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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 2015

HIGHLIGHTS OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

- During the Reporting Period, the revenue was approximately RMB 663.92 million, representing an increase of approximately 28.7% as compared to the corresponding period in 2014.
- The overall gross profit margin slightly decreased from the 87.2% for the year ended 31 December 2014 to 84.2% for the Reporting Period.
- During the Reporting Period, the profit attributable to the equity holders of the Company was approximately RMB 273.47 million, representing an increase of approximately 49.0% as compared to the corresponding period in 2014.
- During the Reporting Period, the basic earnings per share were RMB 1.86 (2014: RMB 1.53).
- The Board proposed to declare a final dividend of RMB 0.40 (inclusive of tax) per share or an aggregate of RMB 64,018,120 for the year ended 31 December 2015.

The board of directors (the "**Board**") of Shanghai Haohai Biological Technology Co., Ltd. (the "**Company**" or "**Haohai Biological**") 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 2015 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December

	Notes	2015 *RMB'000*	2014 *RMB'000*
REVENUE	4	663,917	515,940
Cost of sales		(105,073)	(65,883)
Gross profit		558,844	450,057
Other income and gains	4	98,744	30,764
Selling and distribution expenses		(242,100)	(187,191)
Administrative expenses		(58,878)	(48,960)
Research and development costs		(35,254)	(26,460)
Other expenses		(979)	(2,594)
Share of profits and losses of:			
An associate		270	—
PROFIT BEFORE TAX		320,647	215,616
Income tax expense	5	(47,341)	(32,034)
PROFIT FOR THE YEAR		273,306	183,582
Attributable to:			
Owners of the parent		273,474	183,582
Non-controlling interests		(168)	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		273,306	183,582
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
- For profit for the year	7	1.86	1.53

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December

	Notes	2015 *RMB'000*	2014 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		396,595	352,003
Prepaid land lease payments		31,626	32,364
Other intangible assets		3,262	4,050
Investment in an associate		11,202	—
Deferred tax assets		4,359	5,453
Other non-current assets		2,812	10,678
Total non-current assets		449,856	404,548
CURRENT ASSETS			
Inventories		78,063	76,364
Trade and bills receivables	8	91,287	62,443
Tax recoverable		—	2,752
Prepayments, deposits and other receivables		24,917	18,609
Pledged deposits		—	5,846
Cash and bank balances		2,177,787	181,341
Total current assets		2,372,054	347,355
CURRENT LIABILITIES			
Trade and bills payables	9	4,794	8,790
Other payables and accruals		112,272	125,483
Tax payable		23,927	4,966
Total current liabilities		140,993	139,239

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at 31 December

	Notes	2015 *RMB'000*	2014 *RMB'000*
NET CURRENT ASSETS		2,231,061	208,116
TOTAL ASSETS LESS CURRENT LIABILITIES		2,680,917	612,664
NON-CURRENT LIABILITIES			
Deferred tax liabilities		620	761
Deferred income		14,863	17,743
Total non-current liabilities		15,483	18,504
NET ASSETS		2,665,434	594,160
EQUITY			
Equity attributable to owners of the parent			
Share capital		160,045	120,000
Reserves		2,501,866	474,160
		2,661,911	594,160
Non-controlling interests		3,523	—
Total equity		2,665,434	594,160

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.

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

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

As at the date of these financial statements, the Company has direct interests in the following subsidiaries, all of which are limited liability companies established in the PRC except for Haohai Healthcare Holdings Co., Ltd., which is a limited company established in Hong Kong. The particulars of the Company's subsidiaries are set out below:

Company name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered ordinary 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 27 May 1992	RMB 160,000,000	100	—	Manufacture and sale of biological reagents, biologicals and biological materials
上海建華精細生物製品有限公司 Shanghai Jianhua Fine Biological Products Co., Ltd.* ("**Shanghai Jianhua**")	PRC 20 October 1993	RMB 15,000,000	100	—	Manufacture and sale of medical sodium hyaluronate, biologicals, biochemical and HA series skin care products
上海利康瑞生物工程有限公司 Shanghai Likangrui Bioengineering Co., Ltd.* ("**Shanghai Likangrui**")	PRC 3 September 2001	RMB 150,000,000	100	—	Research and development of biological engineering and pharmaceutical products and related technology transfer, consultation and services
上海柏越醫療設備有限公司 Shanghai Baiyue Medical Equipment Co., Ltd.*[(1)] ("**Shanghai Baiyue**")	PRC 25 September 2014	RMB 10,000,000	60	—	Sale of medical equipment

Company name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered ordinary share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Haohai Healthcare Holdings Co., Ltd.(2) ("**Haohai Holdings**")	Hong Kong 17 July 2015	HKD100	100	—	Investment holding

* English translations of names for identification purposes only.

Notes:

(1) The Company acquired a total 60% of equity shares of Shanghai Baiyue with a cash contribution of RMB 6,000,000 to Shanghai Baiyue on 5 February 2015.

(2) Haohai Holdings is incorporated as a limited company in Hong Kong on 17 July 2015.

2.1 BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. 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 such control ceases.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

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

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap.622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[6]
IFRS 15	*Revenue from Contracts with Customers*[3]
IFRS 16	*Leases*[4]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 7	*Disclosure Initiative*[2]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2017

3 Effective for annual periods beginning on or after 1 January 2018

4 Effective for annual periods beginning on or after 1 January 2019

5 No specific effective date but early adoption is permitted

6 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016

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

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are 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, research and development of biological engineering and pharmaceutical products and the provision of related services. Therefore, no analysis by operating segment is presented.

Geographical information

Since the Group generates over 99% revenue through its operation in the PRC and over 99% of the assets of the Group are located in the PRC, geographical segment information as required by IFRS 8 *Operating Segments* is not presented.

Information about major customers

There was no customer, the revenue from which amounted to 5% or more of the Group's revenue during the Reporting Period.

4. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, net of sales taxes and surcharges during the year.

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

	Note	**2015** *RMB'000*	**2014** *RMB'000*
Revenue			
Sale of goods		663,917	515,940
Other income and gains			
Interest income		38,319	3,703
Government grants	i)	30,062	25,664
Gain on disposal of items of property, plant and equipment		—	353
Exchange gains		28,747	1
Others		1,616	1,043
		98,744	30,764

Note:

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

5. INCOME TAX

The Company and its subsidiaries, except Haohai Holdings, are registered in the PRC and only have operations in the PRC. 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 2015, the Company and its subsidiaries, Shanghai Qisheng and Shanghai Jianhua, were accredited as high and new-tech enterprises (the "**HNTE status**") respectively, effective for three years from 2014 to 2016 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during the period from 2014 to 2016.

The applicable tax rate of Shanghai Likangrui and Shanghai Baiyue was 25% and the applicable tax rate of Haohai Holdings was 16.5% during the year.

	2015	**2014**
	RMB'000	*RMB'000*
Current		
Charge for the year	46,051	33,276
Underprovision in prior years	337	262
Deferred	953	(1,504)
Total tax charge for the year	47,341	32,034

6. DIVIDENDS

	2015	**2014**
	RMB'000	*RMB'000*
Proposed final — RMB0.40 (2014: nil) per ordinary share	64,018	—

The directors of the Company proposed to declare a final dividend of RMB0.40 (inclusive of tax) per ordinary share (2014:nil) , totally amounting to RMB64,018,120 (2014: nil) for the year ended 31 December 2015. The proposed final dividend for 2015 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the amounts of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 146,985,960 (2014: 120,000,000) 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 2015 and 2014.

