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 INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

HIGHLIGHTS OF INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

- During the Reporting Period, affected by the continuous spread of the global COVID-19 Epidemic, the Group recorded an aggregate revenue of approximately RMB493.61 million (the corresponding period in 2019: approximately RMB780.61 million), representing a decrease of approximately RMB287.00 million, or 36.8%, as compared to the corresponding period in 2019.

- During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB27.53 million (the corresponding period in 2019: approximately RMB182.57 million), representing a decrease of approximately 84.9% as compared to the corresponding period in 2019.

- During the Reporting Period, the R&D expenses of the Group was approximately RMB56.57 million, representing an increase of approximately RMB5.25 million or approximately 10.2% from approximately RMB51.32 million for the corresponding period in 2019. The proportion of the R&D expenses in revenue increased from 6.6% of the corresponding period in 2019 to 11.5% of the Reporting Period. Among them, the R&D investment in ophthalmic products amounted to approximately RMB31.88 million, representing an increase of approximately RMB7.29 million, or 29.6%, as compared to that of the corresponding period in 2019, which was mainly due to the fact that a number of ophthalmic projects of the Group, such as orthokeratology and retinal cleft sealing biogel, had entered into critical clinical trials and incurred significant R&D expenses.

- During the Reporting Period, the basic earnings per share of the Company were RMB0.15 (the corresponding period in 2019: RMB1.14).

- The Board did not recommend the distribution of an interim dividend for the six months ended 30 June 2020.

The board of directors (the "**Board**") of Shanghai Haohai Biological Technology Co., Ltd.* (the "**Company**" or "**Haohai Biological Technology**") is pleased to announce unaudited consolidated results of the Company and its affiliate (the "**Group**", "**we**", "**our**" or "**us**") for the six months ended 30 June 2020 (the "**Reporting Period**") together with the comparative figures for the six-month period ended 30 June 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
	Notes	***(Unaudited)***	*(Unaudited)*
REVENUE	4	**493,609**	780,610
Cost of sales		**(113,053)**	(183,593)
Gross profit		**380,556**	597,017
Other income and gains, net	4	**96,840**	42,185
Selling and distribution expenses		**(300,970)**	(249,849)
Administrative expenses		**(99,253)**	(109,358)
Impairment losses on financial assets		**(2,969)**	1,605
Research and development costs		**(56,573)**	(51,319)
Other expenses		**(5,166)**	(18,614)
Finance costs		**(1,465)**	(2,331)
Share of profits and losses of:			
Joint ventures		**–**	17,814
An associate		**26**	336
PROFIT BEFORE TAX	5	**11,026**	227,486
Income tax credit/(expense)	6	**1,088**	(31,001)
PROFIT FOR THE PERIOD		**12,114**	196,485
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(12,818)**	2,372
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(12,818)**	2,372

	Notes	Six months ended 30 June **2020** ***RMB'000*** ***(Unaudited)***	 2019 *RMB'000* *(Unaudited)*
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		**(31,428)**	19,273
Loss on disposal		**–**	(1,340)
Income tax effect		**(388)**	49
		(31,816)	17,982
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(31,816)**	17,982
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(44,634)**	20,354
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(32,520)**	216,839
Profit attributable to:			
Owners of the parent		**27,527**	182,568
Non-controlling interests		**(15,413)**	13,917
		12,114	196,485
Total comprehensive income attributable to:			
Owners of the parent		**(11,915)**	202,507
Non-controlling interests		**(20,605)**	14,332
		(32,520)	216,839
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the period	8	**0.15**	1.14

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at 30 June 2020

	Notes	**30 June 2020** *RMB'000* *(Unaudited)*	31 December 2019 *RMB'000* *(Audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		**944,662**	895,071
Right-of-use assets		**223,114**	216,714
Other intangible assets		**424,624**	430,609
Goodwill		**384,084**	333,493
Investment in an associate		**4,770**	5,329
Equity investments designated at fair value through other comprehensive income		**326,759**	292,630
Deferred tax assets		**30,801**	18,393
Other non-current assets		**12,287**	14,257
Total non-current assets		**2,351,101**	2,206,496
CURRENT ASSETS			
Inventories		**289,039**	239,988
Trade and bills receivables	9	**284,504**	389,999
Prepayments, other receivables and other assets		**97,879**	92,880
Pledged deposits		**50,000**	–
Cash and bank balances		**3,105,989**	3,222,508
Total current assets		**3,827,411**	3,945,375
CURRENT LIABILITIES			
Trade and bills payables	10	**22,046**	36,786
Other payables and accruals		**384,898**	263,319
Interest-bearing bank and other borrowings	11	**79,713**	25,710
Tax payable		**17,842**	34,152
Total current liabilities		**504,499**	359,967

	Notes	**30 June 2020** *RMB'000* *(Unaudited)*	31 December 2019 *RMB'000* *(Audited)*
NET CURRENT ASSETS		**3,322,912**	3,585,408
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,674,013**	5,791,904
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	11	**32,078**	24,002
Other payables and accruals		**4,500**	–
Deferred tax liabilities		**108,009**	110,950
Deferred income		**2,664**	3,599
Total non-current liabilities		**147,251**	138,551
NET ASSETS		**5,526,762**	5,653,353
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital		**177,845**	177,845
Treasury shares	12	**(22,690)**	–
Reserves		**5,140,528**	5,276,935
		5,295,683	5,454,780
Non-controlling interests		**231,079**	198,573
Total equity		**5,526,762**	5,653,353

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. CORPORATE AND GROUP INFORMATION

Shanghai Haohai Biological Technology Co., Ltd. (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. The Company issued 17,800,000 A shares on 30 October 2019 ("**A Share Offering**"). The A shares of the Company have been listed on the Sci-tech Innovation Board of the Shanghai Stock Exchange (the "**SSE**") since 30 October 2019. Total number of issued shares of the Company after the A Share Offering was 177,845,300 shares (comprising 40,045,300 H shares and 137,800,000 A shares). During the six months ended 30 June 2020 (the "**Reporting Period**"), the Company repurchased 638,700 H shares as treasury shares which were cancelled on 3 July 2020. Additional 534,500 H shares were repurchased subsequent to 30 June 2020, and up to the date of this announcement, such shares were not cancelled yet.

During the Reporting Period, the Company and its subsidiaries (the "**Group**") was principally engaged in the manufacture and sale of biologicals, medical hyaluronate and ophthalmology products, research and development of biological engineering, pharmaceutical and ophthalmology products and the provision of related services.

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") No. 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. They have been prepared under historical cost convention, except for certain equity instruments and certain other payables and accruals, which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

2.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of revised International Financial Reporting Standards ("**IFRSs**") as set out in note 2.3 for the first time for the current period's financial information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.3 Changes in Accounting Policies and Disclosures

In the Reporting Period, the Group has applied, for the first time, the following revised standards and amendments:

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

Other than as further explained below, the adoption of other revised standards do not have a material impact on the interim condensed consolidated financial statements of the Group.

