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 People's Republic of China with limited liability)

(Stock Code: 6826)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

- 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.

- 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.

- During the Reporting Period, the total comprehensive income for the year atrributable 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.

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

- The Group continues to maintain its leading position in the industry: the Group's domestic market shares of intra-articular viscosupplement, anti-adhesion products and ophthalmic viscoelastic devices ("**OVD**") products rank first in the market, representing 36.2%, 49.0% and 45.9% respectively in 2017; whilst the market share of recombinant human epidermal growth factor ("**rhEGF**") products for external use, i.e. "Healin", continued to increase and reached 18.6%, ranking the second place in the market.

- During the Reporting Period, the National Development and Reform Commission released the 2017-2018 (24th Batch) Newly Accredited List and Full List of National Enterprise Technology Centers, on which the Company has been included as the only bio-medicine enterprise in Shanghai, making the Company one of 18 medical device enterprises recognized by the National Enterprise Technology Center since 1993. In addition, the Company passed an appraisal and was awarded the title of Intellectual Property Right Demonstration Enterprise of China in 2018.

- On 12 March 2019, the payment of dividends of RMB0.5 (inclusive of tax) per Share or an aggregate of RMB80,022,650 for the six months ended 30 June 2018 proposed by the Board was approved by the extraordinary general meeting ("**EGM**").

- 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 ("**A Share Offering**"). 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, after deducting 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. For further details, please refer to the announcement and circular of the Company dated 3 January 2019 and 25 February 2019, respectively.

The board of directors (the "**Board**") of Shanghai Haohai Biological Technology Co., Ltd.* (the "**Company**" or "**Haohai Biological Technology**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**", "**we**", "**our**" or "**us**") for the year ended 31 December 2018 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
REVENUE	4	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	4	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		(2,148)	(2,209)
Share of profits and losses of:			
Joint Ventures		10,315	(2,358)
An associate		1,199	107
PROFIT BEFORE TAX		525,185	461,621
Income tax expense	5	(70,106)	(61,609)
PROFIT FOR THE YEAR		455,079	400,012

	2018 *RMB'000*	2017 *RMB'000*
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
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

	Note	2018 *RMB'000*	2017 *RMB'000*
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	7	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		703,852	585,757
Prepaid land lease payments		38,722	40,640
Other intangible assets	8	428,394	449,514
Goodwill	9	332,003	331,841
Investment in a joint venture		350,000	91,105
Investment in an associate		4,700	3,549
Equity investments designated at fair value through other comprehensive income		236,900	—
Available-for-sale investments		—	91,453
Deferred tax assets		17,013	17,510
Other non-current assets		30,877	111,984
Total non-current assets		2,142,461	1,723,353
CURRENT ASSETS			
Inventories		197,631	174,914
Trade and bills receivables	10	384,829	333,042
Prepayments, other receivables and other assets		187,401	80,594
Pledged deposits		4,340	—
Cash and bank balances		1,438,407	1,797,420
A joint venture classified as held for sale		81,283	—
Total current assets		2,293,891	2,385,970

	Note	2018 RMB'000	2017 RMB'000 (Restated)
CURRENT LIABILITIES			
Trade and bills payables	11	41,183	39,009
Other payables and accruals		364,589	376,431
Interest-bearing bank and other borrowings		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
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		16,386	17,596
Other payables and accruals		—	93,241
Deferred tax liabilities		126,998	126,359
Deferred income		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		160,045	160,045
Reserves		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

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

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 %	
Haohai Healthcare Holdings Co., Limited ("**Haohai Holdings**")	Hong Kong 17 July 2015	HKD153,000,000[(2)]	100	—	Investment and trading business
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 material 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.

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.

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 and discount these bills. The Group concluded that the bills receivable are managed within a business model to collect contractual cash flows and 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	Re-classification	IFRS 9 measurement Amount
		RMB'000	*RMB'000*	*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.

Impairment

The aggregate opening impairment allowances had no significant financial effect under IAS 39 to the ECL allowances under IFRS 9.

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. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

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.

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.

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.

3. 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	**2017**
	RMB'000	*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	**2017**
	RMB'000	*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.