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

	2015 *RMB'000*	2014 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	273,306	183,582
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	146,985,960	120,000,000

8. TRADE AND BILLS RECEIVABLES

	2015 *RMB'000*	2014 *RMB'000*
Bills receivable	—	811
Trade receivables	96,007	64,908
Impairment for trade receivables	(4,720)	(3,276)
	91,287	62,443

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with certain major customers with good repayment history and good reputation are on credit. The credit period is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade and bills receivables as at the end of the Reporting Period, based on the invoice date and net of provisions, is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Within 3 months	77,609	52,132
3 to 6 months	13,535	11,056
6 months to 1 year	4,590	2,340
1 to 2 years	265	184
2 to 3 years	8	7
	96,007	65,719

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

	2015	2014
	RMB'000	*RMB'000*
At 1 January	3,276	2,120
Impairment losses recognised	1,478	1,156
Impairment losses reversed	(34)	—
	4,720	3,276

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of RMB 57,000 (2014: RMB 40,000) with carrying amounts before provisions of RMB 273,000 (2014: RMB 191,000), based on aged analysis. The others are for collectively impaired trade receivables at the end of the Reporting Period.

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

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

The Group endorsed certain bills receivable accepted by banks in the PRC (the "**Derecognised Bills**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB 2,557,000 (2014: RMB 4,800,000). The Derecognised Bills have maturity periods ranging from one to six months at the end of the Reporting Period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Reporting Period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

9. TRADE AND BILLS PAYABLES

	2015 *RMB'000*	2014 *RMB'000*
Trade payables	4,794	2,944
Bills payable	—	5,846
	4,794	8,790

An aged analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Within 3 months	4,745	8,671
3 months to 1 year	49	72
Over 1 year	—	47
	4,794	8,790

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

We are a leading company in the PRC focusing on the research and development, manufacturing and sales of absorbable biomedical materials. Absorbable biomedical materials are natural, non-toxic, biodegradable in the human body and can be used for a variety of indications primarily in various general and specialty surgeries. We strategically target the fast-growing therapeutic areas in the absorbable biomedical material market in China, including orthopedics, medical aesthetics, ophthalmology, surgical hemostasis, post-surgery anti-adhesion and wound care.

Key products and their market positions

The Group currently manufactures and sells 14 biomedical products, among which three are classified by the China Food and Drug Administration (the "**CFDA**") as pharmaceutical products (including two chemical drugs and one biological product) and 11 are classified by the CFDA as Class III medical devices. The products of the Group mainly include medical sodium hyaluronate, medical chitosan and medical collagen from natural raw materials.

- Sodium hyaluronate has been extensively used in the fields of clinical medicine, medical cosmetics and beauty products, and is expected to have broad prospects and market potential. Our sodium hyaluronate-based products can be applied in each of our four target therapeutic areas: orthopedics, surgical anti-adhesion and hemostasis, ophthalmology and medical aesthetics and wound care. Our sodium hyaluronate-based products are used to treat degenerative osteoarthritis and are also used in cataract surgeries, plastic surgeries (including facial shaping and wrinkle reduction) and other types of general and specialty surgical operations.

- We own the proprietary interests in our medical chitosan series of products. Similar to sodium hyaluronate, our chitosan products are also applicable for, among other indications, the treatment of osteoarthritis and anti-adhesion. Chitosan has a longer *in vivo* retention time than sodium hyaluronate and possesses anti-microbial and hemostatic functions which are not found in sodium hyaluronate. In addition, our modified chitosan is water soluble. The technology of dissolvable medical chitosan becomes the exclusive patent of the Group. These properties make chitosan attractive in pharmaceutical formulations for hemostasis, anti-adhesion and sustained-release materials.

- Medical collagen has good hemostatic effects. It has become an unique biomedical material used in the gynecological, otolaryngological, cerebral and general surgeries to shorten the operation time and improve the post-operative healing of wound and tissue.

We also manufacture innovative biological drugs such as recombinant human epidermal growth factor ("**rhEGF**") which utilize genetic engineering technology and are used for wound care. Our patented rhEGF products feature the same amino acid sequence as natural human epidermal growth factor, which have been proven safe and effective in treating burns and wound care. Our rhEGF products are registered with the CFDA as Class I new drug and were the first approved rhEGF products in the world.

Our products fall into following four categories by therapeutic areas:

Orthopedics Products

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

According to the China Food and Drug Administration Southern Medicin Economic Research Institute ("**SME Research**"), we were the largest manufacturer of intra-articular viscosupplement products in China as measured by revenue in 2014 with a market share of approximately 31.7%.

Medical aesthetics and wound care products

We manufacture and sell two products used for medical aesthetics and wound care, including rhEGF and tissue-filling cross-linked sodium hyaluronate ("**Matrifill**") products. rhEGF products can safely and substantially expedite the repair of skin wounds on epidermis and mucosa. They are applicable for various acute or chronic wounds, and can be used for epidermis wound repair and care subsequent to laser cosmetology surgery. Our dermal filler products can correct moderate to severe facial wrinkles and folds.

According to the report of SME Research, in 2014, the Group has become the second largest manufacturer in the rhEGF market as measured by revenue in 2014 with a market share of approximately 15.3%.

Ophthalmology Products

We manufacture and sell four ophthalmology products, including three ophthalmic viscoelastic devices, commonly known as "OVD" products, and one lubricant eye drops product. OVD products are the necessary devices for cataract surgery and can be used for other ophthalmic operations.

According to the report of SME Research, the market share of our OVD products was 41.80% in 2014 as measured by the annual revenue, making the Group the largest OVD product manufacturer in the PRC.

Anti-Adhesion and Hemostasis Products

We currently manufacture and sell five post-operative products used for anti-adhesion and hemostasis, including hyaluronate and chitosan based products, as well as medical collagen sponge for hemostasis. Anti-adhesion and hemostasis products are widely used in various surgeries to shorten the operation time and prevent a wide range of tissue and organ adhesion resulted from trauma and injuries in surgical operations.

According to the report of SME Research, we were the largest manufacturer of anti-adhesion products in China as measured by revenue in 2014 with a market share of approximately 48.0%.

Business Review and Prospect

For the pharmaceutical industry in the PRC, 2015 was undoubtedly a significant year characterised by policy changes. Under the challenging circumstances of an incomplete recovery from the global economic downturn, the slowdown in the growth rate of the domestic economy, the continuing reforms of the medical system in the PRC as well as the gradual introduction of policies on facilitating reduction in drug prices and control on total medical costs have brought challenges of varying degrees to PRC pharmaceutical companies engaging in manufacturing and sales.

In February 2015, the State Council promulgated the Guiding Opinions of the General Office of the State Council on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) (the "**Circular No. 7**"). In order to further facilitate the implementation of the Circular No. 7, National Health and Family Planning Commission (the "**NHFPC**") thereafter issued the Circular on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals (《關於落實完善公立醫院藥品集中採購工作指導意見的通知》) (the "**Circular No. 70**"), whereby the provincial and local governments introduced local policies one after another

according to the rationale of the central government. Under the further downward pressure on drug procurement price and the full implementation of control measures on medical and insurance, the profit of pharmaceutical companies was compressed. As at the end of 2015, pharmaceutical tenders were still in progress among most of the provinces, which, from an objective perspective, hampered drug dealers' willingness to purchase.