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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

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. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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 and intraocular lens, research and development of biological engineering and pharmaceutical products and the provision of related services. Therefore, management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Mainland China	**422,163**	681,791
United States of America ("**USA**")	**31,245**	44,553
United Kingdom ("**UK**")	**7,974**	5,524
Other regions and countries	**32,227**	48,742
	493,609	780,610

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

(b) Non-current assets

	30 June	31 December
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Mainland China	**1,601,662**	1,495,695
USA	**105,477**	108,610
UK	**284,217**	276,674
Other regions and countries	**2,185**	14,494
	1,993,541	1,895,473

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

Information about major customers

No revenue from a single customer contributed to 10% or more of the Group's revenue during the Reporting Period (six months ended 30 June 2019: none).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenue from contracts with customers	**493,609**	780,610

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenue from contracts with customers		
(a) Disaggregated revenue information		
Type of goods sold		
Ophthalmology products	**209,130**	344,029
Medical aesthetics and wound care products	**75,814**	153,734
Orthopedics products	**128,920**	168,856
Anti-adhesion and hemostasis products	**68,413**	95,468
Other products	**11,332**	18,523
Total	**493,609**	780,610
Timing of revenue recognition		
Goods transferred at a point in time	**493,609**	780,610

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	*(Unaudited)*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**18,069**	22,418

(b) Performance obligation

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

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

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Bank interest income	**54,102**	24,390
Government grants *(note)*	**20,357**	11,900
Dividend income from equity investments at fair value through other comprehensive income	**13,659**	–
Foreign exchange gains, net	**7,746**	3,213
Others	**976**	2,682
	96,840	42,185

Note:

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

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Cost of inventories sold	**113,053**	183,593
Depreciation of property, plant and equipment	**36,140**	32,466
Depreciation of right-of-use assets	**7,726**	7,887
Amortisation of other intangible assets	**18,509**	14,381
Research and development costs	**56,573**	51,319
Lease payments not included in the measurement of lease liabilities	**3,208**	1,547
Employee benefit expenses:		
– Wages and salaries	**142,047**	119,390
– Pension scheme contributions	**7,760**	13,214
Net loss on disposal of a joint venture classified held for sale	**–**	9,531
Investment loss on a subsidiary	**–**	8,060
Foreign exchange differences, net	**(7,746)**	(3,213)
Provision/(reversal) of impairment losses on financial assets	**2,969**	(1,605)
Write-down of inventories to net realisable value	**2,917**	124
Bank interest income *(note 4)*	**(54,102)**	(24,390)
Dividend income from equity investments at fair value through other comprehensive income *(note 4)*	**(13,659)**	–
Net loss/(gain) on disposal of items of property, plant and equipment	**609**	(47)

6. INCOME TAX

The Company and its subsidiaries, except for Haohai Healthcare Holdings Co., Limited ("**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.

The Company, Shanghai Qisheng Biologics Company Limited ("**Shanghai Qisheng**"), Shanghai Jianhua Fine Biological Products Company Limited ("**Shanghai Jianhua**") and Henan Universe Intraocular Lens Research and Manufacture Company Ltd. ("**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. In 2020, the Company, Shanghai Qisheng, Shanghai Jianhua and Henan Universe are in the process of HNTE Status renewal for the next three years from 2020 to 2022. Based on the experiences and current feedback from the authorities, the Directors believe that the renewal would be successful. Therefore, the preferential income tax rate of 15% was applied during the Reporting Period for the Company, Shanghai Qisheng, Shanghai Jianhua and Henan Universe.

Shenzhen New Industries Material of Ophthalmology Co., Ltd. ("**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 Reporting Period for NIMO.

Hangzhou Aijinglun Technology Co. LTD ("**Hangzhou Aijinglun**"), which the Group acquired during the Reporting Period, was accredited with HNTE Status effective for the three years from 2019 to 2021 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during the Reporting Period for Hangzhou Aijinglun.

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the Reporting Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The profits tax for subsidiaries in the USA has been provided at the rate of 21% on the estimated assessable profits arising in the USA during the Reporting Period.

The profits tax for subsidiaries in the UK has been provided at the rate of 19% on the estimated assessable profits arising in the UK during the Reporting Period.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Current		
Charge for the period	**15,670**	48,824
Underprovision in prior periods	**103**	507
Deferred	**(16,861)**	(18,330)
Total tax (credit)/charge for the period	**(1,088)**	31,001

7. DIVIDENDS

The proposed final dividend of RMB0.70 (inclusive of tax) per ordinary share of the Company for the year ended 31 December 2019 was declared payable by the shareholders of the Company at the annual general meeting of the Company on 29 June 2020.

The Directors do not recommend the distribution of an interim dividend in respect of the six months period ended 30 June 2020 (six months ended 30 June 2019: nil).

8. 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 for the Reporting Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 177,733,217 (for the six months period ended 30 June 2019: 160,045,300) in issue during the Reporting Period.

The Group had no potentially dilutive ordinary shares in issue during the six months periods ended 30 June 2020 and 2019.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**27,527**	182,568
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	**177,733,217**	160,045,300

9. TRADE AND BILLS RECEIVABLES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Bills receivable	**6,142**	8,008
Trade receivables	**317,672**	414,704
Impairment	**(39,310)**	(32,713)
	284,504	389,999

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 and bills 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:

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Within one year	**273,942**	378,334
1 to 2 years	**9,666**	10,118
2 to 3 years	**896**	1,547
	284,504	389,999

10. TRADE AND BILLS PAYABLES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Trade payables	**22,046**	36,786

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Within 3 months	**21,025**	30,341
3 months to 1 year	**466**	6,377
Over 1 year	**555**	68
	22,046	36,786

11. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	**30 June 2020** *RMB'000* *(Unaudited)*	31 December 2019 *RMB'000* *(Audited)*
Current			
Bank loans:			
– Secured	(1)	**64,130**	14,524
Other loans:			
– Unsecured	(2)	**119**	113
Lease liabilities		**15,464**	11,073
		79,713	25,710
Non-Current			
Bank loans:			
– Secured	(1)	**104**	144
Other loans:			
– Unsecured	(2)	**515**	509
Lease liabilities		**31,459**	23,349
		32,078	24,002
		111,791	49,712

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**64,130**	14,524
In the second year	**104**	79
In the third to fifth years, inclusive	**–**	65
Beyond five years	**–**	–
	64,234	14,668
Other borrowings repayable:		
Within one year or on demand	**15,583**	11,186
In the second year	**10,913**	7,908
In the third to fifth years, inclusive	**11,714**	12,063
Beyond five years	**9,347**	3,887
	47,557	35,044
	111,791	49,712

The bank loans bear interest at rates ranging from 0.89% to 4.50% (31 December 2019: 0.89% to 4.01%) per annum.

Notes:

(1) As at 30 June 2020, the apartments of the non-controlling shareholders of NIMO were pledged for bank loans of RMB36,249,000 (unaudited) (31 December 2019: RMB5,302,000 (audited)), which were also guaranteed by these shareholders. In addition, bank loans of the Company of approximately RMB27,800,000 (unaudited) (31 December 2019: nil) was secured by Shanghai Qisheng's bank deposits of RMB50,000,000 (unaudited). Also, a bank loan of ODC Industries ("**ODC**") of approximately RMB185,000 (unaudited) was secured by mortgages over a vehicle of ODC with a carrying value of approximately RMB325,000 (unaudited) (31 December 2019: RMB342,000 (audited)).

