend the articles of association of the Company (the "**Articles**") for the purposes of (a) ensuring compliance of the Articles with the relevant laws, provisions and regulatory policies of the PRC; and (b) incorporating certain amendments proposed by the Board to be in line with the need of the Company's business development. Details of the amendments are set out in Appendix III to the circular of the Company dated 24 April 2018.

Apart from the above, there is no significant change in the Articles during the Reporting Period.

The Articles of the Company is available on the websites of the 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, secretary of the Board and Executive Director, is another joint company secretary of the Company, who acts as the main contact person of Mr. Chiu Ming King and the internal departments of the Company.

In compliance with Rule 3.29 of the Listing Rules, Mr. Huang Ming and Mr. Chiu Ming King both undertook not less than 15 hours of relevant professional training to update their skills and knowledge during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

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

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

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

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

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

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

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

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

Procedures for Directing Shareholders' Enquiries to the Board

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

Procedures to Propose Motions at General Meetings

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

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

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

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

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

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

GENERAL MEETINGS

For the year ended 31 December 2018, one annual general meeting of the Company was held. Details are as follows:

Date	Venue	Meeting
11 June 2018	24/F, WenGuang Plaza, No.1386 Hongqiao Road, Changning District, Shanghai, PRC	2017 Annual General Meeting

Statistics on Directors' attendance at meetings:

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

COMMUNICATIONS WITH SHAREHOLDERS

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

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

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

INVESTOR RELATIONS

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

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

OUTLINE OF 2018 ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

ENVIRONMENTAL POLICY PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY

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

As a biomedical enterprise, the Group takes a proactive approach to implement the philosophy of sustainable development in various aspects, including research and development of products, production and transportation. The Group attaches importance to the investment of environmental protection cost, fully demonstrates the environmental protection situation before the implementation of new projects, striving to control and reduce the generation of pollutants at the source, and makes consistent efforts in the optimization of environmental protection facilities and retrofitting for energy saving.

The Group strictly adheres to the manufacturing and product quality. During the Reporting Period, the Group was always alert to the quality and carried out self-inspection over the manufacturing quality at various production bases. During the Reporting Period, the Company's subsidiary, Qisheng Biologicals, won the highest honor in the quality field of Minhang District, Shanghai — the Minhang District Mayor Quality Award(閔行區區長質量獎).

The Group values the enhancement of innovation as well as research and development capabilities. During the Reporting Period, the Company passed an appraisal and was awarded the title of Intellectual Property Right Demonstration Enterprise of China in 2018; the Company has been included in the 2017-2018 (24th Batch) Newly Accredited List of National Enterprise Technology Centers as the only bio-medical enterprise in Shanghai; the Company's subsidiary Qisheng Biologicals was approved as Shanghai Municipal Enterprise Technology Center; the Group's products "Matrifill" and "Healin" were selected as the "Top 100" list of Shanghai's high-tech achievements transformation project.

RELATIONSHIP WITH STAKEHOLDERS

We consider our customers, shareholders and potential investors, government institutions, media, employees, suppliers etc. as our important stakeholders. In order to ensure the establishment of an effective ESG development strategy that addresses environmental and social regulatory risks, and respond to the opinions and expectations of various stakeholders, the Group carried out stakeholder survey, and analysis of regulatory requirements during the year, as a result of which we concluded the important ESG issues that are vital to our own development and the stakeholders are concerned as the basis for preparing of independent ESG report, and as important reference in formulating sustainable development strategy in the future. For more information about the ESG performance of the Group during the Reporting Period, please refer to the independent ESG report to be published by the Company (such report will be published with three months after the publication date of this annual report) which will be available for viewing or downloading at the website of the Stock Exchange headlined "Financial Statement/ Environmental, Social and Governance information" and the website of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has formulated policies to ensure the compliance with various regulations relating to areas such as labor welfare, safety and health, environment. During the Reporting Period, there was no cases of material breach of the relevant laws and regulations, that have a significant impact on the Group, occurred within the Group.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Hou Yongtai (侯永泰), aged 57, is the chairman and executive Director of the Company. Dr. Hou engaged in postdoctoral research at the pharmacology department of University of Pennsylvania in the U.S. from July 1992 to October 1995. Thereafter, he served as a research investigator at the department of cell and developmental biology of the University of Michigan in the U.S. from 1998 to 2000. From August 2000 to August 2003, he served as a researcher and doctoral degree supervisor at Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所), where he was mainly responsible for establishing screening models for cancer drugs and the application of new biotechnologies (such as RNA interference) on new drugs development. He also served as the overseas manager of the strategy and investment committee at Shanghai Pharmaceutical (Group) Co., Ltd, a company principally engaged in investments, research in pharmaceutical products, medical devices, as well as manufacturing and sale of medical devices from July 2003 to June 2004 and was mainly responsible for assisting its formulation of overseas strategies and implementing its external relations and coordination. During July 2000 to June 2004 and April 2005 to March 2008 at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司), he served various positions such as the deputy general manager and the director of the research and development division. He was mainly responsible for formulating product development strategies, establishing its development team and development base as well as implementing its product research and development plans. He has also served as the chairman of Shanghai Qisheng from December 2007 to August 2010. He served as the chairman of Haohai Limited, the predecessor of the Company, from September 2009 to July 2010, the date of conversion of the Company. He has been appointed as the chairman and Director of the Company since July 2010, and was redesignated as an executive Director on 7 December 2014. Dr. Hou obtained a master's degree and a Ph.D. degree from Ohio University in the U.S. in March 1987 and August 1992, respectively.

Mr. Wu Jianying (吳劍英), aged 55, is an executive Director and general manager of the Company. Mr. Wu worked as a surgeon at the General Surgery Department of the Second Affiliated Hospital of the Second Military Medical University (第二軍醫大學第二附屬醫院普外科) from 1991 to 1999. He thereafter worked at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司) ("Shanghai Huayuan") from March 2003 to February 2004, at the Shanghai branch of China Huayuan Life Industry Limited (中國華源生命產業有限公司上海分公司) from February 2004 to May 2005 and at Cinkate Pharmaceutical and Chemical Intermediates (Shanghai) Company Limited (欣凱醫藥化工中間體(上海)有限公司), a company principally engaged in development and production of pharmaceutical and chemical intermediates, as well as selling its own products and providing relevant technical advisory services from May 2005 to July 2007. He served as the general manager at Haohai Limited from July 2007 to June 2010. He has been acting as the general manager at Shanghai Qisheng since August 2010, and the general manager and executive director at Shanghai Likangrui since December 2010. He served as the director of Haohai Healthcare since July 2015, the vice chairman of Henan Universe since August 2015 and then the executive director, the executive director of Haohai Development since February 2016, the director of Haohai Healthcare Holdings (Cayman) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since May 2016, the director of Haohai Healthcare Holdings (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since August 2016, the Chairman of New Industries since November 2016 and the executive director of Zhuhai Eye Good in December 2016, and the director of Contamac Holdings Limited, a subsidiary of our Company since June 2017, and the director of Haohai Aesthetic Holdings (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. (上海太平洋药业有限公司), 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.

Mr. Huang Ming (黃明), aged 43, is an executive Director, Secretary of the Board and one of the joint company secretaries of the Company. He worked as a manager in Haoyang Investments from September 2008 to June 2010, a director of Haohai Changxing Company Limited, a company principally engaged in the sale of agricultural byproducts since September 2010 and an executive director of Changxing Haoersi Biotechnology Company Limited (長興昊爾斯生物科技有限公司), a company principally engaged in the research and development of biological and plant products from May 2011 to December 2011. He has been serving as a supervisor of Shanghai Jianhua since November 2007, a supervisor of Shanghai Qisheng since December 2007, and a supervisor of Shanghai Likangrui since December 2010. He served as the director of Haohai Healthcare since July 2015, the director of New Industries since December 2016 the director of Contamac Holdings Limited, a subsidiary of the Company since June 2017, and the director of China Ocean Group 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. (上海旗盛医药科技发展有限公司), 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.

