



**北京市春立正達醫療器械股份有限公司**

**Beijing Chunlizhengda Medical Instruments Co., Ltd.\***

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock code: 1858

# Annual Report 2014



\* For identification purpose only



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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Shi Chunbao (*Chairman*)  
Ms. Yue Shujun  
Mr. Ding Gang

### Non-executive Director

Mr. Lin Yiming

### Independent non-executive Directors

Ms. Xu Hong  
Mr. Tong Xiaobo  
Mr. Cheung Ying Kwan

## SUPERVISORS

Mr. Qi Yi (*Chairman*)  
Mr. Xie Fengbao  
Ms. Zhang Lanlan

## AUDIT COMMITTEE

Ms. Xu Hong (*Chairman*)  
Mr. Tong Xiaobo  
Mr. Lin Yiming

## REMUNERATION COMMITTEE

Mr. Tong Xiaobo (*Chairman*)  
Ms. Xu Hong  
Mr. Shi Chunbao

## NOMINATION COMMITTEE

Mr. Shi Chunbao (*Chairman*)  
Ms. Xu Hong  
Mr. Cheung Ying Kwan

## JOINT COMPANY SECRETARIES

Mr. Ding Gang  
Mr. Ip Pui Sum (CPA (Practising), FCCA,  
ACMA, ACIS, ACS)

## AUTHORISED REPRESENTATIVES

Mr. Ding Gang  
Mr. Ip Pui Sum (CPA (Practising), FCCA,  
ACMA, ACIS, ACS)

## REGISTERED OFFICE

No. 10 Xinmi Xi Er Road  
Southern District of Tongzhou  
Economic Development Zone  
Tongzhou District  
Beijing  
the PRC

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

No. 10 Xinmi Xi Er Road  
Southern District of Tongzhou  
Economic Development Zone  
Tongzhou District  
Beijing  
the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19/F, Nan Dao Commercial Building  
359-361 Queen's Road Central  
Sheung Wan  
Hong Kong

## COMPANY'S WEBSITE

<http://www.clzd.com>

## AUDITORS

Pan-China Certified Public Accountants LLP  
Certified Public Accountants

## LEGAL ADVISOR AS TO HONG KONG LAW

Zhong Lun Law Firm

## COMPLIANCE ADVISER

China Everbright Capital Limited

## H SHARE REGISTRAR

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL BANK

Fang Zhuang Branch of Bank of Beijing  
No. 6, Court No. 3, Zone 2A, Fangxing Garden  
Fangzhuang, Fengtai District  
Beijing  
the PRC

## FIVE YEAR FINANCIAL SUMMARY

	For the year ended December 31				2014 RMB'000
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	
Total current assets	110,973	96,618	120,663	132,704	<b>162,501</b>
Total non-current assets	21,175	62,146	66,847	67,929	<b>77,355</b>
Total assets	132,148	158,764	187,510	200,633	<b>239,856</b>
Total current liabilities	13,269	11,480	14,340	15,071	<b>26,310</b>
Total non-current liabilities	–	–	5,946	5,673	<b>7,626</b>
Total liabilities	13,269	11,480	20,286	20,744	<b>33,936</b>
Total shareholder's equity	118,879	147,284	167,224	179,889	<b>205,920</b>
Net current assets	97,704	85,138	106,323	117,633	<b>136,191</b>
Total assets less current liabilities	118,879	147,284	173,170	185,562	<b>213,546</b>
Revenue	70,560	80,260	98,095	110,546	<b>134,534</b>
Operating profit	26,059	34,717	35,968	37,709	<b>42,248</b>
Profit before tax for the year	26,060	35,410	37,203	38,116	<b>42,913</b>
Net profit for the year	22,523	30,405	31,940	32,665	<b>37,031</b>

# CHAIRMAN'S STATEMENT

## DEAR SHAREHOLDERS,

On behalf of the Board (the "Board") of Directors of **Beijing Chunlizhengda Medical Instruments Co. Ltd.** (the "Company"), together with its subsidiaries (the "Group"), I am pleased to propose the annual report of the Company for the year ended 31 December 2014 ("during the year").