(2) As at 30 June 2020, the unsecured loan represents an interest-free government loan obtained by ODC.

12. TREASURY SHARES

During the Reporting Period, the Company repurchased 638,700 H shares, which accounted for approximately 0.3591% of the Company's total share capital, at a total consideration of approximately HK$24,721,000 (equivalent to RMB22,690,000). These H shares were cancelled on 3 July 2020.

13. BUSINESS COMBINATION

On 24 April 2020, the Group acquired 55% equity interest in Hangzhou Aijinglun from the third parties. Hangzhou Aijinglun is engaged in development and manufacture of IOL products. The acquisition was made as part of the Group's strategy to expand its product portfolio of ophthalmology product line. The purchase consideration for the acquisition is RMB74,000,000, with RMB55,000,000 paid on or near the acquisition date (RMB45,000,000 was paid to the original shareholders of Hangzhou Aijinglun, and RMB10,000,000 was paid to Hangzhou Aijinglun as capital injection), another RMB10,000,000 will be paid to Hangzhou Aijinglun as capital injection by the end of 2020, and the remaining RMB9,000,000 will be paid by the Group (RMB4,500,000 will be paid to the original shareholders of Hangzhou Aijinglun, and RMB4,500,000 will be paid to Hangzhou Aijinglun as shareholder's contribution), provided that Hangzhou Aijinglun obtains the registration certificate from relevant authorities for certain new products under development within five years from the date of acquisition.

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

	Fair value recognised on acquisition *RMB'000* *(Unaudited)*
Property, plant and equipment	2,059
Other intangible assets	13,650
Other non-current assets	4,500
Cash and bank balances	12,462
Trade receivables	47
Prepayments, other receivables and other assets	10,906
Inventories	2,507
Trade payables	(6)
Other payables and accruals	(3,104)
Deferred tax liabilities	(2,432)
Total identifiable net assets at fair value	40,589
Non-controlling interests	(18,265)
	22,324
Goodwill on acquisition*	51,676
	74,000
Satisfied by	
Cash	55,000
Cash consideration payable*	19,000
	74,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to approximately RMB47,000 and RMB10,059,000 respectively. No impairment allowances were provided for trade receivables and other receivables as at the date of acquisition.

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

	RMB'000 *(Unaudited)*
Cash consideration paid	55,000
Cash and bank balances acquired	(12,462)
Net outflow of cash and cash equivalents included in cash flows from investing activities	42,538

As part of the purchase agreement, contingent consideration is payable, which is dependent on the obtaining of registration certificate of certain new products under development within five years from the date of acquisition by Hangzhou Aijinglun. The initial amount recognised was RMB9,000,000.

Since the acquisition, Hangzhou Aijinglun contributed approximately RMB2,128,000 to the Group's revenue and incurred a net loss of approximately RMB436,000 to the consolidated profit or loss for the Reporting Period.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the Reporting Period would have been approximately RMB493,219,000 and approximately RMB8,418,000, respectively.

* The Group is in the process of engaging an independent appraiser to assist with the identification and determination of fair values to be assigned to the assets and liabilities of Hangzhou Aijinglun and the fair value of the contingent consideration as disclosed above. The valuation was not finalised as at the date of this announcement. Therefore, these amounts recognised in the Group's 2020 interim financial statements in relation to the acquisition of Hangzhou Aijinglun were on a provisional basis.

14. EVENTS AFTER THE REPORTING PERIOD

During the period of July 2020, the Company repurchased 534,500 H shares, which accounted for approximately 0.3016% of the Company's total share capital (i.e. 177,206,600 shares) as at the date of this announcement, at a total consideration of approximately HK$28,468,000.

Except for the cancellation of repurchased 638,700 H shares by the Company as disclosed in note 12 to the financial statements, and the additional 534,500 H shares repurchase mentioned above, there was no material subsequent event undertaken by the Group after 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

In the first half of 2020, the novel coronavirus pneumonia (the "**COVID-19**") epidemic (the "**Epidemic**") had an unprecedented negative impact on the global economy. In the first quarter of 2020, in accordance with the meeting of the State Council on the Working Mechanism for Joint Prevention and Control of the Pneumonia Epidemic Caused by the COVID-19 and the unified deployment of local epidemic prevention and control working groups, people throughout China were asked to reduce their risk of being infected by the Epidemic by reducing travel. In order to prevent in-hospital infections, most of the medical institutions at all levels of the medical industry in which the Group operates have temporarily suspended most of their medical and surgical services, including ophthalmology outpatient and elective surgeries, non-emergency surgeries and chronic disease services such as intra-articular viscosupplement, and medical aesthetics outpatient clinics in all regions. In the second quarter, the Epidemic began to spread overseas, but at the same time, due to the early prevention and control measures in place in China, the Epidemic was better controlled, and the production and living order of all sectors of society gradually began to restore.

As a result of the above factors, the Group's revenue from each product line decreased during the Reporting Period as compared to the corresponding period in 2019. Among them, revenue in the first quarter of 2020 was particularly affected by the sudden outbreak of the COVID-19 Epidemic in China and the Spring Festival holiday, while revenue in the second quarter of 2020 began to show a gradual recovery.

During the Reporting Period, the Group recorded an aggregate revenue of approximately RMB493.61 million, representing a decrease of approximately RMB287.00 million, or approximately 36.8%, as compared to the corresponding period in 2019. The breakdown of the Group's revenue from main business of each product line by therapeutic areas is as follows (by amount and as a percentage of the total revenue of the Group):

	January-June 2020		January-June 2019		
	RMB'000 (Unaudited)	***%***	*RMB'000 (Unaudited)*	*%*	Change (%)
Ophthalmology products	**209,130**	**42.4**	344,029	44.1	-39.2
Medical aesthetics and wound care products	**75,814**	**15.4**	153,734	19.7	-50.7
Orthopedics products	**128,920**	**26.1**	168,856	21.6	-23.7
Anti-adhesion and hemostasis products	**68,413**	**13.8**	95,468	12.2	-28.3
Other products	**11,332**	**2.3**	18,523	2.4	-38.8
Total	**493,609**	**100.0**	780,610	100.0	-36.8

During the Reporting Period, the overall gross profit margin of the Group was 77.1%, which remained stable as compared to 76.5% for the corresponding period in 2019.

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB27.53 million (the corresponding period in 2019: approximately RMB182.57 million), representing a decrease of approximately 84.9% as compared to the corresponding period in 2019, which was mainly attributable to the following factors: (1) during the Reporting

Period, affected by the continuous spread of the global COVID-19 Epidemic, the Group's total revenue decreased by approximately RMB287.00 million as compared to the corresponding period last year, and gross profit decreased by approximately RMB216.46 million while gross profit margin remained stable; (2) during the Reporting Period, the Group's selling and distribution expenses, administrative expenses, research and development costs as a whole slightly increased by approximately RMB46.27 million as compared with the corresponding period of last year; (3) during the Reporting Period, the Group's other income and gains increased by approximately RMB54.66 million as compared to the corresponding period of last year due to the increase in interest income, dividend income and government grants; (4) during the Reporting Period, income tax expense decreased by approximately RMB32.09 million as compared to the corresponding period last year; and (5) during the Reporting Period, due to temporary loss incurred by certain non-wholly-owned subsidiaries, the net loss attributable to non-controlling interests of the subsidiaries was approximately RMB15.41 million, compared with the net profit attributable to non-controlling interests of the subsidiaries of approximately RMB13.92 million for the corresponding period last year, resulting in a corresponding decrease in profit and loss attributable to non-controlling interests of approximately RMB29.33 million.