Ms. Chen Yiyi (陳奕奕), aged 37, is an executive Director of the Company. Ms. Chen joined the marketing department of Haohai Chemical, a company principally engaged in the production and sale of polyurethane composite duct in July 2006 and worked as the marketing manager and assistant to general manager from January 2007 to December 2009, the supervisor of Henan Universe since November 2016, the director of New Industries since November 2016 and the supervisor of Zhuhai Eye Good since December 2016. She 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 (communications) in June 2006 from Huazhong University of Science and Technology (華中科技大學) respectively.

Mr. Tang Minjie (唐敏捷), aged 43, is an executive Director of the Company joined the Company in August 2016 as an employee, became a director of New Industries since November 2016, was appointed as the chief financial officer of the Company on 9 December 2016 and as an executive Director in 14 February 2017, and serves as the director of Contamac Holdings Limited, a subsidiary of the Company since June 2017. Prior to joining the Company, he worked at Ernst & 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 56, 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 79, is a non-executive Director of the Company. Mr. Gan has engaged in molecular biology and genetic engineering research for many years. He worked at Shanghai Institute for Biological Sciences, Chinese Academy of Sciences (中國科學院上海生命科學研究院生物化學與細胞生物學研究) since October 1960 as a researcher and an officer and retired in June 2004. He was our deputy general manager from July 2010 to September 2014. He has been appointed as the Director since July 2010, and was redesignated as a non-executive Director on 7 December 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Huabin (陳華彬), aged 51, 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 39, 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) since January 2011. 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 52, is an independent non-executive Director of the Company. 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 55, 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 49, 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 master's degree in business administration from the Macau University of Science and Technology in August 2010.

SUPERVISORS

Mr. Liu Yuanzhong (劉遠中), aged 50, 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 47, 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 40, 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 39, 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 37, is an employee representative Supervisor of the Company. He has been an associate of the chief human resource officer of the Company from July 2011 to November 2015, and he has been a Performance & Development manager of Human Resource since November 2015. He has been appointed as the Supervisor since September 2014. Mr. Yang obtained a doctor's degree in management at Fudan University in June 2011.

SENIOR MANAGEMENT

Ms. Ren Caixia (任彩霞), aged 61, 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 52, 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.

Mr. Zhang Jundong (張軍東), aged 45, 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Huang Ming (黃明), aged 43, was appointed as a joint company secretary of the Company on 17 November 2014. He is also the secretary of the Board of the Company. Please refer to "Executive Directors" above for the biography of Mr. Huang.

Mr. Chiu Ming King (趙明璟), aged 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 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 71 to 79, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 RMB1,546 million in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. Revenue from contracts with customers is recognised when control of goods is transferred to the customers. We focus on this area because revenue recognition contains higher assessed risks of material misstatement, including significant risks, due to its large transaction volume and the adoption of IFRS 15 *Revenue from Contracts with Customers*. We also focused on revenue transactions occurred close to year end to identify cut-off error around that date. The Group's specific disclosures about revenue recognition are included in note 2.4 summary of significant accounting policies and note 5 revenue, other income and gains to the financial statements.	Our audit procedures included, among others, assessing the impact of IFRS 15 on revenue recognition, interviewing major customers to understand the business model, performing test of control on revenue recognition, performing test of details by checking the occurrence and accuracy of selected revenue records based on threshold, obtaining the sales contracts with customers, and reviewing key terms of revenue recognition and sales return. In addition, we sent and received revenue and trade receivables confirmations to main customers and reviewed the reconciliation of any material difference provided by the management by checking related documents. We performed alternative procedures for non-replied confirmations by checking the original documents and performing subsequent review. We performed substantive analytical review by comparing revenue and gross margin to previous years among the same products. We also tested the recognition of revenue transactions close to the period end to establish whether they were recorded in the correct period.

KEY AUDIT MATTERS (Continued)

Key audit matter	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 RMB332 million and RMB104 million respectively as at 31 December 2018. The Group is required to perform the impairment test for goodwill and intangible assets with infinite useful lives annually. The impairment test is based on the recoverable value of the respective cash-generating units ("CGUs"). We focus on this area because management's impairment assessment process on goodwill and intangible assets with infinite useful lives is complex and involved significant judgements, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied. The Group's specific disclosures about goodwill and intangible assets are included in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates, note 15 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 historic performance of the respective CGUs and the business development plan. Besides, we also checked the related disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

14 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**1,545,824**	1,344,856
Cost of sales		**(334,286)**	(287,467)
Gross profit		**1,211,538**	1,057,389
Other income and gains, net	5	**143,840**	115,830
Selling and distribution expenses		**(495,075)**	(414,083)
Administrative expenses		**(242,410)**	(194,754)
Impairment losses on financial assets		**(2,508)**	(10,693)
Research and development costs		**(95,370)**	(76,332)
Other expenses		**(4,196)**	(11,276)
Finance costs	7	**(2,148)**	(2,209)
Share of profits and losses of:			
Joint ventures	17	**10,315**	(2,358)
An associate	18	**1,199**	107
PROFIT BEFORE TAX	6	**525,185**	461,621
Income tax expense	10	**(70,106)**	(61,609)
PROFIT FOR THE YEAR		**455,079**	400,012
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**—**	17,227
		—	17,227
Exchange differences:			
Exchange differences on translation of foreign operations		**(2,205)**	(6,879)
		(2,205)	(6,879)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(2,205)**	10,348

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 RMB'000	2017 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		32,704	—
Gain on disposal		52,504	—
Income tax effect		(7,876)	—
		77,332	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		77,332	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		75,127	10,348
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		530,206	410,360
Profit attributable to:			
Owners of the parent		414,540	372,415
Non-controlling interests		40,539	27,597
		455,079	400,012
Total comprehensive income attributable to:			
Owners of the parent		490,972	382,951
Non-controlling interests		39,234	27,409
		530,206	410,360
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the year	12	2.59	2.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**703,852**	585,757
Prepaid land lease payments	14	**38,722**	40,640
Other intangible assets	15	**428,394**	449,514
Goodwill	16	**332,003**	331,841
Investment in a joint venture	17	**350,000**	91,105
Investment in an associate	18	**4,700**	3,549
Equity investments designated at fair value through other comprehensive income	19	**236,900**	—
Available-for-sale investments	19	**—**	91,453
Deferred tax assets	28	**17,013**	17,510
Other non-current assets	20	**30,877**	111,984
Total non-current assets		**2,142,461**	1,723,353
CURRENT ASSETS			
Inventories	21	**197,631**	174,914
Trade and bills receivables	22	**384,829**	333,042
Prepayments, other receivables and other assets	23	**187,401**	80,594
Pledged deposits	24	**4,340**	—
Cash and bank balances	24	**1,438,407**	1,797,420
A joint venture classified as held for sale	17	**81,283**	—
Total current assets		**2,293,891**	2,385,970
CURRENT LIABILITIES			
Trade and bills payables	25	**41,183**	39,009
Other payables and accruals	26	**364,589**	376,431
Interest-bearing bank and other borrowings	27	**20,269**	19,888
Tax payable		**25,276**	42,428
Total current liabilities		**451,317**	477,756
NET CURRENT ASSETS		**1,842,574**	1,908,214
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,985,035**	3,631,567