In 2015, the regulation on the industry has also become increasingly stringent. In order to ensure public health and safety, the PRC government continued to improve the system for quality standard of pharmaceutical products. The implementation of new good manufacturing practices (the "**GMP**") raised the market entry barriers. The delegation of the licensing for GMP certification to Food and Drug Administration at provincial level has effectively uplifted the ordinary supervision and inspection efforts on manufacturing companies. While the production process and quality control have become more normalised and professionalised, manufacturing companies have to conduct more effective management to cope with the increasing operating costs.

As at 31 December 2015, the Group operated three production facilities in Shanghai, with nine production lines in total. There is another new production base under construction. All of the Group's production facilities under operation passed the new GMP certification or medical device good manufacturing practice inspection. The Company has developed a comprehensive and systemised quality control system for raw materials, production process and finished products for the purposes of meeting the increasingly stringent policy requirements of the PRC government and the industry, which is consistent with the Group's high standard.

During the Reporting Period, the Group recorded a turnover of approximately RMB 663.92 million, representing an increase of RMB 147.98 million or approximately 28.7% from approximately RMB 515.94 million for the year ended 31 December 2014. This was mainly attributable to increase in sales volume of products in all of the four therapeutic areas of the Group.

During the Reporting Period, the Group's sales revenue from orthopedics products, cosmetic and wound care products, ophthalmology products and anti-adhesion and hemostasis products increased by 19.9%, 115.3%, 8.1%, 15.3%, respectively to RMB 284.05 million, RMB 122.34 million, RMB 72.40 million and RMB 179.00 million. Further, the Group recorded additional sales revenue of approximately RMB 6.12 million from the sales of medical equipment and machinery by Shanghai Baiyue, a newly acquired subsidiary of the Company.

During the Reporting Period, the Group's revenue breakdown by therapeutic area was as follows (by amount and as a percentage of the total revenue of the Group):

	2015		**2014**	
	RMB'000	*%*	*RMB'000*	*%*
Orthopedics products	**284,049**	42.8%	236,838	45.9%
Medical aesthetics and wound care products	**122,343**	18.4%	56,819	11.1%
Ophthalmology products	**72,403**	10.9%	66,980	13.0%
Anti-adhesion and hemostasis products	**178,999**	27.0%	155,303	30.0%
Other products	**6,123**	0.9%	—	—
Total	**663,917**	100.0%	515,940	100.0%

During the Reporting Period, the profit attributable to the equity holders of the Group amounted to approximately RMB 273.47 million, which has increased by RMB 89.89 million or approximately 49.0% from RMB 183.58 million for the year ended 31 December 2014, and after deducting the exchange gains of approximately RMB 24.43 million (after tax) in relation to the foreign currency settlement from the public offering (the "**Global Offering**"), there is an increase of approximately 35.7%. The basic earnings per share were RMB 1.86 (2014: RMB 1.53).

During the Reporting Period, the increase in revenue and cost of the Group was driven by the growth of sales. While the revenue from sales of the Group's original main products continued to grow steadily, the newly launched products, including the Matrifll-branded products and medical chitosan used for intra-articular viscosupplement (骨關節腔注射), have won extensive recognition in the industry for their quality and clinical efficacy, are gaining their popularity rapidly, and have become a new important growth driver to the Group's revenue.

Moreover, the overall gross profit margin of the Group decreased slightly from 87.2% for the year ended 31 December 2014 to 84.2% for the year ended 31 December 2015, primarily due to the upgrading and industrialization reform in the second half of year 2014 which led to a significant addition of fixed assets and facilities at the Company and Shanghai Qisheng for production purposes, resulting in a substantial increase of approximately RMB 12 million in depreciation and long-term amortization expenses included in the costs as compared to the year ended 31 December 2014. In addition, the selling price of some of the Group's products were adjusted in order to better capture the fast-changing environment of tender policy, which resulted in a slight decrease in gross profit margin. The management believes that through the upgrading and industrialization reform, the Group's research and development capacity and

product quality will be further enhanced while the insufficient production capacity will also be improved with emerging economies of scale, which enables the Group to actively respond to the downward pressure on the selling price of certain products brought by the changing political environment and is conducive to a relatively high gross profit margin to ensure the stable growth of the Group's long-term results and profit.

Orthopedics Products

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

	2015		**2014**	
	RMB'000	*%*	*RMB'000*	*%*
Sodium hyaluronate injection	**227,785**	34.3%	206,624	40.0%
Medical chitosan	**56,264**	8.5%	26,630	5.2%
Medical sodium hyaluronate gel	**—**	—	3,584	0.7%
Total	**284,049**	42.8%	236,838	45.9%

During the Reporting Period, the Group's revenue from the sales of orthopedics products was approximately RMB 284.05 million, representing an increase of RMB 47.21 million or approximately 19.9% from the RMB 236.84 million for the year ended 31 December 2014. Among the orthopedics products, the sales of sodium hyaluronate injection and medical chitosan recorded an increase of RMB 21.16 million and RMB 29.63 million respectively.

Sodium hyaluronate injection

Sodium hyaluronate injection (for orthopedics), which is a traditional core product that has a longer history and enjoys higher acceptance, continued to achieve a steady growth during the Reporting Period and contributed RMB 227.79 million to our revenue, representing an increase of approximately 10.2% as compared to the year ended 31 December 2014. On the other hand, the proportion of revenue contribution by sodium hyaluronate products to the Group's total revenue decreased as compared to the year ended 31 December 2014. The decrease was mainly due to the fast growth of new products developed by the Group during the Reporting Period.

During the Reporting Period, sodium hyaluronate/sodium hyaluronate injection of the Group was granted renewal of drug registration certificate for a term of five years.

Medical chitosan

Revenue from the sales of the medical chitosan used for intra-articular viscosupplement, which was launched in the market in 2014, amounted to RMB 56.26 million during the Reporting Period, representing an increase of approximately 111.3% as compared to that for the year ended 31 December 2014. The product, which is used for intra-articular viscosupplement, is the only Class III medical device which has obtained the registration certificate in the PRC. It can be used for treating degenerative osteoarthritis; help minimizing joint pains; improve joint mobility and reduce functional impairment. It is characterized by the Group's exclusive water-soluble technology which significantly reduces infection rate and thus enhancing product safety, has antimicrobial and hemostatic functions, a longer *in vivo* retention time and long-lasting therapeutic effect. After a year of market development, its significant efficacy and stable quality are now well-recognized by doctors and patients, and the sales revenue from this product grew substantially. The management has established a professional marketing team for the product and will further strengthen the professional promotion, raise product awareness and expand the market coverage to ensure a rapid growth for this exclusive product.

The management has set out clear positioning for the two different orthopedics products. To achieve mutual growth, the management strives to push the sales of medical chitosan products through differentiation of positioning among clinical application, pricing and target market while maintaining the growth momentum of sodium hyaluronate injection as the original core product of the Group.