During the Reporting Period, the basic earnings per share of the Company were RMB0.15 (the corresponding period in 2019: RMB1.14).

Ophthalmology Products

In the field of ophthalmology, the Group is the largest OVD product manufacturer in the PRC and one of the internationally renowned manufacturers of IOL. According to the research reports of Guangzhou Biaodian Medical Information Co., Ltd. ("**Biaodian Medical**") under the National Medical Products Administration ("**NMPA**") Southern Medicine Economic Research Institute, the market share of the Group's OVD products was approximately 45.9% in 2019, with a market share of over 40% for the past thirteen consecutive years. Based on the sales volume, the Group's IOL products had captured about 30% of the IOL market in the PRC. In addition, Contamac Group, a subsidiary of the Company, is one of the world's largest independent manufacturers of ophthalmic materials. It provides ophthalmic materials such as materials for IOL and contact lenses to customers in more than 70 countries worldwide.

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was approximately RMB209.13 million, representing a decrease of approximately RMB134.90 million, or approximately 39.2 %, as compared to the corresponding period in 2019. The breakdown of revenue from ophthalmology products by specific products is as follows:

	January-June 2020		January-June 2019		
	RMB'000 ***(Unaudited)***	***%***	*RMB'000* *(Unaudited)*	*%*	Change (%)
IOL products	**116,324**	**23.6**	210,281	26.9	-44.7
Ophthalmic materials	**63,144**	**12.8**	78,177	10.0	-19.2
OVD products	**25,712**	**5.2**	50,015	6.4	-48.6
Other ophthalmology products	**3,950**	**0.8**	5,556	0.7	-28.9
Total	**209,130**	**42.4**	344,029	44.1	-39.2

During the Reporting Period, the Group's revenue from the sales of IOL products and OVD products were approximately RMB116.32 million and RMB25.71 million respectively, representing a decrease of approximately 44.7% and 48.6% as compared to that of the corresponding period in 2019. IOL and OVD products are mainly used for cataract surgery. As a result of the COVID-19 Epidemic, most ophthalmology outpatient and elective surgery services in China were largely halted in the first quarter of 2020, and only gradually began to open and resume in the second quarter of 2020 based on the improved control of the COVID-19 Epidemic across China.

During the Reporting Period, the Group's revenue from the sales of ophthalmic materials was approximately RMB63.14 million, representing a decrease of approximately 19.2% from the corresponding period in 2019. The decline in revenue of Contamac Group, the Group's subsidiary operating the optic materials business, which has a sales network of more than 400 customers in more than 70 countries, was also affected by the global spread of the COVID-19 Epidemic.

In the second quarter of 2020, the revenue of the Group's ophthalmic business has gradually recovered from less than 50% in the first quarter of 2020 to over 70% of the corresponding period last year, with a good recovery trend.

Cataract is a common and frequently-occurring disease in the middle-aged and elderly population, and it is also the number one blindness-causing disease in the world. The cataract surgery rate ("**CSR**") in China is much lower than the developed countries. In 2018, only approximately 3.70 million cataract surgeries were performed in China, and the CSR per million of Chinese population is only 2,662, while in contrast the CSR in India has reached 5,600 and the CSR of Europe, the United States, Japan and other developed countries has exceeded 10,000. Therefore, there is still greater room to improve the cataract surgery operation rate since the market penetration rate of relevant ophthalmic products of China is relatively low to date.

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

During the Reporting Period, the Group continued to deepen its ophthalmic cataract treatment business. In terms of marketing, the Group continued to consolidate and optimize its marketing resources and actively participated in the gradual procurement of high-value consumables for IOL in all provinces and alliances. During the Reporting Period, the country's first cross-province joint procurement with target quantity of high-value consumables was implemented. Six types of the Group's products involving a number of mainstream varieties were successfully selected in the joint procurement with target quantity of medical consumables (IOLs) in Beijing, Tianjin and Hebei, and Heilongjiang, Jilin, Liaoning, Inner Mongolia, Shanxi and Shandong. In August 2020, Yunnan Province completed the centralized procurement with target quantity of high-value medical consumables from public medical institutions. Among the ophthalmic consumables, five IOL products and one surgical scalpel product of the Group were successfully selected. In the same month, led by Shaanxi Province, the inter-provincial alliance (Ningxia, Gansu, Qinghai, Xinjiang, Xinjiang Construction Corps, Hunan, Guangxi, Guizhou, Hainan and Shaanxi) of public medical institutions IOL cross-regional joint procurement was implemented, and six products of the Group covering spherical IOL, aspheric IOL, preloaded aspheric IOL, and segmented bifocal IOL products were successfully selected. The successful selection of the above products will help stabilize and even increase the market share of the Group's IOL products in the relevant regions.

In terms of research and development, the Group creates synergy among the ophthalmology R&D technology platforms of the Group in the PRC, the United States and the United Kingdom to promote collaboration with top domestic research institutes, universities and clinical institutions and accelerate technology introduction and define innovation while leveraging on the support of the National Key R&D Programs under the "13th Five-Year Plan". In July 2020, the Group's self-developed casting molded hydrophobic aspheric IOL product has been granted with ethical approval, and is going to enter clinical trial phase.

In addition, the Group continued to focus on investment and mergers and acquisitions as well as technological innovation opportunities in the global ophthalmic industry to accelerate the localization process of China's ophthalmic industry. During the Reporting Period, the Group further expanded its ophthalmic business to the field of myopia prevention and control and refractive correction.

China is one of the countries with the largest number of blindness and visual impairment patients in the world, with cataracts accounting for 32.5% and refractive errors accounting for 44.2% of visual impairment factors, while the prevalence of ophthalmic diseases in the highly myopic population is much higher than that in the normal-vision population. In 2019, the number of myopia patients worldwide was approximately 1.4 billion, among which, the number of myopia patients in China exceeded 600 million, and as a result the capacity of China's refractive correction market is considerable while the penetration rate is low.

In the field of myopia prevention and control, the clinical trials of the Group's new orthokeratology products were officially launched in January 2020 and are now progressing in an orderly manner. At the same time, the Group has also started to explore projects such as gas permeable scleroscope and soft corneal contact lenses with myopia correction capabilities.