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**16,386**	17,596
Other payables and accruals	26	—	93,241
Deferred tax liabilities	28	**126,998**	126,359
Deferred income	29	**6,204**	9,107
Total non-current liabilities		**149,588**	246,303
NET ASSETS		**3,835,447**	3,385,264
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital	30	**160,045**	160,045
Reserves	31	**3,451,466**	3,040,517
		3,611,511	3,200,562
Non-controlling interests		**223,936**	184,702
Total equity		**3,835,447**	3,385,264

Hou Yongtai
Director

Tang Minjie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to ordinary equity holders of the parent									
	Share capital RMB'000	Share premium account* RMB'000	Available for-sale investment revaluation/ Fair value reserve* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to ordinary equity holders of the parent									
	Share capital RMB'000	Share premium account* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000 (Restated)	Total equity RMB'000
At 1 January 2017	160,045	1,770,386	(1,587)	77,680	2,634	—	894,834	2,903,992	81,868	2,985,860
Profit for the year	—	—	—	—	—	—	372,415	372,415	27,597	400,012
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments	—	—	17,227	—	—	—	—	17,227	—	17,227
Exchange differences related to foreign operations	—	—	—	—	(6,691)	—	—	(6,691)	(188)	(6,879)
Total comprehensive income for the year	—	—	17,227	—	(6,691)	—	372,415	382,951	27,409	410,360
Disposal of a subsidiary	—	—	—	—	—	—	—	—	(2,744)	(2,744)
Non-controlling interests arising from business combination	—	—	—	—	—	—	—	—	81,727	81,727
Dividends declared	—	—	—	—	—	—	(80,023)	(80,023)	—	(80,023)
Acquisition of non-controlling interests	—	—	—	—	—	(264)	—	(264)	(1,136)	(1,400)
Others	—	—	—	—	—	—	(6,094)	(6,094)	(2,422)	(8,516)
Transfer from retained profits	—	—	—	2,343	—	—	(2,343)	—	—	—
At 31 December 2017	160,045	1,770,386	15,640	80,023	(4,057)	(264)	1,178,789	3,200,562	184,702	3,385,264

* These reserve accounts comprise the consolidated reserves of approximately RMB3,451,466,000 (2017: RMB3,040,517,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**525,185**	461,621
Adjustments for:			
Finance costs	7	**2,148**	2,209
Share of profits and losses of:			
Joint ventures	17	**(10,315)**	2,358
An associate	18	**(1,199)**	(107)
Interest income	5	**(59,087)**	(59,483)
Interest income from equity investments at fair value through profit or loss		**(1,766)**	—
Interest income from available-for-sale investments		**—**	(4,226)
Dividend income from equity investments at fair value through other comprehensive income	5	**(9,426)**	—
Dividend income from available-for-sale investments	5	**—**	(4,904)
Net loss on disposal of items of property, plant and equipment	6	**1,259**	1,070
Depreciation	6	**53,901**	43,171
Amortisation of prepaid land lease payments	6	**1,328**	738
Amortisation of other intangible assets	6	**28,384**	23,832
Impairment of trade and other receivables	6	**2,508**	10,693
Recognition of government grants related to assets	29	**(2,903)**	(2,903)
Unrealised gains from changes in foreign currency exchange		**(4,011)**	(1,531)
Gain on disposal of a partly-owned subsidiary	5	**—**	(2,484)
Write-down of inventories to net realisable value	6	**427**	742
		526,433	470,796
Increase in inventories		**(23,186)**	(47,266)
Increase in trade and bills receivables		**(60,105)**	(83,254)
Decrease in prepayments, other receivables and other assets		**40,239**	51,567
Increase in pledged deposits		**(4,340)**	—
Increase in trade and bills payables		**2,174**	12,915
Increase in other payables and accruals		**4,148**	18,959
Cash generated from operations		**485,363**	423,717
Income tax paid		**(94,079)**	(80,658)
Net cash flows generated from operating activities		**391,284**	343,059

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**59,087**	70,883
Interest income received from equity investments at fair value through profit or loss	**1,766**	—
Interest income received from available-for-sale investments	**—**	1,481
Purchases of items of property, plant and equipment	**(151,208)**	(134,289)
Purchase of other intangible assets	**(665)**	(421)
Proceeds from disposal of items of property, plant and equipment	**1,338**	901
Receipt of government grants for property, plant and equipment	**—**	8,203
Payment for acquisition of subsidiaries	**(74,246)**	(296,013)
Payment for liabilities arising from the acquisition of subsidiaries	**(19,217)**	(48,000)
Payment for investments in a joint venture	**(340,000)**	—
Payment for investments in an associate	**(337)**	—
Dividends received from a joint venture	**10,500**	—
Proceeds from disposal of available-for-sale investments	**—**	72,945
Purchase of equity investments at fair value through other comprehensive income	**(154,316)**	—
Purchase of available-for-sale investments	**—**	(80,200)
(Increase)/decrease in time deposits with original maturity of more than three months	**(127,250)**	309,469
Dividends received from equity investments at fair value through other comprehensive income	**6,683**	—
Dividends received from available-for-sale investments	**—**	4,904
Dividends arising from business combination paid to non-controlling shareholders	**(6,774)**	(64,813)
Disposal of a partly-owned subsidiary, net of cash	**—**	6,565
Net cash flows used in investing activities	**(794,639)**	(148,385)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**40,364**	18,501
Repayment of bank loans		**(42,278)**	(27,088)
Interest paid		**(2,183)**	(2,115)
Acquisition of non-controlling interests		**(1,210)**	—
Dividends paid	11	**(80,023)**	(85,775)
Net cash flows used in financing activities		**(85,330)**	(96,477)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(488,685)**	98,197
Cash and cash equivalents at beginning of year		**821,889**	725,255
Effect of foreign exchange rate changes, net		**2,422**	(1,563)
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**335,626**	821,889
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	24	**1,442,747**	1,797,420
Time deposits with original maturity of more than three months when acquired	24	**(1,102,781)**	(975,531)
		339,966	821,889
Less: Pledged time deposits:			
Pledged for bills payable		**(4,340)**	—
Cash and cash equivalents as stated in the statement of cash flows		**335,626**	821,889

1. CORPORATE AND GROUP INFORMATION

The Company was established as a limited liability company on 24 January 2007 in the People's Republic of China, (the "PRC"), and the Company was transformed into a joint stock company with limited liability on 2 August 2010. The registered office of the Company is located at No. 5 Tongjing Road, Songjiang Industrial Zone, Shanghai, PRC. The Company issued 40,000,000 H shares and 45,300 H shares on 30 April 2015 and 28 May 2015, respectively. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 April 2015.

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries[1] are as follows:

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
上海其勝生物製劑有限公司 Shanghai Qisheng Biologicals Co., Ltd.* ("Shanghai Qisheng")	PRC/Mainland China 27 May 1992	RMB160,000,000	100	—	Manufacture and sale of biological reagents, biologicals and biological materials
上海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. [1] ("Haohai Holdings")	Hong Kong 17 July 2015	HKD153,000,000[2]	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製有限公司 Henan Universe Intraocular Lens Research and Manufacture Co., Ltd.* ("Henan Universe")	PRC/Mainland China 23 April 1991	RMB9,923,200	—	100	Manufacture and sale of intraocular lens and and related products
深圳市新產業眼科新技術有限公司 Shenzhen New Industries Material of Ophthalmology Co., Ltd.* ("NIMO")	PRC/Mainland China 27 April 2006	RMB11,000,000	—	60	Sale of ophthalmology products
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.