Medical aesthetics and wound care products

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

	2015		**2014**	
	RMB'000	*%*	*RMB'000*	*%*
Cross-linked sodium hyaluronate gel	**87,255**	13.1%	25,571	5.0%
rhEGF	**35,088**	5.3%	31,248	6.1%
Total	**122,343**	18.4%	56,819	11.1%

The Group manufactures and sells products used for medical aesthetics and wound care, including the Matrifill-branded medical cross-linked sodium hyaluronate gel

and the Healin-branded rhEGF product ("**Healin**"). During the Reporting Period, the Group's revenue from the sales of plastic surgery and wound care products was RMB 122.34 million, representing an increase of 115.3%, or RMB 65.52 million as compared to RMB 56.82 million for the year ended 31 December 2014.

Matrifill

Matrifill, the innovative product launched in the market by the Group in 2014, is the first monoface cross-linked sodium hyaluronate gel for injection approved by the CFDA. It can, through injection into dermis layer, fill facial defect and folded portion to achieve wrinkle removal and facial shaping. This product is confirmed to have a good shaping effect and excellent performance in duration by a large-sample randomized controlled clinical trial. The product was developed by the Group.

Currently, on one hand, along with the growth of people's wealth and the new consumption pattern evolving with beauty-conscious individuals, their consumption power is enhanced. Further, under the aforesaid strong demand in the profit-driven market, the speed of technology upgrade of products is accelerating and in turn, boosts the growth of technology in medical beauty. Not only does the innovative technology fulfil consumer demand, but it also attracts more consumers along with further reasonable prices and improving clinical efficacy. Accordingly, the medical beauty market in the PRC is experiencing rapid growth. On the other hand, more competitors are attracted by high profit margin from the medical beauty industry to share the market growth. However, due to many inconsistent practices in the industry, the industry regulation is getting more stringent to enhance industry compliance. As such, the industry will undergo a market selection process under the principle of "survival of the fittest". This could be a challenge to the industry peers with higher demand in terms of strength in research and development ("**R&D**"), technology innovation, product quality and marketing innovation.

Leveraging on its highly competitive R&D in biomedical materials, manufacturing and marketing platforms and the technology in the production and quality control of biomedical materials, the Group pushed forward the R&D and production of cross-linked sodium hyaluronate gel for injections professionally and pragmatically, fostering the high-end quality and market recognition of domestic Matrifill products. During the Reporting Period, the sales revenue of Matrifill products increased to RMB 87.26 million, representing an increase of approximately 241.2% as compared to the year ended 31 December 2014.

The Group established a professional sales and marketing team for the Matrifill brand. With the integrated mode of direct sales and marketing through distributors, the Group achieved a gradual growth of end-users and market penetration as well as rapid expansion and coverage of sales channels. Our management believes that the traditional and single marketing approach will no longer satisfy the increasingly personalized demands. Therefore, the Group strived to enhance the consumer experience through multi-dimensional services for medical practitioners and consumers; build brand concepts and dominate the life-style of consumer groups so as to improve the product adhesiveness and life span.

As of the date of this announcement, clinical trial for the Group's second generation of cross-linked sodium hyaluronate gel was completed, and the application for registration for medical device was accepted. In terms of product characteristics and efficacy, the product will have differentiated positioning from the Group's Matrifill-branded product, which has been launched to market. Moreover, clinical trial for the third generation of cross-linked sodium hyaluronate gel ("**QST gel**") has been started. The Group can accordingly sustain its leading marketing position in terms of R&D, production and sales, and will achieve the combined effects of serialization and differentiation for products in the medical aesthetic and wound care sector, so as to satisfy clinical application needs which are being increasingly segmental and diversified.

The Group will leverage on the increasingly intensive merger and acquisition and integration in the industry, continuous innovation in R&D, stable product quality, sound clinical efficacy and effective market management to build a professional leading domestic brand in the area of non-invasive medical aesthetic in the PRC.

Healin

The Group's Healin-branded rhEGF products is the only product in China that has the same amino acid structure as the natural epidermal growth factors in human bodies, and is the first registered rhEGF product in the world. It was approved as Class I new drug by the CFDA in 2001 and was awarded the Second Prize of National Science and Technology Progress Award in 2002. Our exclusive patented technology is adopted in the production of Healin, which is relatively more active biologically with significant efficacy in the treatment of wound care. The sales volume of Healin products in recent years showed a constantly increasing trend with outstanding market performance.

According to the research report of SME Research, the Group's market share of Healin products in 2014 was 15.3%, and the Group has become the second largest manufacturer of rhEGF products.

During the Reporting Period, the drug registration certificate of rhEGF products of the Group was granted renewal with a term of five years.

Ophthalmology Products

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

	2015		**2014**	
	RMB'000	*%*	*RMB'000*	*%*
Ophthalmic viscoelastic device	**71,032**	10.7%	66,963	13.0%
Lubricant eye drops	**1,371**	0.2%	17	0.0%
Total	**72,403**	10.9%	66,980	13.0%

The Group manufactures and sells ophthalmology products, including three ophthalmic viscoelastic devices, commonly known as "OVD" products, and one lubricant eye drops product. During the Reporting Period, the Group's revenue from the sales of ophthalmology products was RMB 72.40 million, representing an increase of approximately 8.1% or RMB 5.42 million from the RMB 66.98 million in the year of 2014.

Among the main brands of OVD products in the PRC, our products have significant advantages such as advanced technology, high quality, high price-performance ratio and diversified specifications and densities. According to the report of SME Research, the market share of our OVD products was 41.8% in the year of 2014, with a market share of over 40% for the past eight consecutive years, making the Group as the largest OVD product manufacturer in the PRC.

During the Reporting Period, clinical trial for our new high concentration OVD product was completed and we have submitted application information for CFDA registration. The launch of such products will alleviate related product shortage in the PRC; upgrade our existing range of ophthalmology products; further extend the comparative advantage against the imported overseas brands of the same type of products and improve our market share.

Anti-Adhesion and Hemostasis Products

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

	2015		**2014**	
	RMB'000	*%*	*RMB'000*	*%*
Medical chitosan	**108,914**	16.4%	93,780	18.1%
Medical sodium hyaluronate gel	**60,303**	9.1%	52,194	10.1%
Medical collagen sponge	**9,782**	1.5%	9,328	1.8%
Total	**178,999**	27.0%	155,302	30.0%

The Group manufactures and sells anti-adhesion and hemostasis products, including anti-adhesion products, as well as medical collagen sponge made of sodium hyaluronate and chitosan.

According to the report of SME Research, the Group's market share of its anti-adhesion products amounted to 48.0% in the year of 2014, consolidating its position as the largest manufacturer of anti-adhesion products in the PRC for seven consecutive years.

During the Reporting Period, the Group's revenue from the sales of anti-adhesion and hemostasis products was RMB 179.00 million, representing an increase of RMB 23.70 million or approximately 15.3% as compared to RMB 155.30 million in the year of 2014.

During the Reporting Period, renewals for the product registration certificates of Class III medical devices for medical sodium hyaluronate gel (anti-adhesion and hemostasis) owned by the Company were granted. The terms of all of the registration certificates are for five years, and three additional specifications were granted for the renewed registration certificate owned by the Company. The launch of products with new specifications will provide doctors and end-users with more flexible alternatives in their clinical uses. Also, renewals for the product registration certificates of Class III medical devices for collagen sponge owned by the Group were granted with a renewed term of five years.