As China's economy maintained steady growth over the past few years, the living standard of the public rises and the coverage of medical insurances is enlarged, which consequently led to substantial demand for healthcare services. Moreover, as the trend of aging population leads to an increase in the incidence of orthopedic conditions, the demand for quality medical devices escalates and orthopedic medical device industry develops rapidly. In 2014, according to the statistics provided by the Medical Device Branch of China Medical Pharmaceutical Material Association (中國醫藥物資協會醫療器械分會), the nationwide sales of medical device amounted to approximately RMB255.6 billion, representing a year-on-year increase of RMB43.6 billion and has maintained an average yearly increase of more than 20% for consecutive years. As the leading orthopedic medical device company in China, leveraging on the diversified implantable orthopedic medical device products, powerful research and development capability as well as expanding sales network, the Company has captured the opportunities of the industry growth and achieved healthy and stable development during the year. The Company recorded revenue of approximately RMB134.5 million in 2014 which represents a year-on-year increase of 21.7% (2013: RMB110.5 million). The profit attributable to the equity holders of the Company recorded a year-on-year increase of 13.1% to approximately RMB37.0 million (2013: approximately RMB32.7 million). Basic earnings per share amounted to RMB0.74, which represents a year-on-year increase of 13.8% (2013: RMB0.65).

The Company proposed the payment of 2014 Final Dividend to shareholders of RMB0.088 per share.

In 2014, the industry of orthopedic medical device products continued to benefit from the favorable market environment and, in particular, various policies and guidelines issued by the Government, including "Twelfth Five-Year Special Plan for the Medical Device Industry (2011-2015)" (醫療器械科技產業「十二五」專項規劃 (2011-2015)), provide strong support to domestic medical device manufacturers. As

a result, domestic orthopedic medical device companies including the Company are benefited from these favorable policies. The Company has the leading position among domestic enterprises in the fast growing joint prosthesis sector of the orthopedic medical device industry in China. Besides, as one of the pioneering domestic enterprises in China that engage in research and development and production of joint prosthesis products, the Company has established a comprehensive product portfolio comprising of a variety of joint prosthesis products and spinal products. During the year, the Company further diversified its product portfolio and has developed ceramic hip joint prosthesis products which will launch into the market in around May 2015. The diversified product portfolio, together with the comprehensive medical device registration certificates, would further enhance the recognition and market acceptance of the Company's brand and products, and also consolidate its market position and strengthen its competitiveness.

In view of the relatively high entry barriers of the orthopedic implantable medical device industry, talent reserve and research and development ability are considered to be one of the core competitive strengths of enterprises. As a state-level high and new technology enterprise (國家級高新技術企業), the Company endeavors to develop innovative products and constantly optimize its research and development ability, which is supported by its effective feedback system. The ability to continuously launch new products into the market illustrates that the Company's demand-driven research and development process is highly responsive to clinical feedbacks and keeps it abreast of latest market trend.

Through the comprehensive and responsive feedback system, the Company's research and development team and marketing team closely cooperate with each other to fulfill the demands from different consumer groups and expand sales network and customer base. At the same time, the Company has established a large scale nationwide distribution network so as to introduce its new products into the market in a timely manner and gain pioneer advantages in the market. Through cooperation with distributors, the Company takes full advantage of their sales network and geographical distribution to expand its product coverage area which will in turn strengthen its marketing ability and expand the market shares of products.

## CHAIRMAN'S STATEMENT

After 17 years of strenuous endeavor, assiduous hard work and steadfast perseverance, the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 11 March 2015, which lays a solid foundation for the Company to enter into the international capital market, and provides strong support and enormous room for its future development. It is believed that 2015 will be an important milestone for the Company at this new starting point.

Looking forward, as China's economy continues to grow and the healthcare reform further deepens, the Company is determined to attain the goal of "to become a leading enterprise in the market with full range of orthopedic medical device products". The Company aims to maintain its sustainable development and competitiveness by expanding its production capacity through the newly-built production base, diversifying product series, developing advanced customized joint prosthesis products, expanding distribution and sales network, further exploring overseas market, and strengthening its innovation ability and increasing the research and development resources.

On behalf of the Board, I would like to express my heartfelt gratitude to our honorable shareholders. The Group will continue to grasp opportunities from industry development and create greater value through constant business development and enhancement of business operation management to reward the support of the shareholders.

**Shi Chunbao**  
*Chairman*

30 March 2015





# MANAGEMENT DISCUSSION AND ANALYSIS

## I. INDUSTRY OVERVIEW

Since the announcement of the “Opinions of the CPC Central Committee and the State Council on Deepening the Healthcare System Reform” (中共中央國務院關於深化醫藥衛生體制改革的意見) in 2009, the government of the People’s Republic of China (the “**PRC**” or “**China**”) has launched a series of policies to support the establishment of a basic medical and healthcare system covering both urban and rural citizens by 2020. In addition, the Ministry of Health of the PRC (中華人民共和國衛生部) issued the “Strategic Research Report for Health China 2020” (健康中國2020戰略研究報告) which states that seven major healthcare projects totaling up to RMB400 billion will be implemented by 2020, with RMB10.9 billion to be used for improving the technical infrastructure of county-level hospitals. Driven by these healthcare reforms, it is expected that the demand for medical devices will increase substantially, implying huge market potential in the medical device industry.