Note:

(1) The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year, materially contributed to the net income of the Group 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) During the year, Haohai Holdings increased its paid-up capital from HKD150,437,360 to HKD153,000,000.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost 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 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together below aspects of the accounting for financial instruments: classification and measurement and impairment.

The Group has not restated comparative information and no transition adjustments recognised against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

As of 1 January 2018, the Group has assessed its bills receivable. The objective of the Group in holding these bank acceptance bills is to endorse these bills. The Group concluded that the bills receivable are managed within a business model mainly to sell the financial assets. Accordingly, these bills receivable are measured at fair value through profit or loss, and presented as trade and bills receivables.

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Note	IAS 39 measurement Amount RMB'000	Re-classification RMB'000	IFRS 9 measurement Amount RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income		—	91,453	91,453
From: Available-for-sale investments	(i)	91,453	(91,453)	—

Note:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

Other than the reclassification mentioned above, as of 1 January 2018, other financial assets previously classified as loans and receivables under IAS 39 were reclassified to financial assets at amortised cost at their original carrying amounts under IFRS 9, and there have been no changes to the classification or measurement of financial liabilities as a result of the adoption of IFRS 9.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Impairement

The aggregate opening impairment allowances had no significant financial effect under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 22 and 23 to the financial statements.

IFRS 15 *Revenue from Contracts with Customers* and its amendments replace IAS 11 *Construction Contracts* and IAS 18 *Revenue* and related interpretations. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosure is included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has assessed the effects of adoption of IFRS 15 on the financial statements and identified the following areas that have been affected:

IFRS 15 requires separate presentation of contract liabilities. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 15 and, accordingly, advances received from customers of RMB41,802,000 were reclassified from advances from customers under other payables and accruals to contract liabilities.

Taking into account the impact disclosed above, the Group considers that the adoption of IFRS 15 did not have significant impact on our financial position and performance during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[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 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
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. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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.

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be 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 the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB43,685,000 and lease liabilities of RMB43,685,000 will be recognised at 1 January 2019.

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

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.

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 expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Items	Principal annual rate
Buildings	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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

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 does not meet these criteria is expensed when incurred.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 60 to 120 months.

Customer relationship

Customer relationship is acquired in business combinations and stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 13-15 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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.

Operating leases

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

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 (applicable from 1 January 2018)" below.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

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

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)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement ***(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 include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

*Subsequent measurement **(Continued)***

*Available-for-sale financial investments **(Continued)***

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in changes in fair value of available-for-sale investments until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from changes in fair value of available-for-sale investments to other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

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 increase.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

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.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost ***(Continued)***

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

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

Available-for-sale financial investments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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 borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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 acquired 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 date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labours and an appropriate proportion of overheads based on normal operating capacity. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal. The amount of any write-down of inventories and any reversal of write-down of inventories is recognised within "cost of sales".

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 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.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

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.

Revenue recognition (applicable from 1 January 2018)

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

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.

Revenue recognition (applicable before 1 January 2018)

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

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

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

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

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 customer's actual default in the future. The information about the ECLs on the Groups' trade receivables is disclosed in note 24 to the financial statements.

Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and intangible assets with indefinite useful lives subjected to impairment test at 31 December 2018 were approximately RMB332,003,000 (2017 (restated): RMB331,841,000) and RMB103,699,000 (2017: RMB102,830,000), respectively. Further details are given in notes 16 and 15.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are related to a single operating segment, the manufacture and sale of biologicals, medical hyaluronate, intraocular lens, research and development of biological engineering and pharmaceutical products and the provision of related services. Therefore, 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

	2018 RMB'000	2017 RMB'000
Mainland China	**1,380,919**	1,223,568
USA	**81,403**	85,604
U.K.	**10,367**	5,379
Other regions and countries	**73,135**	30,305
	1,545,824	1,344,856

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000 (Restated)
Mainland China	**1,543,218**	1,192,985
USA	**92,342**	90,389
U.K.	**252,425**	330,325
Hong Kong	**563**	691
	1,888,548	1,614,390

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/available-for-sale investments and deferred tax assets.

4. OPERATING SEGMENT INFORMATION (Continued)

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 and other income and gains is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sales of products	**1,545,824**	1,344,856

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods sold		
Ophthalmology products	**672,075**	545,144
Medical aesthetics and wound care products	**337,375**	306,602
Orthopedics products	**298,933**	266,090
Anti-adhesion and hemostasis products	**199,949**	212,083
Other products	**37,492**	14,937
Total	**1,545,824**	1,344,856
Timing of revenue recognition		
Goods transferred at a point in time	**1,545,824**	1,344,856
Other income and gains		
Bank interest income	**59,087**	59,483
Government grants (note)	**64,440**	43,297
Dividend income from equity investments at fair value through other comprehensive income	**9,426**	—
Dividend income from available-for-sale investments	**—**	4,904
Exchange gains	**6,350**	—
Gain on disposal of a partly-owned subsidiary	**—**	2,484
Others	**4,537**	5,662
	143,840	115,830

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Note:

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

6. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of inventories sold	**334,286**	287,467
Depreciation (note 13)	**53,901**	43,171
Amortisation of prepaid land lease payments (note 14)	**1,328**	738
Amortisation of other intangible assets (note 15)	**28,384**	23,832
Auditor's remuneration	**1,850**	1,900
Minimum lease payments under operating leases:		
Land and buildings	**15,387**	15,997
Research and development costs:		
Current year expenditures	**95,370**	76,332
Employee benefit expense		
(excluding directors' remuneration as set out in note 8)		
– Wages and salaries	**220,990**	184,677
– Pension scheme contributions	**19,300**	16,420
Foreign exchange differences, net	**(6,350)**	6,774
Impairment losses on financial assets	**2,508**	10,693
Write-down of inventories to net realisable value	**427**	742
Bank interest income	**(59,087)**	(59,483)
Gain on disposal of a partly-owned subsidiary	**—**	(2,484)
Net loss on disposal of items of property, plant and equipment	**1,259**	1,070

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on interest-bearing bank borrowings	**2,148**	2,209

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:

	2018 RMB'000	2017 RMB'000
Fees	688	688
Other emoluments:		
Salaries, allowances and benefits in kind	3,570	2,763
Performance related bonuses	2,970	2,669
Pension scheme contributions	300	276
	6,840	5,708
	7,528	6,396

(a) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Mr. Li Yuanxu	84	84
Mr. Chen Huabin	84	84
Mr. Zhu Qin	84	84
Mr. Shen Hongbo	84	84
Mr. Wong Kwan Kit	84	84
	420	420

There were no other emoluments payable to the independent non-executive directors during the year (2017: 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
2018					
Executive directors:					
Dr. Hou Yongtai	—	615	501	50	1,166
Mr. Wu Jianying*	—	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

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

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2017: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one in 2017 highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	—	428
Performance related bonuses	—	300
Pension scheme contributions	—	46
	—	774

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

	Number of employees	
	2018	2017
Nil to HKD1,000,000	—	1

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 2018, 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 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.

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

10. INCOME TAX (Continued)

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 with the implementation of the enacted US tax reform. (2017: 34%).

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.

	2018 RMB'000	2017 RMB'000
Current		
Charge for the year	**76,330**	74,878
Underprovision in prior years	**597**	856
Deferred (note 28)	**(6,821)**	(14,125)
Total tax charge for the year	**70,106**	61,609

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:

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

10. INCOME TAX (Continued)

2017

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

The effective tax rate of the Group was 13.3% in the year ended 31 December 2018 (2017: 13.3%).