In the field of refractive correction, in April 2020, the Group acquired 55% equity interest in Hangzhou Aijinglun. Hangzhou Aijinglun is mainly engaged in the research and development, production and sales of crystalline refractive lenses, and has independent intellectual property rights of its own developed Yijing Posterior Chamber-Phakic Refractive Lens ("**PRL**"), which has a refractive correction range of -10.00D ~ -30.00D and has been approved by NMPA. Refractive lens surgery with crystalline lens can correct myopia without cutting normal corneal tissues and has the advantages of preserving the adjustment function of the human lens and surgical reversibility, it is a safe and effective method to correct myopia. Currently, there are only two such products approved by the NMPA in the Chinese market, and Yijing PRL is the only domestic product and the only choice for patients with severe myopia above 1,800 degrees, therefore the product is highly scarce. In addition, the Group is in the process of upgrading its PRL products, with the second generation of the aqueous humor permeable product about to enter the registration testing stage, which will enable aqueous humor circulation and provide a wider range of vision correction.

Medical Aesthetics and Wound Care Products

In the field of medical aesthetics and wound care, the Group is the second largest domestic manufacturer of rhEGF for external use and one of the well-known domestic manufacturers of HA Dermal Filler. The Group's third-generation HA Dermal Filler product "海魅" with new particle-free characteristics was registered with the NMPA in March 2020 and was launched in August 2020. This product is currently positioned as a high-end HA Dermal Filler product among domestic HA Dermal Filler brands, with the main "precision adjustment" function. Its unique particle-free structure not only brings high cohesion, but also slows down the biodegradation of hyaluronic acid so as to make the injection effect more durable, and at the same time prevents the production of biofilm, thus reducing the incidence of adverse reactions and greatly improving the safety of the product.

During the Reporting Period, the Group's revenue of medical aesthetics and wound care products was approximately RMB75.81 million, representing a decrease of approximately RMB77.92 million, or approximately 50.7%, as compared to the corresponding period in 2019. The breakdown of the revenue from medical aesthetics and wound care products by specific products is as follows:

	January-June 2020		January-June 2019		
	RMB'000 (Unaudited)	***%***	*RMB'000 (Unaudited)*	*%*	Change (%)
HA Dermal Filler	**49,024**	**9.9**	114,338	14.6	-57.1
rhEGF	**26,790**	**5.4**	39,396	5.0	-32.0
Total	**75,814**	**15.4**	153,734	19.7	-50.7

During the COVID-19 Epidemic, medical aesthetics clinics were temporarily suspended throughout the PRC, resulting in a significant impact on the sales of the Group's medical aesthetics products. During the Reporting Period, the Group's revenue of HA Dermal Filler products was approximately RMB49.02 million, decreased by approximately RMB65.31 million, representing a decrease of approximately 57.1% as compared to the corresponding period in 2019.

According to the research reports of Biaodian Medical, the Group strengthened its market position as the second largest manufacturer of rhEGF products in China in 2019, whereas the market share of "Healin" products continued to increase to 23.5%. Due to the impact of the COVID-19 Epidemic, the sales revenue from "Healin" products decreased to approximately RMB26.79 million during the Reporting Period from approximately RMB39.40 million for the corresponding period in 2019.

In the second quarter of 2020, the Group's sales revenue from medical aesthetics and wound care products had recovered to approximately 60% of the corresponding period in 2019.

Orthopedics Products

In the field of orthopedics, the Group is the largest domestic manufacturer of orthopedic intra-articular viscoelastic supplements. According to the research reports of Biaodian Medical, the Group was the largest manufacturer of intra-articular viscosupplement products in China in 2019 for the sixth consecutive year and our market share has continued to expand from 39.7% to 42.1%.

During the Reporting Period, the orthopedics products of the Group recorded revenue of approximately RMB128.92 million, representing a decrease of approximately RMB39.94 million, or approximately 23.7%, as compared to the corresponding period in 2019. In the first quarter of 2020, the Group's revenue from orthopedics products was only about 50% of the corresponding period last year, but quickly recovered to nearly 90% of the corresponding period last year in the second quarter of 2020, mainly due to the Group's success in gaining a larger market share due to the efficacy and combination of products in the current challenging environment.

The breakdown of the revenue generated from the sales of orthopedics products by specific products is as follows:

	January-June 2020		January-June 2019		
	RMB'000	*%*	*RMB'000*	*%*	Change (%)
	(Unaudited)		*(Unaudited)*		
Sodium hyaluronate injection	**91,800**	**18.6**	117,237	15.0	-21.7
Medical chitosan used for intra-articular viscosupplement	**37,120**	**7.5**	51,619	6.6	-28.1
Total	**128,920**	**26.1**	168,856	21.6	-23.7

Anti-adhesion and Hemostasis Products

During the Reporting Period, the Group's anti-adhesion and hemostasis products achieved revenue of approximately RMB68.41 million, decreased by approximately RMB27.06 million compared the corresponding period in 2019, representing a decrease of approximately 28.3%. Overall, the revenue of the Group's anti-adhesion and hemostasis product in the first quarter of 2020 was only 60% of the corresponding period in 2019, while the sales revenue in the second quarter of 2020 recovered to nearly 80% of the corresponding period in 2019. According to the research reports of Biaodian Medical, the market share of anti-adhesion products produced by the Group was 29.6% in 2019, making it the largest producer of anti-adhesion products in China[*Note].

**Note: The market share of the Group's anti-adhesion products decreased from 48.9% in 2018 to 29.6% in 2019 due to the fact that the 2019 annual report issued by Biaodian Medical has added sample statistical units compared to the 2018 annual report. According to the retrospective adjustments made by Biaodian Medical, the market shares of the Group's anti-adhesion products for 2016 to 2018 were adjusted to 31.0%, 30.3% and 31.0% respectively, still ranking first in the market share of anti-adhesion products in China.*

The breakdown of revenue from the sales of anti-adhesion and hemostasis products by specific products is as follows:

	January-June 2020		January-June 2019		
	RMB'000	*%*	*RMB'000*	*%*	Change (%)
	(Unaudited)		*(Unaudited)*		
Medical chitosan used for anti-adhesion	**36,878**	**7.5**	48,145	6.2	-23.4
Medical sodium hyaluronate gel	**25,024**	**5.1**	37,346	4.8	-33.0
Collagen sponge	**6,511**	**1.2**	9,977	1.3	-34.7
Total	**68,413**	**13.8**	95,468	12.2	-28.3

Research and Development ("R&D")

During the Reporting Period, the Group continued to increase investment in R&D, focusing on expanding the innovative products lines of ophthalmology and medical aesthetics. The current R&D expenses amounted to approximately RMB56.57 million, representing an increase of approximately RMB5.25 million, or 10.2% over the corresponding period in 2019, and its proportion in revenue increased from approximately 6.6% of the corresponding period in 2019 to approximately 11.5% of the Reporting Period. As at the end of the Reporting Period, the Group's in-house R&D team comprised of 274 staff members, representing approximately 20.0% of the total staff of the Group, of which 18 staff were doctorate degree holders and 72 staff were master's degree holders.