On 30 June 2015, the Society of Gynecology and Obstetrics of the Chinese Medical Association (中華醫學會婦產科學分會) published the "Consensus of Chinese Experts on the Prevention of Abdominal Adhesions after Gynecologic Surgery (2015)" (預防婦產科手術後盆腹腔粘連的中國專家共識(2015)) (the "**Consensus**").

The Consensus indicated that adhesion is a common complication following abdominal surgery with extremely high risks. The prevention of post-operative adhesions not only raises the success rate of surgeries, but also eliminates pain for patients; improves their quality of living, enhances pregnancy rate and reduces medical costs. In addition, the Consensus commented on the effectiveness of various anti-adhesion materials and medicines based on medical evidence, among which, anti-adhesion materials recommended as the ones with B grading or more (being the materials with sufficient and reasonable evidence that clinical prevention measures are recommended) were medical sodium hyaluronate gel and the Group's exclusively-owned carboxyl-methylated chitosan (medical chitosan) respectively.

The management believes that with the issuance of the above Consensus, adhesion will be increasingly emphasized by both doctors and patients. The issuance of the Consensus will help implement the provincial and national cost catalog and medical insurance, and further facilitate the abdominal and oncology on usage of post-operative anti-adhesion products, hence radically increasing clinical usage and further promoting the growth of sales in post-operative anti-adhesion and hemostasis product of the Group .

R&D

The Group owns three R&D bases which are named as Shanghai municipal R&D institutions. As at 31 December 2015, the Group's in-house R&D team comprised 114 staff members, of which 95 were degree holders or above, 7 were doctorate degree holders and 30 were master's degree holders. All core products of the Group were primarily developed by its in-house team, and subsequent research is conducted with the support of various colleges and universities, research institutes and sizable Grade III hospitals.

In November 2015, postdoctoral science research workstation was set up with the approval of Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) and National Post-Doctorate Committee (全國博士後管理委員會) while the academician and expert workstation was set up in Shanghai with the approval of Shanghai Academician and Expert Workstation Guidance Office (上海市院士專家工作站指導辦公室). The establishment of the postdoctoral science research workstation and the academician and expert workstation represents an important move which aims to foster innovation of corporate technologies, speed up exchange of information about technology, cooperation among industry, schools and research institutes, nurturing innovative talents and building up sizable teams comprising innovative technological talents. This is not only the recognition of the PRC government to the Group's technological innovation and R&D capabilities, but it also serves as an impetus to the

cooperation with colleges and universities and research institutes by the Group. This will attract high-caliber talents to the Group and create conditions to strengthen talents and technological innovation capabilities in the furtherance of the Group's independent innovation capabilities, core competitiveness and sustainable development.

The Group's market-driven R&D efforts focus on products that address rapidly growing clinical needs within the absorbable biomedical materials market, particularly those products that have potential for future commercialization in the global market. As at 31 December 2015, the Group owns 18 product pipelines in different stages of R&D. The Group intends to lodge application for approval of production for 1 product; clincial trials for 2 products have been completed and are now at the stage of product registration; 4 products are undergoing different stages of clincial trials or type inspection; and 11 products are undergoing the stages of preclinical study and technology study.

In short term, we focus on the development of the second generation of hyaluronate gel ophthalmology products, dermal filler product series (the second generation of cross-linked sodium hyaluronate gel and third generation of QST gel), fibrin sealant products, second generation of thermal-sensitive chitosan products and add different specifications to our existing products. As at the date of this announcement, the Group expects the following key product pipelines to be launched in the market in the near future:

Product series	**Therapeutic area**	**Development status**	**Indications**	**Classificiation**	**Funded project**	**Date**
Medical sodium hyaluronate gel (High concentrations OVD product) .	Ophthalmology	Clinical trial completed, at the stage of product registration	Ophthalmic surgery fillers, cavity filling and cushioning	Class III medical device	—	2016
cross-linked sodium hyaluronate gel II	Medical aeshetics and wound care	Clinical trial completed, at the stage of product registration	Wrinkle correction and face shaping	Class III medical device	Shanghai Production, Academic and Research Project of Shanghai Science and Technology Commission	2016
QST gel	Plastic surgery, wound care and ophthalmology	At the stage of clinical trial	Wrinkle correction and face shaping, ophthalmic viscoelastic device	Class III medical device	Shanghai Production, Academic and Research Project of Shanghai Science and Technology Commission	2017

Product series	Therapeutic area	Development status	Indications	Classificiation	Funded project	Date
fibrin sealant (powder)	Anti-adhesion and hemostasis	Preparing for manufacturing permit application	Hemostasis used in regular surgery when hemorrhage is not satisfactory under control, alleviate local hemorrhage and fluid leakage, hemostasis and seal of wound tissues	medicine	Strategically Emerging Industrial Project in Shanghai	2017
thermal-sensitive chitosan gel	Orthopedics, general surgery	Beginning clinical trial	Cerebrospinal fluid leakage plugging during orthopedic surgery or neurosurgery	Class III medical device	National High-Tech R&D Program (863 Program); The Shanghai Youth Science and Technology Project Phospherus; Shanghai Selected Support Project; Shanghai Production, Academic and Research Project of Shanghai Science and Technology Commission	2018

In the long term, we intend to expand our R&D capabilities to develop the chitosan technology platform, which is elected and supported by the National High-Tech R&D Program (863 Program) and the Major Project of National Science and Technology under the Twelfth Five-Year Plan, as well as the electrospinning technology platform, which is elected and supported by the Major Project of National Science and Technology, to further expand our product offerings to sustained-release preparations, anti-adhesion and hemostasis membrane products and other proprietary Class I new drugs.

In addition, we also actively participate in industry organizations and partner with leading research institutions such as Shanghai Strategic Alliance for Innovation of Medical Absorbable Biomaterials, which was established and led by the Group to strengthen our R&D efforts. With agglomerate technology, the alliance, comprising 4 colleges and universities in Shanghai, 9 top three hospitals and Chinese Academy of Sciences Shanghai Institute of Ceramics, aims to promote sound and healthy development of absorbable and biodegradable material industry in China.

During the Reporting Period, the Group adhered to its innovation strategy as the Group's sustainable growth driver in the future and was given recognition and firm support from related authorities of the PRC government:

- In June 2015, Company was recognized and ranked as "2015 Shanghai Pilot Enterprises in Patent Operation" by Shanghai Intellectual Property Administration (上海市知識產權局);

- In August 2015, two projects undertaken by Shanghai Likangrui and Shanghai Jianhua, the subsidiaries of the Group were granted subsidies from the Shanghai Zhang Jiang National Independent Innovation Demonstration Zone Project Development Fund (上海張江國家自主創新示範區專項發展資金) in 2015;

- In September 2015, the Company was approved as the "Superior Enterprise with Intellectual Property in Shanghai" from Shanghai Municipal of Economy and Information Technology (上海市經濟和信息化委員會) ("**SMEIT**");

- In September 2015, the establishment of "postdoctoral science research workstation" was approved by Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) and the National Post-Doctor Regulatory Commission (全國博士後管理委員會).