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed 2018 dividend – RMB0.50 per ordinary share	80,023	—
Proposed 2017 final dividend – RMB0.50 per ordinary share	—	80,023
	80,023	80,023

On 1 February 2019, the Directors proposed to declare the dividend of RMB0.50 (inclusive of tax) per ordinary share, amounting to RMB80,022,650 for the six months ended 30 June 2018. The proposed dividend for the six months ended 30 June 2018 was approved by the Company's shareholders at the extraordinary general meeting on 12 March 2019.

The Directors declared and paid the final dividend of RMB0.50 (inclusive of tax) per ordinary share, amounting to RMB80,022,650 for the year ended 31 December 2017 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 160,045,300 (2017: 160,045,300) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	414,540	372,415
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculations	160,045,300	160,045,300

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings* RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 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

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 2017							
At 1 January 2017:							
Cost	75,870	243,725	9,378	37,643	209,212	45,152	620,980
Accumulated depreciation and impairment	(11,223)	(78,498)	(6,289)	(25,414)	—	(24,802)	(146,226)
Net carrying amount	64,647	165,227	3,089	12,229	209,212	20,350	474,754
At 1 January 2017, net of accumulated depreciation and impairment	64,647	165,227	3,089	12,229	209,212	20,350	474,754
Additions	917	2,937	1,837	4,569	85,133	1,318	96,711
Acquisition of subsidiaries	38,598	19,364	77	1,196	1,115	—	60,350
Disposals	—	(941)	(27)	(1,003)	—	—	(1,971)
Depreciation provided during the year	(4,632)	(24,281)	(2,286)	(4,748)	—	(7,224)	(43,171)
Disposal of a subsidiary	—	—	—	(5)	—	—	(5)
Transfers	—	454	—	1,190	(2,248)	604	—
Exchange realignment	(62)	(846)	—	(3)	—	—	(911)
At 31 December 2017, net of accumulated depreciation and impairment	99,468	161,914	2,690	13,425	293,212	15,048	585,757
At 31 December 2017:							
Cost	115,321	259,427	10,389	39,724	293,212	47,073	765,146
Accumulated depreciation and impairment	(15,853)	(97,513)	(7,699)	(26,299)	—	(32,025)	(179,389)
Net carrying amount	99,468	161,914	2,690	13,425	293,212	15,048	585,757

* At 31 December 2018, certain of the Group's land and buildings in the U.K. with a net carrying amount of approximately RMB12,593,000 (2017: RMB12,743,000) were pledged to secure the bank borrowings, as further detailed in note 27 to the financial statements.

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**41,378**	31,626
Acquisition of subsidiaries	**—**	10,490
Recognised during the year	**(1,328)**	(738)
Carrying amount at 31 December	**40,050**	41,378
Current portion included in prepayments, other receivables and other assets	**(1,328)**	(738)
Non-current portion	**38,722**	40,640

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 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

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

* The brands consisted of the one brand of approximately RMB35,127,000 (2017: RMB33,444,000) 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 indefinite useful life in 2016, and the other brand of approximately RMB68,572,000 (2017: RMB69,386,000) that was acquired from the business combination of Contamac Group with indefinite useful life in 2017.

During the year ended 31 December 2018, the Group determined that there was no impairment of its cash-generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amounts of cash-generating units named Aaren Business and Contamac Group were determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate and growth rate applied to the cash flow projections named Aaren Business are 12% and 2% (2017: 15.2% and 2%). The discount rate and growth rate applied to the cash flow projections named Contamac Group are 11.7% and 2% (2017: 14.1% and 2%).

15. OTHER INTANGIBLE ASSETS (Continued)

Assumptions were used in the value in use calculation of cash-generating units for 31 December 2018. The following describes each key assumption on which the management had 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.

16. GOODWILL

	2018 RMB'000	2017 RMB'000 (Restated)
At the beginning of the year	331,841	292,084
Acquisition of subsidiaries	—	56,889
Adjustments during the measurement period*	—	(15,976)
Exchange realignment	162	(1,156)
At the end of the year	332,003	331,841

* The goodwill adjustments during the measurement period were related to the business combination of NIMO, Aaren Business and Eyegood Medical (Zhuhai) Co. Ltd. (珠海艾格醫療科技開發有限公司) ("Zhuhai Eyegood"), a company established in the PRC on 24 November 2000, which is a wholly-owned subsidiary of the Company.

16. GOODWILL (Continued)

Impairment testing of goodwill

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

Goodwill acquired through business combinations 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 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..

Cash-generating unit named NIMO

The recoverable amount of cash-generating unit named NIMO was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2017: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period was 3% (2017: 3%).

Cash-generating unit named Aaren Business

The recoverable amount of cash-generating unit named Aaren Business was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 13% (2017: 15%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2017: 2%).

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Zhuhai Eyegood

The recoverable amount of cash-generating unit named Zhuhai Eyegood was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 18% (2017: 20%). The growth rate used to extrapolate the cash flows beyond the five-year period was 3% (2017: 3%).

Cash-generating unit named Contamac Group

The recoverable amount of cash-generating unit named Contamac Group was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 13% (2017: 13%).The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2017: 2%).

Cash-generating unit named China Ocean Group

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

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 2018						
Carrying amount of goodwill	**249,996**	**9,434**	**16,030**	**24,428**	**32,115**	**332,003**

	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 2017						
Carrying amount of goodwill	249,996	8,981	16,030	24,719	32,115	331,841

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named China Ocean Group (Continued)

Assumptions were used in the value in use calculation of cash-generating units for 31 December 2018. The following describes each key assumption on which the management had 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

	2018 RMB'000	2017 RMB'000 (Restated)
Share of net assets	350,000	82,433
Loan to a joint venture	—	8,672
	350,000	91,105

The loans to the joint venture ("JV Loan") was unsecured and repayable on demand. In the opinion of the Directors, the JV Loan was unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investment in the joint venture.

The Group invested RMB10,000,000 in Changxing Tongrui Investment Partnership Enterprise (Limited Partnership) ("Changxing Tongrui") and recorded its investment as available-for-sale investments in 2017, and additionally invested RMB340,000,000 in June 2018 in Changxing Tongrui, pursuant to which, the Group had joint control on Changxing Tongrui with a third party and reclassified such investment to investment in a joint venture. Share of Changxing Tongrui's profit of RMB10,500,000 for the period from 1 July 2018 to 31 December 2018 was recognised in profit or loss.

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

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 total 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 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. Such transaction was completed in January 2019. Therefore, the Group's investment in Contateq was classified as a held-for-sale from 22 December 2018 when resignation letter of the managing director nominated by Contamac Holdings was delivered to Contateq, and the JV Loan was included in other receivables at the reporting date. The joint venture's loss sharing for the period from 1 January 2018 to 21 December 2018 has been recognised 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, Contateq and Changxing Tongrui:

	2018 RMB'000	2017 RMB'000 (Restated)
Share of the joint ventures' profit/(loss) for year/period	10,315	(2,358)
Share of the joint ventures' total comprehensive income/(loss) for the year/period	10,315	(2,358)
Aggregate carrying amount of the Group's investment in the joint venture	350,000	91,105

18. INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Share of net assets	**2,435**	1,257
Loan to an associate	**2,265**	2,292
	4,700	3,549

The loan to the associate was unsecured, interest free and repayable on demand. In the opinion of the Directors, this loan was considered as part of the Group's net investment in the associate.