Core Technology

The IOL products manufactured and sold by the Group cover a full range of products from mass-produced monofocal IOL to high-end functional multifocal IOL. The "Research and Development of New IOL and High-end Ophthalmic Implant Materials", which was declared by the Group, was successfully selected by the Ministry of Science and Technology of the People's Republic of China as one of the National Key R&D Programs under the "13th Five-Year Plan". The Group's patented technology of medical chitosan has been awarded the "First Prize of Shanghai Technology Invention (上海市技術發明一等獎)" and the "Second Prize of National Science and Technology Progress (國家科學技術進步二等獎)", and we have produced the first medical chitosan product in the world that has been successfully applied to the human body. At the same time, the Group has mastered two mainstream production processes of medical sodium hyaluronate in the international market, namely the "Extraction from Rooster Combs Method" and the "Bacterial Fermentation Method". The Group's rhEGF products won the "Second Prize of National Science and Technology Progress (國家科學技術進步二等獎)", which is the first registered rhEGF product in the world.

During the Reporting Period, the Group obtained approval for one invention patent and applied for 13 new invention patents.

Major Projects under Development

In the short to medium term, the Group's research projects in progress covered various ophthalmic treatment areas in a relatively intensive manner, while projects such as innovative tissue filler materials and fibrin sealant were also deployed, and attention was paid to the expansion of specification and research indication of the Group's existing products in the market. Among them, the Group has more than 10 projects under research in the four major ophthalmic treatment areas of cataract, optical, ocular surface and fundus, covering important products such as high-medium-class IOL products, orthokeratology products, the second generation PRL, new artificial vitreous products and moxifloxacin hydrochloride eye drops. During the Reporting Period, the Group's R&D investment in ophthalmic products amounted to approximately RMB31.88 million, representing an increase of approximately RMB7.29 million, or approximately 29.6%, as compared to that of the corresponding period in 2019, which was mainly due to the fact that a number of ophthalmic projects, such as innovative hydrophobic molded aspheric IOL, orthokeratology and retinal cleft sealing biogel, had entered into critical clinical trials and incurred significant R&D expenses.

In the field of cataract treatment, the Group's R&D projects on various types of IOL and ophthalmic materials are progressing in an orderly manner. Among them, the Group's self-developed casting molded hydrophobic aspheric IOL product obtained ethical approval in July 2020, and will commence clinical trials soon.

In the field of myopia prevention and control, the clinical trials of the Group's new orthokeratology products under development were formally launched in January 2020 and are now progressing in an orderly manner. At the same time, the Group has also started to explore projects such as gas permeable scleroscope and soft corneal contact lenses with myopia correction capabilities. In addition, the Group is in the process of upgrading the only domestically produced PRL for refractive correction, with the second generation of the aqueous humor permeable product about to enter the registration testing stage, which will enable aqueous humor circulation and provide a wider range of vision correction.

In the ocular surface treatment field, the Group's eye drops of moxifloxacin hydrochloride, which is a fourth-generation fluoroquinolone drug and one of the mainstream drugs used in the treatment of bacterial conjunctivitis, entered the technical review stage during the Reporting Period. Fourth-generation fluoroquinolones offer the advantages of a broader spectrum of activity, longer duration of activity, and less potential for triggering antibiotic resistance than previous generations of drugs. In the domestic market, currently only one foreign company, Novartis, has been approved to market moxifloxacin hydrochloride eye drops.

In the field of fundus treatment, the Group has entered the market through research and development of products such as new artificial vitreous and retinal cleft sealing biogel. Among them, the retinal cleft sealing biogel under development is the first product in China that can cover and adhere to retinal cleft and is mainly applicable to the treatment of rhegmatogenous retinal detachment. Clinical trials of the product were initiated in July 2020.

In the long term, the Group is determined to expand its R&D capabilities. The Group will work with famous Chinese and foreign colleges, universities, research institutes and experts to extend the product development in order to further expand the Group's product offerings and lead the technology trend in the niche areas on the basis of our own four technology platforms: IOL and optical materials technology platform (which is elected as one of the National Key R&D Programs under the "13th Five-Year Plan"), medical chitosan technology platform (which is elected and supported by the National High-Tech R&D Program (863 Program) and the major project of National Science and Technology under the "12th Five-Year Plan"), medical sodium hyaluronate/sodium hyaluronate technology platform, and rhEGF technology platform. The management of the Company believes that the Group's proven strong competence in R&D will become one of the long-standing core competitive edges of the Group and serves as a promise of the stable growth and development of our core business in the future.

Sales and Product Marketing

Over the years, the Group has focused on the construction of a professional academic promotion system, attracting and training a number of professionals with both clinical experience and marketing experience to ensure the professional promotion and brand building of the Company's products. The Group adopts a sales model that combines regional market distributors and direct sales teams, in which the distributors and the direct sales teams cooperate with each other in channel development and market operation, and carry out synergistic operations to form an efficient and sustainable sales capacity. Through its distributor and direct sales network, the Group has established long-term and stable business relationships with thousands of "Grade II" and above hospitals and major sizable private medical aesthetics chain hospitals nationwide.

OPERATING PROSPECTS OF THE SECOND HALF OF 2020

Industry Structure and Prospects

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

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

Development Strategy of the Company

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

Business Plan

The Group's business has steadily resumed upon the slowdown of the Epidemic situation, but owing to the impact of the COVID-19 Epidemic, the Group was under temporary losses in the first quarter of 2020. Therefore, cumulative net profit of the Group is expected to be positive from the beginning of 2020 to the end of the next reporting period, but may change significantly compared to the corresponding period in 2019. In the second half of 2020, the Group will actively respond to the market changes following the COVID-19 Epidemic and accelerate the recovery of its performance.

The Group will continue to firmly and deeply promote the integration of resources, and further strengthen the integration of merged and acquired enterprises in all aspects of R&D, production, sales and services, enabling merged and acquired enterprises to quickly integrate into the Group's management system with a view to maximizing synergy, improving operational efficiency, developing innovative technologies, and expanding market space, and continue to enhance core competitiveness.

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

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

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

Ophthalmology Products

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

In the second half of 2020, a number of provinces, cities and alliances are expected to initiate the procurement with target quantity of high-value consumables including IOL. The Group will actively respond by integrating the strengths of its five major brands and strive for more market share in the incremental market while optimizing its internal product structure and reinforcing the existing stock market.

Medical Aesthetics and Wound Care Products

In the second half of 2020, the Group will steadily promote the combined marketing of the "Matrifill" and "Janlane" and "海魅" series of HA dermal filler products and focus on building the third-generation high-end HA dermal filler product "海魅" to reinforce the Group's position as the leading domestic HA dermal filler manufacturer. At the same time, organic crosslinked sodium hyaluronate gel, the Group's fourth-generation HA Dermal Filler products, has entered the registration and inspection stage. The Group uses natural products as cross-linker and polysaccharides as the main raw materials to prepare aesthetics filling materials suitable for in vivo injection through cross-linking reactions. The safety of organic cross-linked sodium hyaluronate gel will be significantly improved in contrast to those using chemical cross-linker.

The Group will continue to build on its competitive advantages in medical biomaterials products and research and development, actively develop and sell high-end medical cosmetics to meet the growing demand in the medical aesthetic market in the PRC, expand its product lines to meet the increasingly segmented and diversified market demand, and build a leading medical aesthetic brand in the PRC.