- In October 2015, Shanghai Qisheng, subsidiary of the Group was granted a project in Shanghai by www.cqkjxir.com (科技小巨人) with the approval of Shanghai Science and Technology Commission (上海市科委) and SMEIT which aims to further promote independent innovation of small to medium size technology enterprises and heighten core competitiveness in order to support a satisfactory number of construction projects undertaken by leading corporates in terms of science and technology with competitive strengths in the industry home and abroad, which is in line with the goal of the National Conferences of Science and Technology (全國科技大會) and Science Conferences of Science and Technology (上海科技大會);

- In November 2015, the establishment of Shanghai Academician and Expert Workstation was consented to and approved by Shanghai Academician and Expert Workstation Guidance Office (上海市院士專家工作站指導辦公室).

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

Distribution and direct sales

The Group consistently operates the marketing model of combining distribution and direct sales and it owns extensive and effective sales network in the PRC.

As at 31 December 2015, the Group's distribution network comprised over 1,300 distributors. With such distribution network, products of the Group were sold across provinces, municipals and autonomous regions.

In addition to the distribution network, the Group also had 3 professional teams, namely, specific markets, commercial and sales teams who are responsible for an array of marketing and distribution network management such as formulation of standardized marketing and sales policies, providing training to, selecting and managing distributors in the market as well as maintaining direct sales to certain high-end hospitals and core regions to keep up the Group's profile and keep abreast with market changes. The three teams work independently yet complementing each other, proving the focused beneficial resources of the Group which assist the Group's product to occupy markets fast and effectively.

During the Reporting Period, we derived revenue of approximately RMB 518.26 million from sales of our products through distributors, which accounted for 78.1% of the Group's sales revenue and approximately RMB 145.66 million from direct sales, which accounted for 21.9% of the Group's sales revenue.

The management believes that the Group's broad coverage of hospitals and other medical institutions and its capabilities of identifying and monitoring distributors are serving as the major competitive strengths to shorten the length of newly developed products entering the market. As a result, this lays a solid foundation for continuously enhancing the reputation of the Group's offerings and brand.

Development trend and competition of the pharmaceutical and healthcare industry

Recently, the continual growth of the pharmaceutical and healthcare industry in the PRC is driven by a combination of favorable socioeconomic factors including the growth of people's disposable income and spending on healthcare, the size of the overall population and proportion of aging population, the size of the PRC's economy and the active support from the PRC government on healthcare spending and reforms. However, following announcement and implementation of various policies in 2015, the reform of pharmaceutical and healthcare industry system in the PRC has started. Industry integration, change of operation and steep competition are inevitable. The management believes that 2016 is marked by opportunities and challenges for pharmaceutical and healthcare industry.

As the Group serves as a part of the large-scale and fast-growing biopharmaceutical industry in the PRC while the overall industry witnesses a fast growth in recent years, sustainability in the future becomes an important topic for each biopharmaceutical corporates.

With regard to the announcement of implementation of policies in 2015, on pharmaceutical level, removal of price markups on medicine and centralized procurement of medicines subject the sales of medicine to sterner price adjustment while the control on the proportion of medicine will drive the hospitals to keep a closer watch on medicine management and comprehensive assessment medicinal effect and cost. On medical equipment level, the trend of localization of medical equipment is coming. In the Notice of the General Office of the State Council on the Conclusion of the Tasks of Deepening Pharmaceutical and Healthcare System Reform and 2015 Highlighted Tasks (Guo Ban Fa [2015] No.34)《國務院辦公廳關於印發深化醫藥衛生體制改革2014年工作總結和2015年重點工作任務的通知》(國辦發【2015】34號) issued in May 2015, priority of the use of homegrown medical equipment and machines in the state-owned hospitals is mentioned. This policy favors the fast development of homegrown medical equipment. Subsequently, in the Notice of the Issues on Accelerating the Project Approval of the Pricing of New Medical Services (Fa Gao Jia Ge [2015] No.3095)《關於加快新增醫療服務價格項目受理審核工作有關問題的通知》 (發改價格[2015]3095號), the approval of the pricing of the new medical services are not subject to the requirements set out in the National Standards on the Pricing of Medical Services Programs (2012 Edition)《全國醫療服務價格項目規範(2012年版)》 ("**2012 Edition of Pricing Standards**"). Once granted approval for production from related authorities and become ready to enter into the market, the medical product projects of reagents, consumables and equipment should be included in the area of pricing of new medical service projects. This notice intends to spur innovation in medical technology and is favorable to the Group's pharmaceutical products and their timely clinical use. However, as seen in the recent tenders conducted in certain provinces, the prices of certain consumable products are gradually subject to the control by the government. Changes of policies and environment exert pressures on the price of products, no matter for medicine and medical equipment spheres. As a result, corporates must strike a balance between sales volume and prices. In addition, innovation and merger and acquisition are the growth drivers for biopharmaceutical corporate in the future.

During the course of burgeoning development of biopharmaceutical industry in China, the industry layout is undergoing change from the old form, in which differentiation among corporates at all levels is becoming more obvious. Central Committee's Proposal for Formulating the 13th Five-Year Plan for National Economic and Social Development (中共中央關於制定國民經濟和社會發展第十三個五年規劃的建議) (the "**Proposal**") was issued in October 2015. In the Proposal, upgrade and optimization of structures of strategic emerging industries are clearly encouraged in support of the development of the innovation-driven biopharmaceutical industry. The development of core technology of biopharmaceutical industry and high-performance medical devices, and the formation of a new industry structure will be the focus of the policies of 13th Five Year Plan. The reform will weed out obsolete capacities and the biopharmaceutical corporates in possession of economy of scales, advanced technologies, well-established brand and excellent marketing will stand out in the opportunities given.

Regarding the industry competition, all the products of the Group have attained the leading market position and the related differentiated segments have high market concentration. In addition, the market barriers are relatively high for external competitors. The management believes that, with our safe and effective innovative products and highly effective services provided with due care, the Group will continue to maintain the leading position for its four major segments of therapeutic products and capitalize on the reform of pharmaceutical and healthcare systems.

Principal risks and uncertainties associated with the company

The pharmaceutical industry is highly regulated. We are governed by various local, regional and national regulations in different aspects of our operations, including licensing and certification requirements and procedures for manufacturers of pharmaceutical or medical device products, operating and safety standards, as well as environmental protection regulations. Any change in the applicable laws, regulations or standards may prevent or restrict us from conducting certain aspects of our current business.

All of our products sold to public hospitals and medical institutions in the PRC, whether directly or through distributors, are required to go through a centralized tender process. We may fail to win bids in a centralized tender process due to various factors. If our products are not selected in the centralized tender processes in certain regions, we will be unable to sell the relevant products to the public hospitals and other medical institutions in such regions, and our market share, revenues and profitability could be materially and adversely affected.

Our competitiveness and future prospects depend on our ability to successfully develop new products. As the development process may be lengthy, we are unable to determine whether a marketable result will be achieved in the early development phase, and the market for the products we develop may differ significantly from what we had expected. We may also fail to successfully develop marketing strategies for our new products to respond to changing customer demand and preference. In the event we fail to successfully develop and commercialize new pharmaceutical and medical device products, our business and growth prospects could be adversely affected.