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

The following table illustrates the financial information of the Group's associate, Lifeline Medical Devices Private Limited ("Lifeline"):

	2018 RMB'000	2017 RMB'000
Share of the associate's profit for the year/period	**1,199**	107
Share of the associate's total comprehensive income for the year/period	**1,199**	107
Aggregate carrying amount of the Group's investment in the associate	**4,700**	3,549

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	**116,900**	—
Unlisted equity investments	**120,000**	—
	236,900	—
Available-for-sale investments		
Listed equity investments, at fair value	—	81,453
Unlisted equity investments	—	10,000
	—	91,453

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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 January 2018, the Group subscribed equity interest in private equity fund. The fair value on the date of subscription was RMB120,000,000 and no accumulated gain or loss was recognised in other comprehensive income during the year ended 31 December 2018.

During the year ended 31 December 2018, the net gain in respect of the Group's equity investments designated at fair value through other comprehensive income recognised in other comprehensive income amounted to approximately RMB77,332,000.

During the year ended 31 December 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to approximately RMB17,227,000.

20. OTHER NON-CURRENT ASSETS

	2018 RMB'000	2017 RMB'000 (Restated)
Prepayments for property, plant and equipment	30,877	66,984
Aborted plant upon business acquisition to be relocated	45,000	45,000
	75,877	111,984
Current portion included in prepayments, other receivables and other assets	(45,000)	—
	30,877	111,984

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**51,077**	39,079
Work in progress	**32,722**	28,517
Finished goods	**63,716**	41,648
Merchandises	**52,007**	67,092
	199,522	176,336
Less: provision for inventories	**1,891**	1,422
	197,631	174,914

None of the Group's inventories was pledged during the years ended 31 December 2018 and 2017.

22. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Bills receivable	**312**	3,265
Trade receivables	**417,928**	354,870
Impairment	**(33,411)**	(25,093)
	384,829	333,042

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.

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:

	2018 RMB'000	2017 RMB'000
Within 3 months	257,166	232,489
3 to 6 months	65,382	66,047
6 months to 1 year	52,178	26,016
1 to 2 years	8,954	8,026
2 to 3 years	1,149	464
	384,829	333,042

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

	2018 RMB'000	2017 RMB'000
At 1 January	25,093	22,154
Arising from acquisition of subsidiaries	—	996
Impairment losses recognised	8,277	2,915
Amount written off as uncollectible	—	(671)
Disposal of a partly-owned subsidiary	—	(265)
Exchange realignment	41	(36)
	33,411	25,093

22. TRADE AND BILLS RECEIVABLES (Continued)

Impairment under IFRS 9 for the year ended 31 December 2018

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 was disclosed in note 41 to the financial statements.

Impairment under IAS 39 for the year ended 31 December 2017

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables was expected to be recovered.

Included in the Group's trade and bills receivables were amounts due from the Group's joint venture and associate of approximately RMB206,000 (2017: RMB2,060,000) and RMB1,769,000 (2017: RMB1,696,000), respectively, which were repayable on credit terms similar to those offered to the major customers of the Group.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	**34,926**	22,957
Deposits and other receivables	**26,857**	69,568
Consideration receivable from disposal of an equity investment designated at fair value through other comprehensive income	**86,778**	—
Aborted plant upon business acquisition to be relocated	**45,000**	—
Impairment allowance	**(6,160)**	(11,931)
	187,401	80,594

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

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

	2018 RMB'000	2017 RMB'000
At 1 January	**11,931**	8,653
Arising from acquisition of subsidiaries	—	34
Impairment losses recognised	—	7,778
Impairment losses reversed	**(5,769)**	—
Exchange realignment	**(2)**	—
Others	—	(4,534)
	6,160	11,931

Included in the above provision for impairment allowance of deposits and other receivables was the provision for individually fully impaired other receivables of RMB3,517,000 (2017: RMB7,793,000).

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 2018 was disclosed in note 41 to the financial statements.

24. CASH AND BANK BLANCES AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances and pledged deposits	**1,442,747**	1,797,420
Time deposits with original maturity of more than three months when acquired	**(1,102,781)**	(975,531)
	339,966	821,889
Less: Pledged time deposits:		
Pledged for bills payable	**(4,340)**	—
Cash and cash equivalents	**335,626**	821,889

24. CASH AND BANK BLANCES AND PLEDGED DEPOSITS (Continued)

At the end of the reporting period, nearly 93% (2017: 90%) 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

	2018 RMB'000	2017 RMB'000
Trade payables	36,843	39,009
Bills payable	4,340	—
	41,183	39,009

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:

	2018 RMB'000	2017 RMB'000
Within 3 months	40,842	35,295
3 months to 1 year	292	3,373
Over 1 year	49	341
	41,183	39,009

Included in the trade and bills payables were trade payables of RMB263,000 (2017: RMB1,320,000) and Nil (2017: RMB3,000) due to a joint venture and an associate, respectively. These trade payables were normally settled within 90 days, which represented credit terms similar to those offered by the joint venture and the associate to their major customers.

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

26. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Current:			
Payroll and welfare payable		**44,107**	39,495
Other taxes payable		**25,657**	20,647
Accrued expenses		**49,109**	39,452
Contract liabilities – short-term advances received from customers	(a)	**22,418**	—
Advances from customers		**—**	41,802
Payables related to:			
Government grants received		**28,935**	40,348
Purchases of property, plant and equipment		**32,104**	24,593
Deposits received		**32,980**	32,913
Others		**14,158**	14,600
Payables for acquisition of the subsidiaries and contingent consideration	(b)	**92,654**	76,037
Payables arising from business combination to an ex-director of the subsidiary		**22,391**	39,659
Dividends payable arising from the business combination to non-controlling shareholders of subsidiaries		**—**	6,774
Interest payable		**76**	111
		364,589	376,431
Non-current:			
Payables for acquisition of the subsidiaries and contingent consideration		**—**	93,241
		364,589	469,672

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

26. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

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

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:

	2018 RMB'000
Sale of goods	41,802

(b) On 2 June 2017, the Group acquired a 70% interest in Contamac Group from the 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) was recognised as a contingent consideration, which by management expected to be fully paid with a great possibility in the following years. The contingent consideration amounted to RMB49,454,000 as at 31 December 2018.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– secured (a)	**3.40-3.48**	**2019**	**18,894**	3.47-3.54	2018	18,501
Current portion of long term bank loans						
– secured (b)	**2.92**	**2035**	**1,375**	2.92	2035	1,387
			20,269			19,888
Non-current						
Bank loans						
– secured (b)	**2.92**	**2035**	**16,386**	2.92	2035	17,596

	2018	2017
	RMB'000	RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**20,810**	19,888
In the second year	**1,375**	871
In the third to fifth years, inclusive	**4,124**	2,769
Beyond five year	**10,346**	13,956
	36,655	37,484

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) The bank loans are secured by mortgages over Contamac Limited's properties situated in the U.K., with an aggregate carrying value of approximately RMB12,593,000 (2017: RMB12,743,000).

28. DEFERRED TAX

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

Deferred tax liabilities

2018

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding taxs 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

2017 (Restated)

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2017	—	83,787	83,787
Deferred tax arising from acquisition of subsidiaries	2,759	55,144	57,903
Adjustments during the measurement period*	—	(9,134)	(9,134)
Deferred tax credited	(1,383)	(3,496)	(4,879)
Exchange realignment	(57)	(1,261)	(1,318)
Gross deferred tax liabilities at 31 December 2017	1,319	125,040	126,359

28. DEFERRED TAX (Continued)

Deferred tax assets

2018	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 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

2017	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 2017	1,530	5,298	1,801	17	167	8,813
Deferred tax credited/(charged)	2,912	998	(435)	4,678	1,093	9,246
Deferred tax arising from acquisition of subsidiaries	—	206	—	—	—	206
Exchange differences	(28)	(9)	—	—	(38)	(75)
Adjustments during the measurement period*	—	(680)	—	—	—	(680)
Gross deferred tax assets at 31 December 2017	4,414	5,813	1,366	4,695	1,222	17,510

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

The Group has tax losses of approximately RMB34,283,000 (2017: RMB28,491,000) 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.

28. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

At 31 December 2018, 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 RMB33,941,000 at 31 December 2018 (2017: RMB8,783,000).

29. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants		
At 1 January	**9,107**	12,010
Released during the year	**(2,903)**	(2,903)
At 31 December	**6,204**	9,107

30. SHARE CAPITAL

	2018 RMB'000	2017 RMB'000
Issued and fully paid:		
160,045,300 (2017: 160,045,300) ordinary shares of RMB1.00 each	**160,045**	160,045

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

	Number of shares in issue RMB'000	Share capital RMB'000	Total RMB'000
At 1 January 2018 and 31 December 2018	**160,045,300**	**160,045**	**160,045**
At 1 January 2017 and 31 December 2017	160,045,300	160,045	160,045

31. RESERVES

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

Pursuant to the relevant laws and regulations in the Mainland China, a portion of the profits of the Company 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:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
NIMO	**40%**	40%
Contamac Group	**30%**	30%

	RMB'000	RMB'000 (Restated)
Accumulated balances of non-controlling interests:		
NIMO	**129,155**	99,399
Contamac Group	**94,781**	85,303

	2018 RMB'000	For the period from the acquisition date to 31 December 2017 RMB'000
Profit allocated to non-controlling interests:		
NIMO	**29,757**	26,004
Contamac Group	**10,782**	3,764

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financial activities

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

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's interest-bearing bank borrowings and bills payable are included in note 27 and note 25 to the consolidated financial statements.

35. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its property, plant and equipment under operating lease arrangements. Leases for property, plant and equipment are negotiated for terms of one to 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	2017 RMB'000
Within one year	18,382	13,134
In the second to fifth years, inclusive	30,405	21,904
Over five years	2,751	—
	51,538	35,038

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Plant and machinery	63,152	36,796

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	2018 RMB'000	2017 RMB'000
Purchases			
Contateq	(i)	6,701	1,450
Haohai Technology (Changxing) Co., Ltd.	(ii)	4,492	1,323
Sales			
Lifeline	(iii)	1,013	1,160
Contateq	(iv)	1,559	1,670
Purchases of equipment			
Lifeline	(v)	323	—

Notes:

(i) During the year, Contateq sold the produced semi button of IOL ("semi button") of GBP768,000 (approximately RMB6,701,000) (2017: RMB1,450,000) to the Group.

(ii) During the year, the Group purchased the production accessories of RMB4,492,000 (2017: RMB1,323,000) from Haohai Technology (Changxin) Co., Ltd., a company controlled by the Controlling Shareholders. The Directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the supplier, except that interest was not charged on overdue balances.

(iii) During the year, the Group sold the semi button of USD148,000 (approximately RMB1,013,000) (2017: RMB1,160,000) to the associate, Lifeline.

(iv) During the year, the Group sold hydrophobic premix solution of GBP179,000 (approximately RMB1,559,000) (2017: RMB1,670,000) to the joint venture, Contateq.

(v) During the year, the Group purchased model/style profile cutting CNC equipment of intraocular lenses of USD48,000 (approximately RMB323,000) from the associate, Lifeline.

37. RELATED PARTY TRANSACTIONS (Continued)

(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 (2017: RMB300,000) and the other rooms in Shanghai, China with the same total building area at an annual rental fee of RMB350,000 (2017: RMB300,000) 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:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	7,163	7,905
Pension scheme contributions	301	412
Total compensation paid to key management personnel	7,464	8,317

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:

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 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

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2017

Financial assets

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

Financial liabilities

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

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 approximately 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.

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

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

The 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	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities:				
Interest-bearing bank borrowings	16,386	17,596	21,642	21,899

Fair value hierarchy

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

Liabilities for which fair values are disclosed:

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
Interest-bearing bank borrowings	—	21,642	—	21,642

As at 31 December 2017

	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
Interest-bearing bank borrowings	—	21,899	—	21,899

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

Fair value hierarchy (Continued)

Assets measured at fair value:

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 receivable	—	312	—	312
Equity investments designated at fair value through other comprehensive income	116,900	120,000	—	236,900
	116,900	120,312	—	237,212

As at 31 December 2017

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

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) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Contingent consideration	—	—	49,454	49,454

As at 31 December 2017

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

40. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, 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 RMB16,353,000 (2017: RMB20,849,000). 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 2018, 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 90% (2017: 100%) of the Group's sales were denominated in local currencies, which were the same with the units' functional currencies, while approximately 74% (2017: 70%) of the Group's costs were denominated in local currencies, which were the same with the units' functional currencies. The Group would reserve some foreign currencies to meet the requirement of payments, which resulted into an insignificant foreign currency risk for the Group. The Group's interest rate risk is not significant, which is due to the fact that the non-current portion of interest-bearing bank borrowings is subject to a fixed interest rate. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

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

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

As at 31 December 2018, 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 and Beijing Tongren Hospital, CMU (首都醫科大學附屬北京同仁醫院), which are public hospitals with good reputation. The trade receivables derived from Shannan Excellent Medical Equipment Co., Ltd. and Beijing Tongren Hospital, CMU accounted for 12.0% and 7.6%, respectively, of the Group's total trade receivables as at 31 December 2018 (2017: 7.3% and 8.1% 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 2018

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 2018. The amounts presented are gross carrying amounts for financial asset.

	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

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

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 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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure as at 31 December 2017

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

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 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

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

31 December 2017

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

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

During the year, the Group's strategy was to maintain the debt to assets ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, 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:

	2018 RMB'000	2017 RMB'000 (Restated)
Total current liabilities	**451,317**	477,756
Total non-current liabilities	**149,588**	246,303
Debt	**600,905**	724,059
Total assets	**4,436,352**	4,109,323
Debt to assets ratio	**13.5%**	17.6%

42. COMPARATIVE FIGURES

The Group acquired 70% shares in Contamac Group and 100% equity interest in China Ocean Group from third parties on 2 June 2017 and 27 December 2017, respectively. The Group engaged an independent appraiser to assist with the identification and determination of fair values to be assigned to the assets and liabilities of Contamac Group and China Ocean Group on acquisition dates. However, the valuation was not finalised and hence the initial accounting for the business combination of Contamac Group and China Ocean Group was incomplete by the date of the Group's 2017 annual report. During this year, the valuation had been finalized. Pursuant to IFRS 3 Business Combinations, recognition and measurement for the business combination based on the temporary values determined by the Group and adjustments to the temporary values so determined within 12 months upon acquisition shall be deemed to be recognition and measurement as at the date of acquisition. Adjustments were made of the relevant items in the financial statements pursuant to the requirements under the accounting standard, with the major impacts on the Group's financial statements for the year ended 31 December 2018 caused by the re-statements to the aforesaid items illustrated as follows:

	2018		
	Before re-statement At beginning of year RMB'000	Re-statement RMB'000	After re-statement At beginning of year RMB'000
Goodwill	410,144	(78,303)	331,841
Investment in a joint venture	13,778	77,327	91,105
Other non-current assets	76,984	35,000	111,984
Deferred tax liabilities	110,894	15,465	126,359
Non-controlling interests	166,143	18,559	184,702

43. EVENTS AFTER THE REPORTING PERIOD

Except for the proposed dividend as disclosed in note 11 to the financial statements and the disposal of investment in Contateq as disclosed in note 17 to the financial statement above, there was no material subsequent event undertaken by the Group after 31 December 2018.