Orthopedics Products

The management of the Company has well positioned the orthopedics products orthopedic sodium hyaluronate injection and medical chitosan product used for intra-articular viscosupplement. Sodium hyaluronate injection, which has a longer cultivation cycle, possesses the advantages of high clinical recognition and relatively broad application. The Group will, as guided by the Expert Consensuses of 2012 and 2017, continue to develop marketing and provide academic support for the sufficient and regulated use of sodium hyaluronate injection products by the Chinese clinicians in orthopedic and sports medicine areas. Meanwhile, the Group is able to gain competitive edges in bidding and tendering by its products with whole series of specifications, which is helpful to stabilize the extensive coverage of the Group's sodium hyaluronate injection for intra-articular viscosupplement products market and benefit more patients. On the other hand, the Group's exclusively-owned medical chitosan product used for intra-articular viscosupplement, is the only Class III medical device product with the registration certificate in China. Such product has the significant advantages of minimized injection dosage and long-lasting therapeutic effect, and forms a product portfolio of the Group in the field of intraarticular viscosupplement with sodium hyaluronate injection products. For the portfolio, the Group has designated differentiated clinical applications, differentiated target market and price positioning. The Group will actively enhance the marketing promotion and sales of medical chitosan product used for intra-articular viscosupplement and promote the inclusion of the product into the price catalogue and health insurance of various regions in China to secure the continuous growth in sales of such product and the overall profitability of orthopedics products.

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

Anti-Adhesion and Hemostasis Products

In respect of the current market landscape of anti-adhesion products, there are various types of products in the PRC market and market concentration is relatively high. The top three manufacturers represent nearly 65% of the market share in aggregate. Recently, more challenges are posed during product renewal and new product registrations as the government continued to raise requirements on the quality of such products. Products with outdated technology or unstable quality are facing greater difficulties in survival. In addition, due to the impact brought by the sustained controls over fees and quantity carried out by public hospitals across the country starting in the second half of 2017, the use of high-valued materials including anti-adhesion materials and hemostasis materials in many regions is limited or even discontinued. Products with outdated technology or unstable quality are gradually eliminated. The barriers in the field of anti-adhesion and hemostatic materials for new competitors have been raised progressively. Currently, the Group is able to provide a series of anti-adhesion and hemostatic materials products with the most comprehensive and integrated specifications. 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 RMB493.61 million (the corresponding period in 2019: approximately RMB780.61 million), representing a decrease of RMB287.00 million or approximately 36.8% as compared to the corresponding period in 2019. During the Reporting Period, impacted by the COVID-19 Epidemic, strict epidemic prevention and control measures have been implemented in various parts of China. The number of outpatient visits and operations in medical institutions has plummeted sharply. The production and operation of the Group's overseas subsidiaries have also been affected by the continuous spread of the Epidemic around the globe. Hence, the Group recorded a decline compared with the corresponding period in 2019 on sales revenue of the product lines in the four major therapeutic areas including ophthalmology, medical aesthetics and wound care, orthopedics and anti-adhesion and hemostasis.

During the Reporting Period, the overall gross profit margin of the Group was 77.1%, which remained stable, compared with 76.5% in the corresponding period in 2019.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group was approximately RMB300.97 million, representing an increase of approximately RMB51.12 million or approximately 20.5% (the corresponding period in 2019: approximately RMB249.85 million). Although offline marketing activities have stagnated owing to the impact of the COVID-19 Epidemic in Mainland China, all product lines of the Group are actively trying to promote via online and organize various anti-epidemic and epidemic prevention campaigns to strengthen and deepen the market's recognition of the Group's products. Upon the slow down of the Epidemic situation in Mainland China in April 2020, the Group actively resumed and strengthened its marketing efforts, and well organized the launch of new products and plans to build up a solid foundation for sales recovery and even growth in the second half of 2020. Hence, the marketing expenses and the costs of sales personnel keep rising, compared with the corresponding period in 2019. As the revenue of the Group decreased more during the Reporting Period, the ratio of sales and distribution expenses to the total revenue of the Group was 61.0% (the corresponding period in 2019: 32.0%), which is not comparable.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group was approximately RMB99.25 million, representing a decrease of approximately RMB10.11 million or approximately 9.2% from approximately RMB109.36 million for the corresponding period in 2019. During the Reporting Period, the total administrative expenses of the Group declined, primarily due to the impact of the COVID-19 Epidemic, leading to a reduction in various administrative activities as well as the reduction of bonuses at the same time.

R&D Expenses

During the Reporting Period, the R&D expenses of the Group was approximately RMB56.57 million, representing an increase of approximately RMB5.25 million or approximately 10.2% from approximately RMB51.32 million for the corresponding period in 2019. The growth of R&D expenses was primarily due to the continuous increase of R&D investments of the ophthalmic and medical aesthetic products made by the Group as well as various projects that have entered the critical clinical trial stage, leading to more R&D investment.

Other Income and Gains

During the Reporting Period, the Group's other income and gains was approximately RMB96.84 million, representing an increase of approximately RMB54.65 million, or approximately 129.5% (the corresponding period in 2019: approximately RMB42.19 million). During the Reporting Period, the increase in other income and gains was primarily due to (1) the interest gained from the unused proceeds raised from the Sci-Tech Innovation Board during the Reporting Period that significant increased by approximately RMB29.71 million compared with the corresponding period in 2019; (2) during the Reporting Period, the Group received approximately RMB13.66 million of dividend income from equity investments at fair value through other comprehensive income, but there was no such income in the corresponding period in 2019; (3) during the Reporting Period, the amount of government grants received by the Group increased by approximately RMB8.46 million compared with the corresponding period in 2019, including the subsidy of RMB5.00 million from the Sci-Tech Innovation Board listing financial policy of Shanghai Songjiang District which was received in June 2020.

Income Tax Expense

During the Reporting Period, the Group's income tax credit was approximately RMB1.09 million (the corresponding period of 2019: income tax expense of approximately RMB31.00 million), which was primarily due to the decrease in operating profit of the Group during the Reporting Period, especially certain subsidiaries are under temporary losses.

Results of the Reporting Period

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB27.53 million (the corresponding period in 2019: approximately RMB182.57 million), representing a decrease of approximately 84.9%, which was mainly attributable to the following factors: (1) during the Reporting Period, affected by the continuous spread of the COVID-19 Epidemic around the globe, the total revenue of the Group decreased by approximately RMB287.00 million compared with the corresponding period last year. While the gross profit margin remained stable, the gross profit decreased by approximately RMB216.46 million; (2) as mentioned above, during the Reporting Period, the sales and distribution expenses, administrative expenses and R&D expenses of the Group slightly increased, compared with the corresponding period last year, representing an increase of approximately RMB46.27 million; (3) during the Reporting Period, due to the increase in interest income, dividend income and government grants, other income and gains of the Group increased by approximately RMB54.66 million, compared with the corresponding period last year; (4) during the Reporting Period, income tax expenses decreased by approximately RMB32.09 million, compared with the corresponding period last year; and (5) during the Reporting Period, due to temporary losses incurred by some non-wholly-owned subsidiaries, net loss attributable to non-controlling interests of the subsidiaries was approximately RMB15.41 million, while the net profit attributable to non-controlling interests of the subsidiaries was approximately RMB13.92 million for the corresponding period last year. Hence, the profit and loss attributable to non-controlling interests by approximately RMB29.33 million.