We intend to selectively pursue strategic acquisitions of companies, products and technologies that will complement our efforts to grow our business. We may fail to identify or secure suitable acquisition or investment opportunities, or our competitors may capitalize on such opportunities before we do. Moreover, identifying such opportunities could demand substantial management time and resources, and negotiating and financing such acquisitions or investments could involve significant costs and uncertainties. If we fail to successfully source and integrate acquisitions or investments, our overall growth could be adversely affected.

Development strategy and operating plan of the Group

In 2016, the Group will focus on the organic growth of the four major segments of therapeutic products through the following measures:

- pushing forward the upgrade of existing products, expanding investment in research and development of innovative products to fulfil market demands and promoting the clinical applications of products;

- enhancing capacity utilization and using advanced production equipment to raise production efficiency; of products, and promoting clinical application of products;

- focusing on and strengthening the information management of bidding and tender as well as distributors' network;

- in terms of sales and marketing, the Group will take a series of measures to intensify market penetration of original competitive products and through a refined multi-dimensional marketing strategy, expand the coverage of our new products on high-end hospitals and related areas.

The Group will also continue to leverage on its intensive knowledge of the medical biochemical materials industry to actively seek suitable domestic and overseas acquisition targets with high synergy for the purpose of vertical and horizontal integration within the industry. For details on the mergers and acquisitions activities of the Group during the Reporting Period, please refer to the section headed "Mergers and Acquisitions" in this announcement.

With the diversified innovative products, continued efforts put into the product lines under research and R&D, the strong competitive edge arising from the sales and marketing network of the Group and the outstanding ability of the management team in strategic acquisition and integration, the management is confident that a strong foundation will be laid for the rapid and sustainable growth for the Group in the future.

Financial Review

Revenue, cost and gross profit margin

During the Reporting Period, the Group recorded aggregate operating revenue of approximately RMB 663.92 million, representing an increase of RMB 147.98 million or approximately 28.7% as compared to approximately RMB 515.94 million for the year ended 31 December 2014, which was primarily attributable to the increased sales volumes of the products across all four therapeutic areas of the Group.

Following the growth in revenue, the cost of sales of the Group increased from RMB 65.88 million in 2014 to RMB 105.07 million in 2015, representing an increase of RMB 39.19 million.

The overall gross profit margin of the Group slightly decreased from the 87.2% for the year ended 31 December 2014 to 84.2% for the Reporting Period, primarily due to the completion of upgrading and industrialization reform of the Group in the second half of 2014 which led to a significant addition of fixed assets and facilities for production purposes, resulting in an increase in depreciation and long-term amortization expenses included in the costs. In addition, selling prices of certain products of the Group were adjusted in order to adapt to the fast changing policy environment and the highly competing market, which led to a slightly decrease in gross profit margin. In general, the gross profit margin of the Group was still at a relatively high level.

Selling and Distribution Expenses

The selling and distribution expenses of the Group increased from RMB 187.19 million for the year ended 31 December 2014 to RMB 242.10 million for the year ended 31 December 2015, representing an increase of RMB 54.91 million, primarily due to the increase in marketing expenses of the medical chitosan products used for intra-articular viscosupplement and new products such as Matrilfill-branded products. The proportion of selling and distribution expenses to the Group's total revenue slightly increased from approximately 36.3% recorded in the year ended 31 December 2014 to approximately 36.5% in the year ended 31 December 2015, which basically remained stable.

Administrative Expenses

The administrative expenses of the Group increased from RMB 48.96 million recorded for the year ended 31 December 2014 to RMB 58.88 million for the year ended 31 December 2015, representing an increase of RMB 9.92 million, primarily due to the increase of number of administrative staffs since business expansion and the increase in service fees of professional institutions upon listing. The proportion of administrative expenses to the Group's total revenue slightly decreased from approximately 9.5% recorded in for the year ended 31 December 2014 to approximately 8.9% in for the year ended 31 December 2015.

R&D Expenses

The R&D expenses of the Group increased from RMB 26.46 million recorded for the year ended 31 December 2014 to RMB 35.25 million for the year ended 31 December 2015, representing an increase of RMB 8.79 million. During the Reporting Period, the proportion of R&D expenses accounted for 5.3% (2014: 5.1%) of the total revenue of the Group. With our deep product pipeline reserve and our continued investment in R&D activities, we believe that we have built a solid foundation for the sustainable growth of the Group in the future.

Income Tax Expense

The income tax expense of the Group increased from RMB 32.03 million recorded for the year ended 31 December 2014 to RMB 47.34 million for the year ended 31 December 2015, representing an increase of RMB 15.31 million.

In the year of 2015, the effective rate of income tax for the Group was approximately 14.8% (2014: 14.9%), primarily due to the applicable preferential income tax rate for high and new-tech enterprises entitled to by the Company and its subsidiaries, Shanghai Qisheng and Shanghai Jianhua.

Results of the year

Profit of the Group attributable to the equity holders of the Company increased from RMB 183.58 million for the year ended 31 December 2014 to RMB 273.47 million for the year ended 31 December 2015, representing an increase of RMB 89.89 million or 49.0%. After deducting the after-tax exchange gains of approximately RMB 24.43 million (after tax) in relation to the foreign currency settlement from the Global Offering proceeds, there was an increase of approximately 35.7%. The basic earnings per share were RMB 1.86 (2014: RMB 1.53). The results of the year realized a rapid and steady growth, primarily attributable to the growth of revenue from sales and the enhanced profitability of the Group.

Liquidity and Capital Resources

As at 31 December 2015, the total current assets of the Group was approximately RMB 2,372.05 million, representing an increase of RMB 2,024.69 million as compared to the amount as at 31 December 2014, and the total current liabilities was approximately RMB 140.99 million, representing an increase of RMB 1.75 million as compared to the amount as at 31 December 2014. As at 31 December 2015, the Group's current assets to liabilities ratio was approximately 16.82 as compared to 2.49 as at 31 December 2014, the increase in current assets to liabilities ratio was primarily attributable to the increase in deposits of the proceeds from the Global Offering of the Company which was completed in April 2015.

During the Reporting Period, the net cash inflow from operating activities of the Group was RMB 268.51 million, representing an increase of RMB 126.52 million as compared to RMB 141.99 million for the year ended 31 December 2014. The net cash outflow from the investment activities of the Group was RMB 149.25 million, representing an increase of RMB 61.10 million as compared to RMB 88.15 million for the year ended 31 December 2014. The net cash inflow from the investment activities of the Group was RMB 1,754.57 million, representing an increase of RMB 1,824.89 million as compared to net cash outflow of RMB 70.32 million for the year ended 31 December 2014, which is primarily due to the receipt of proceeds from the Global Offering of the Group.

The Company issued an aggregate of 40,045,300 H shares of RMB 1.00 each at a price of HK$59.00 per H share, raising a total amount of HK$2,362.67 million. Netting of the listing fee amounting to RMB 69.42 million, the effective net proceeds were RMB 1,794.28 million, in which the increase of share capital and capital reserve were RMB 40.05 million and RMB 1,754.23 million, respectively.