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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 revenue in the statement of financial position. There were no unfulfilled conditions or contingencies relating to these government grants.

5. 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 Biologiccal Produces 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% was 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.

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

6. DIVIDENDS

	2018	2017
	RMB'000	*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, totally 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, totally amounting to RMB80,022,650 for the year ended 31 December 2017 during the year.

7. 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, as adjusted to reflect the rights issue during the year.

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

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

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

8. OTHER INTANGIBLE ASSETS

	Patents	Non-patent technology	Software	Customer relationship	Brands*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

	Patents	Non-patent technology	Software	Customer relationship	Brands*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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 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.

9. GOODWILL

	2018	2017
	RMB'000	*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.

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

	NIMO	Aaren Business	Zhuhai Eyegood	Contamac Group	China Ocean Group[(1)]	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018						
Carrying amount of goodwill	249,996	9,434	16,030	24,428	32,115	332,003

	NIMO	Aaren Business	Zhuhai Eyegood	Contamac Group	China Ocean Group[(1)]	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Restated)	*(Restated)*	*(Restated)*
31 December 2017						
Carrying amount of goodwill	249,996	8,981	16,030	24,719	32,115	331,841

Note:

(1) China Ocean and its subsidiaries.

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Bills receivables	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.

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	2017
	RMB'000	*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	2017
	RMB'000	*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

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.

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 is 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.

11. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	36,843	39,009
Bills payables	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	2017
	RMB'000	*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.

12. 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	**Re-statement**	**After re-statement At beginning of year**
	RMB'000	*RMB'000*	*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

MANAGEMENT DISCUSSION AND ANALYSIS

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 (" **IOL**") 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 eleventh 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 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 have been growing increasingly, and the speed of upgrade of medical aesthetic products and related technology have been accelerating. These new products and technology can satisfy existing consumer demand as well as attracting more potential consumers through increasingly comprehensive product supply, improving clinical efficacy and change of consumption concept. In the niche market of HA Dermal Filler products, the HA Dermal Filler injection project has become one of the most popular medical aesthetic 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 "腾立克"(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: "腾立克" 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., in 2017, 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 "腾立克"

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 "腾立克" continued to decrease in 2016 and 2017. During the Reporting Period, the selling price of orthopedic sodium hyaluronate injection "腾立克" 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 "腾立克". 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 research and development 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 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 used in ophthalmology surgery 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 dermal filler 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 the 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 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 provided various thematic training programs for its employees regularly, such as training in relation to the knowledge of the product and sales of the Group, the applicable laws and regulations for operations, the requirements of GMP certificate, quality control, workplace safety and corporate culture. During the Reporting Period, the remuneration policy and training programs had no material changes and the total remuneration of the Group's employees amounted to approximately 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 the 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 the 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 the 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" of this announcement.

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

Save as disclosed in this announcement, 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

Save as disclosed in this announcement, 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.

Corporate Governance Code

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

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors and supervisors of the Company. Having made specific enquires to all directors and supervisors, all of them confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

Audit Committee

The Company has established an audit committee and the audit committee comprises five directors, namely Mr. Shen Hongbo, Ms. You Jie, Mr. Chen Huabin, Mr. Li Yuanxu and Mr. Zhu Qin and is chaired by Mr. Shen Hongbo. 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 Group's audited consolidated financial statements for the Reporting Period have been reviewed by the Audit Committee.

Publication of the Annual Results and Annual Report

This results announcement will be published on the HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.3healthcare.com).

The Company's 2018 Annual Report containing all information required under the Listing Rules will be dispatched to the shareholders and will be published on the HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.3healthcare.com) in due course.

By order of the Board
Shanghai Haohai Biological Technology Co., Ltd.*
Hou Yongtai
Chairman

Shanghai, the PRC, 14 March 2019

As at the date of this announcement, the executive directors of the Company are Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Huang Ming, Ms. Chen Yiyi and Mr. Tang Minjie; the non-executive directors of the Company are Ms. You Jie and Mr. Gan Renbao; and the independent non-executive directors of the Company are Mr. Chen Huabin, Mr. Shen Hongbo, Mr. Li Yuanxu, Mr. Zhu Qin and Mr. Wong Kwan Kit.

** For identification purpose only*