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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	193,683	156,861
Prepaid land lease payments	13,130	13,482
Other intangible assets	247	366
Investments in subsidiaries	1,097,642	1,095,414
Investment in a joint venture	350,000	—
Equity investments designated at fair value through other comprehensive income	120,000	—
Available-for-sale investments	—	10,000
Deferred tax assets	2,373	2,649
Other non-current assets	5,035	1,184
Total non-current assets	1,782,110	1,279,956
CURRENT ASSETS		
Due from subsidiaries	473,180	757,881
Inventories	36,898	38,874
Trade and bills receivables	73,639	79,188
Prepayments, other receivables and other assets	20,726	9,592
Cash and bank balances	671,404	731,621
Total current assets	1,275,847	1,617,156
CURRENT LIABILITIES		
Due to subsidiaries	266,721	152,046
Trade payables	5,370	3,027
Other payables and accruals	143,479	140,240
Tax payable	1,432	3,225
Total current liabilities	417,002	298,538
NET CURRENT ASSETS	858,845	1,318,618
TOTAL ASSETS LESS CURRENT LIABILITIES	2,640,955	2,598,574

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

	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES		
Other payables and accruals	—	32,400
Deferred income	**1,104**	1,937
Total non-current liabilities	**1,104**	34,337
NET ASSETS	**2,639,851**	2,564,237
EQUITY		
Share capital	**160,045**	160,045
Reserves (note)	**2,479,806**	2,404,192
TOTAL EQUITY	**2,639,851**	2,564,237

Note:

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

	Share premium account RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	1,759,449	77,680	515,101	2,352,230
Total comprehensive income for the year	—	—	131,985	131,985
Dividends declared	—	—	(80,023)	(80,023)
Transfer from retained profits	—	2,343	(2,343)	—
As at 31 December 2017 and 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	1,759,449	80,023	640,334	2,479,806

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2019.

DEFINITIONS

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

"Aaren Laboratories"	Aaren Laboratories, LLC, established in USA on 23 May 2016, which is a direct wholly-owned subsidiary of Haohai Development
"Board"	board of Directors of the Company
"Company", "our Company" or "Haohai Biological"	Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生物科技股份有限公司), a joint stock company incorporated in the PRC with limited liability and converted from its predecessor, Shanghai Haohai Bio Technology Company Limited (上海昊海生物科技有限公司) on 2 August 2010
"Contamac Group"	Contamac Holdings and its subsidiaries
"Contamac Holdings"	Contamac Holdings limited, established in UK on 13 October 2009. Since 2 June 2017, the Company indirectly holds 70% of its equity interest
"GBP"	pound sterling, the lawful currency of the UK
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Haohai Changxing"	Haohai Technology (Changxing) Company Limited* (昊海科技 (長興) 有限公司), a company establised in the PRC with limited lability
"Haohai Holdings"	Haohai Healthcare Holdings Co., Ltd. (昊海生物科技控股有限公司), a limited liability company established in Hong Kong, the PRC on 17 July 2015, which is a direct wholly-owned subsidiary of our Company
"Haohai Development"	Shanghai Haohai Medical Technology Development Co., Ltd. (上海昊海醫藥科技發展有限公司), a limited liability company established in the PRC on 19 February 2016, which is a direct wholly-owned subsidiary of our Company
"Henan Universe"	Henan Universe Intraocular Lens Research and Manufacture Company, Ltd (河南宇宙人工晶狀體研製有限公司), a company established in the PRC on 30 April 1991, which is a wholly-owned subsidiary of the Company since November 2016
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time

"Plastic Syringe Accessories Customization Agreement"	the agreement dated 26 March 2018 entered into between the Company and 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.
"PRC", "China" or "People's Republic of China"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan, unless otherwise specified
"Product Customization Agreements"	collectively, the Spray Pump Customization Agreement and the Plastic Syringe Customization Agreement
"Qingdao Huayuan"	Qingdao Huayuan Fine Biological Product Co., Ltd. (青島華元精細生物制品有限公司), a company established in the PRC on 19 March 2004. Since December 2017, the Company indirectly holds 100% of its equity interest
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the 12-month period from 1 January 2018 to 31 December 2018
"Shanghai Qisheng"	Shanghai Qisheng Biologics Company Limited (上海其勝生物製劑有限公司), a company established in the PRC on 27 May 1992, converted into a joint-stock cooperative enterprise on 10 July 1995 and further converted into a limited liability company on 28 March 2001, which is a direct wholly-owned subsidiary of our Company
"Shanghai Jianhua"	Shanghai Jianhua Fine Biological Products Company Limited (上海建華精細生物製品有限公司), a company established in the PRC on 20 October 1993 and converted into a limited liability company on 14 August 1995, which is a direct wholly-owned subsidiary of our Company
"Shanghai Likangrui"	Shanghai Likangrui Biological Engineering Company Limited (上海利康瑞生物工程有限公司), a limited liability company established in the PRC on 3 September 2001, which is a direct wholly-owned subsidiary of our Company
"Shenzhen NIMO"	Shenzhen New Industries Material of Ophthalmology Co., Ltd. (深圳市新產業眼科新技術有限公司), a company established in the PRC on 27 April 2006. Since November 2016, the Company, holds 60% of its equity interest
"Spray Pumps Customization Agreement"	the agreement dated 26 March 2018 entered into between the Company and 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.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Zhuhai Eyegood"	Eyegood Medical (Zhuhai) Co. Ltd. (珠海艾格醫療科技開發有限公司), a company established in the PRC on 24 November 2000, which is a wholly-owned subsidiary of the Company since December 2017

GLOSSARY OF TECHNICAL TERMS

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

"anti-adhesion"	prevention of fibrous bands formed between tissues and adjacent tissues or organs resulted from injuries during a surgery
"chitosan" (幾丁糖)	a class of polysaccharide without acetyl group or with partial acetyl group, dissolvable in acidic conditions
"clinical trial"	a research study for validating or finding the therapeutic effects and side-effects of test drugs in order to determine the therapeutic value and safety of such drugs
"EGF"	epidermal growth factor, is a polypeptide growth factor that stimulates epidermal and epithelial growth. It can promote growth of a wide of variety of cells *in vivo* and *in vitro*
"GMP"	Good Manufacturing Practice, guidelines and regulations from time to time issued pursuant to the PRC Law on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》) as part of quality assurance which ensures that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to the quality and standards appropriate for their intended use
"hemostasis"	the arrest of bleeding
"intraocular lens" or "IOL"	an artificial lens implanted in the eyes used to replace natural Lens and to treat cataracts or myopia
"medical chitosan" (醫用幾丁糖)	normally carboxyl-methylated chitosan which can be dissolved in water, regulated by 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
"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
"ophthalmic viscoelastic device" or "OVD"	viscoelastic sodium hyaluronate solution used in ophthalmic surgery. It can play the role of cushion to deepen the anterior amber, which makes the operation convenient. It can also protect intraocular tissue and endothelial cell with improved success rate and reduced surgical complications. It is widely used in microsurgeries such as artificial contact lens implantation, penetrating keratoplasty surgery as well as ocular trauma
"recombinant human epidermal growth factor" or "rhEGF"	EGF manufactured specifically by the technology of recombinant genetic engineering in Escherichia coli fermentation
"tissue filling"	a process to inject biomaterials under the skin and fill in the area