Mergers and Acquisitions

Apart from the internal growth of business, the Group actively sought opportunities of external growth through mergers and acquisitions. The Group has been recognized to certain degree throughout the industry, and had brilliant track record in selecting suitable target companies for cooperation or mergers and acquisitions. The proceeds raised from the Global Offering provided a strong support to the Group for mergers and acquisitions, detailed initiatives of which are as follows:

- **Pilot integration of sales channel through mergers and acquisitions**

  In February 2015, the Company made capital contribution of RMB 6 million to Shanghai Baiyue in cash to acquire 60% of its equity interest. Through the investment, the Group will absorb and integrate the sales team of Shanghai Baiyue in the Shanghai region and the distribution team of medical devices so as to effectively enhance the efficiency of the Group's sales force in Shanghai region and accordingly, expand the market share of the region and to reduce the average cost of sales.

- **Established subsidiary in Hong Kong to build financing platform**

  In July 2015, the Group set up a wholly-owned subsidiary Haohai Healthcare Holdings Co., Limited ("**Haohai Holdings**") in Hong Kong. The establishment of Haohai Holdings would benefit the Group in leveraging the regional advantage of Hong Kong region to further expand oversea business and build the foreign financing platform in order to facilitate the successful development of the oversea business and foreign investment of the Group.

- **To firstly expand the ophthalmology business among the Group's four therapeutic segments through mergers and acquisitions**

  In August 2015, Haohai Holdings has acquired approximately 38% equity interest of Henan Universe . For details of the transaction, please refer to the announcement of the Company dated 11 September 2015. Through the transaction, the management believed that the Group and Henan Universe will take advantage of the resources and the strengths of both parties, develop the huge market potential for intraocular lens product ("**IOL Products**") and provide mutual benefits for long-term development by jointly promoting the localization of IOL Products and the substitution of imported products. Meanwhile, intraocular lens will be integrated with the Group's existing ophthalmic viscoelastic device and Eyesucom (product of lubricant eye drops) to form an ophthalmology product mix. With the synergy created through sharing the extensive and effective sales network of the Group, the overall competitive advantage of the Group will be enhanced through the increased strategic competitiveness in the ophthalmic market.

In 2016, the Group will continue to actively seek suitable domestic and overseas targets and business opportunities for the purpose of vertical and horizontal industry investment within the upstream and downstream of the industry and related industry with higher synergy at reasonable considerations while closely monitoring the trend of industry development. The Group will make early planning in those strategic businesses with substantial development potential in order to enhance the core competitiveness and sustainable development potential of the Group.

Employees and remuneration policy

The Group had 549 employees as of 31 December 2015. The breakdown of our total number of employees by function was as follows:

Production	222
Research and Development	114
Sales and Marketing	140
Supply	10
Administration	63
Total	549

The Group's remuneration policy for its employees is based on their working experience, daily performance, sales performance of the Company and external market competition. The Group provided various and thematic training programs for its employees regularly, such as training in relation to the knowledge of the product and sales of the Group, the applicable laws and regulations for operations, the requirements of GMP certificate, quality control, workplace safety and corporate culture. During the Reporting Period, the remuneration policy and training programs had no material changes and the total remuneration of the Group's employees amounted to approximately RMB 85.31 million. The management will continue to combine the human resources management and enterprise strategies to recruit professionals according to the changes of the external conditions so as to realize the Group's strategic goal through its strong and reasonable human resources structure.

Asset pledge

As at 31 December 2015, the Group did not have any asset pledge.

Gearing

As at 31 December 2015, the Group had total liabilities of approximately RMB 156.48 million and gearing ratio ((Total Liabilities/Total Assets) × 100%) of 5.55% as compared to 20.98% as at 31 December 2014. The decrease in gearing ratio from 2014 was mainly attributable to the substantial increase in total assets of the Group arising from the net proceeds of approximately RMB 1,794.28 million raised from the Global Offering in April 2015.

Bank borrowing

As at 31 December 2015, the Group did not have any outstanding bank borrowing.

Foreign exchange risk

The sales 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. As at 31 December 2015, the Group did not enter into any hedging transactions.

Contingent liabilities

As at 31 December 2015, the Group did not have any contingent liabilities.

Material events after the end of the Reporting Period

(a) On 26 February 2016, Haohai Holdings entered into a cornerstone investment agreement with Union Healthcare Limited (02138.HK) and agreed to subscribe at the offer price for such number of shares that may be purchased with an aggregate amount of USD10,000,000 which was settled on 10 March 2016. Union Healthcare Limited was listed on Stock Exchange on 11 March 2016.

(b) Pursuant to a resolution of the Board of Directors dated 18 March 2016, the directors of the Company proposed to declare a final dividend of RMB 0.40 (inclusive of tax) per share for the year ended 31 December 2015, totally amounting to RMB 64,018,120. The proposed dividend is subject to be approved at the annual general meeting on 3 June 2016.

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 for the period since the listing of the H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited on 30 April 2015 (the "**Listing Date**"), up to 31 December 2015.

FINAL DIVIDEND

The Board proposed to declare a final dividend of RMB 0.40 (inclusive of tax) per share or an aggregate of RMB 64,018,120 for the year ended 31 December 2015.

The aforesaid proposal is subject to the consideration and approval at the annual general meeting ("**AGM**"). If the distribution proposal is approved at the AGM, it is expected that the final dividend for the year ended 31 December 2015 will be paid on or before Friday, 29 July 2016 to the shareholders.

For the detailed arrangement of the declaration and distribution of the final dividend, the Company will announce separately.

ANNUAL GENERAL MEETING

The 2015 AGM will be held on Friday, 3 June 2016. The notice of 2015 AGM will be posted to the shareholders in due course.

CLOSURE OF THE REGISTER OF MEMBERS

In order to determine the holders of H shares who are entitled to attend the AGM, the H shares registrar and transfer office will be closed from Wednesday, 4 May 2016 to Friday, 3 June 2016, both days inclusive, during which no transfer of shares will be registered. In order to determine the shareholders of H shares who are entitled to receive the final dividend for the year ended 31 December 2015, the H shares registrar will be closed between Monday, 13 June 2016 and Friday, 17 June 2016, both days inclusive, during which no transfer of shares will be registered.

For qualifying to attend and vote at the AGM, holders of H shares shareholders whose transfer has not been registered must lodge all transfer instruments accompanied by the relevant share certificates with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H shares, or the head office of the Company at 4/F, Block 2, Alley 139 Anshun Road, Changning District, Shanghai, China for holders of domestic shares for registration at or before 4:30 p.m. on Tuesday, 3 May 2016.

For qualifying to receive the final dividend for the year 2015, holders of H shares whose transfer has not been registered must lodge all transfer instruments accompanied by the relevant share certificates with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H shares, or the head office of the Company at 4/F, Block 2, Alley 139 Anshun Road, Changning District, Shanghai, China for holders of domestic shares for registration at or before 4:30 p.m. on Friday, 10 June 2016.

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 of the Listing Rules throughout the period from the Listing Date to 31 December 2015. 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 "**Mode Code**") as 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 period from the Listing Date to 31 December 2015.

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 and internal control system. The Group's audited consolidated financial statements for the year ended 31 December 2015 have been reviewed by the Audit Committee.

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2015 as set out in this results announcement have been agreed by the Group's international auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year.

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.com) and the Company's website (www.3healthcare.com).

The Company's 2015 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.com) 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, 21 March 2016

As at the date of this announcement , the executive directors of the Company are Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Huang Ping and Ms. Chen Yiyi; 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*