During the Reporting Period, the basic earnings per share of the Company were RMB0.15 (the corresponding period in 2019: RMB1.14).

Liquidity and Capital Resources

As at 30 June 2020, the total current assets of the Group were approximately RMB3,827.41 million, representing a decrease of approximately RMB117.96 million as compared to the amount as at 31 December 2019, primarily due to the decrease of trade and bills receivables by approximately RMB105.50 million compared with the end of 2019, which was mainly attributable to decrease in revenue during the Reporting Period, and the increase in the recovery of trade receivables and made adequate provision for bad debts by the Group.

As at 30 June 2020, the total current liabilities of the Group was approximately RMB504.50 million, representing an increase of approximately RMB144.53 million as compared to the amount as at 31 December 2019, which was primarily due to the increase in short-term bank borrowings of the Group to replenish working capital during the Reporting Period, and the increase in other payables related to the purchase of engineering equipment and market activities, following the steady progress of various infrastructure projects and market activities.

As at 30 June 2020, as the total current liabilities of the Group increased, the Group's current assets to liabilities ratio was approximately 7.59 (31 December 2019: 10.96), compared with the end of 2019, there was a slight decrease, but it was still at a relatively high and stable level.

Employees and Remuneration Policy

The Group had 1,372 employees as at 30 June 2020. The breakdown of the total number of employees by function was as follows:

Production	563
R&D	327
Sales and Marketing	274
Supply	42
Administration	166
Total	1,372

The Group's remuneration policy for its employees is based on their working experience, daily performance, the sales quality of the Company and external market competition. The Group provides various thematic training programs for its employees regularly, such as training in relation to the knowledge of the product and sales of the Group, the applicable laws and regulations for operations, the requirements of GMP certificate, quality control, workplace safety and corporate culture. During the Reporting Period, the remuneration policy and training programs had no material change and the total remuneration of the Group's employees amounted to approximately RMB149.81 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 30 June 2020, the Group's bank borrowings amounted to approximately RMB27.80 million were secured by the pledge of bank deposits of approximately RMB50.00 million from Shanghai Qisheng, a subsidiary of the Group.

As at 31 December 2019, the bank borrowings of approximately GBP1.00 million (equivalent to approximately RMB9.14 million) of Contamac Holdings, a subsidiary of the Company, were secured by the pledge of certain of its property, plant and equipment with the carrying amount of approximately GBP1.44 million (equivalent to approximately RMB13.28 million). The abovementioned bank borrowings have been fully settled during the Reporting Period.

Gearing Ratio

As at 30 June 2020, the total liabilities of the Group amounted to approximately RMB651.75 million and the gearing ratio (the percentage of total liabilities to total assets) was 10.6%, representing an increase as compared to 8.1% as at 31 December 2019, primarily due to the increase in the abovementioned total current liabilities.

Cash and Cash Equivalents

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB901.97 million, representing a decrease of approximately RMB42.54 million from that of approximately RMB944.51 million as at 31 December 2019. The decrease was mainly attributable to net cash flows used in investing activities and financing activities of approximately RMB44.03 million and RMB38.55 million, respectively, which was partially offset by net cash flows generated from operating activities of approximately RMB40.57 million.

Bank Borrowings

As at 30 June 2020, the Company and Shenzhen NIMO (a subsidiary of the Group), had interest-bearing bank borrowings of approximately RMB27.80 million and RMB36.25 million (as at 31 December 2019, Shenzhen NIMO and Contamac Holdings (a subsidiary of the Group), had interest-bearing bank borrowings of approximately RMB5.30 million and GBP1.00 million (equivalent to approximately RMB9.14 million) respectively).

Future Plans for Material Investments and Capital Assets

Saved as disclosed in this announcement, the Group has no other material investment plans or capital asset plans as at the date of this announcement.

Significant Investment, Material Acquisitions or Disposal of Subsidiaries

During the Reporting Period, the Group had no other significant investment, material acquisitions nor disposal of subsidiaries.

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 30 June 2020, the Group did not enter into any hedging transactions.

Contingent Liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities.

Significant Subsequent Event

Please refer to note 14 to the financial statements in this announcement for the details of significant subsequent event.

Purchase, Sales or Redemption of Listed Securities

At the 2020 first extraordinary general meeting, the 2020 first A shareholders' class meeting and the 2020 first H shareholders' class meeting of the Company held on 14 February 2020, a proposal was approved to grant the Board a general mandate to repurchase the Company's H shares. Pursuant to such authorization, the Company commenced the repurchase of H shares on the Stock Exchange since 27 March 2020. During the Reporting Period, the Company repurchased a total of 638,700 H shares, using a total amount of approximately HK$24,721,000. On 3 July 2020, the 638,700 H shares repurchased by the Company were cancelled in Hong Kong; after the cancellation, the total number of shares of the Company was 177,206,600 (including 137,800,000 A Shares and 39,406,600 H shares).

Saved as disclosed in this announcement, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Interim Dividend

The Board does not recommend the distribution of any interim dividend for the six-month period ended 30 June 2020.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Hong Kong 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 Hong Kong 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 of the Company, all of them confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference. With effect from 29 June 2020, Mr. Chen Huabin, Mr. Shen Hongbo, Mr. Zhu Qin and Mr. Wong Kwan Kit ceased to be directors of the Company and ceased to hold positions in the Audit Committee. On 29 June 2020, Ms. Li Yingqi was appointed as the chairwoman of the Audit Committee and Mr. Jiang Zhihong, Mr. Su Zhi and Mr. Zhao Lei were appointed as members of the Audit Committee. As at the date of this announcement, the Audit Committee comprises five directors, namely Ms. Li Yingqi (Chairwoman), Ms. You Jie, Mr. Jiang Zhihong, Mr. Su Zhi and Mr. Zhao Lei. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process, risk management and internal control system. During the Reporting Period, the Audit Committee held meetings on 26 March 2020 and 29 April 2020 respectively and its deliberations mainly included the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited consolidated financial statements of the Group for the three months ended 31 March 2020. The Audit Committee held a meeting on 27 August 2020 to consider the unaudited consolidated financial statements, interim results and interim report of the Group for the six months ended 30 June 2020 and agreed with the accounting treatment adopted by the Company.

Publication of Interim Results and Interim Report

This announcement will be published on the HKEXnews website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.3healthcare.com).

The 2020 interim report of the Company that contains full information specified in the Hong Kong Listing Rules will be dispatched to the shareholders of the Company in due course and will be published on the HKEXnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.3healthcare.com).

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

Shanghai, the PRC, 27 August 2020

As at the date of this announcement, the executive directors of the Company are Dr. Hou Yongtai, Mr. Wu Jianying, Ms. Chen Yiyi and Mr. Tang Minjie; the non-executive directors of the Company are Ms. You Jie and Mr. Huang Ming; and the independent non-executive directors of the Company are Ms. Li Yingqi, Mr. Jiang Zhihong, Mr. Su Zhi, Mr. Yang Yushe and Mr. Zhao Lei.

* *For identification purpose only*