The orthopedic implant<sup>(Note)</sup> market, a segment of the medical device market, has experienced rapid growth in recent years. The inclusion of medical devices in medical care insurance coverage under the PRC healthcare reform has increased the demand and acceptance for orthopedic implants. Various favorable factors such as aging population, continuous growth in healthcare expenditure and improvements in public healthcare infrastructure have also propelled the growth of the orthopedic implant industry in the PRC.

Due to the wide range of medical equipment products offered in the industry, the PRC market is highly fragmented and most of the manufacturers are small in scale. However, since the orthopedic implant industry has high entry barriers, such as strict regulatory measures on quality control and licensing, high-level of production technology and stringent production process, it is relatively concentrated. The orthopedic implant industry is generally divided into four major segments, namely trauma, spine, joint and others. In particular, the joint implant market is highly concentrated with multinational corporations dominated the market segment. Yet, with the advancement of the PRC healthcare reform and governmental support to Chinese companies through favourable policies, the domestic companies are expected to increase their market share in the joint implant market by upgrading their product offerings.

## II. BUSINESS REVIEW

Beijing Chunlizhengda Medical Instruments Co., Ltd. (“**our Company**” and, together with its subsidiary, “**our Group**”) is a well-established orthopedic medical device company in China, focusing on the research and development, production and sales of implantable orthopedic medical devices which include joint prosthesis products and spinal products. Our Group’s revenue was mainly derived from our sales to distributors in both China and overseas, whereas remaining revenue was derived from other sales channels including sales to ODM and OEM customers overseas and direct sales to hospitals in China.

In 2014, we recorded a revenue of RMB134.5 million, representing a year-on-year increase of 21.7% (2013: RMB110.5 million). The gross profit was RMB99.6 million, representing a year-on-year increase of 24.4% (2013: RMB80.1 million). The profit attributable to the equity holders of our Company was RMB37.0 million, representing a year-on-year increase of 13.1% (2013: RMB32.7 million). Basic earnings per share was RMB0.74, representing a year-on-year increase of 13.8% (2013: RMB0.65).

Note: Orthopedic implants refer to medical device products that are used for replacing or as an adjuvant treatment for injured bones and skeleton and implanted into human bodies, including joint implants (such as knee joints, hip joint, shoulder joints and elbow joints), and spine implants and trauma implants (such as calcaneal plates and bone pegs), excluding dental fillings.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Diversified product portfolio

Being one of the first domestic enterprises to engage in research and development and manufacturing of joint prosthesis products in China, we have established a broad portfolio of joint prosthesis products and spinal products. Our joint prosthesis products cover four major joints (namely, hip, knee, shoulder and elbow) and our spinal products comprise a full product portfolio of the spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic, and lumbar vertebrae.

In addition, our Company offer two types of joint prosthesis products – standard joint prosthesis products and custom joint prosthesis products. The standard joint prosthesis products mainly include hip joint prostheses products and knee joint prostheses products, while the custom joint prosthesis products are divided into two categories, namely conventional custom joint prosthesis products and custom (modular) joint prosthesis products. The custom joint prosthesis products are applicable to the four major joints, and are specifically designed and produced to cater for the needs of patients.

In 2014, we added a new product, namely ceramic hip joint prosthesis products, into our product portfolio. Currently we are cooperating with a renowned ceramics manufacturer and have established a specialised technical team to develop our ceramic hip joint prosthesis products. They will launch to the market in around May 2015. Meanwhile, we continue to develop our new products including interbody fusion cage using polyether ether ketone (PEEK) material, spinal titanium cage fixation system, vertebral extension sacculus catheter, trabecular hip joint prosthesis products and vertebral fixation system of which the clinical trials or trial testings have already commenced. We are also developing a new custom joint prosthesis product called advanced customised joint prosthesis which is an advanced model of our conventional custom joint prosthesis products with the use of advanced technologies such as 3D reconstruction on the basis of the Chinese skeleton database that we established through our cooperation with several hospitals in China.

### Comprehensive medical device registration certificates

According to the domestic joint products registration index (國產關節類產品註冊檢索) of the China Food and Drug Administration, we are one of the domestic enterprises that hold the most comprehensive medical device registration certificates for joint prosthesis products in China in terms of number and types of certificates.

As at 31 December 2014, we held 14 medical device registration certificates in China for the production of medical devices which cover joint prosthesis products for the four major joints and spinal products, 9 of which are Class III medical device registration certificates and 5 of which are Class I medical device registration certificates. As China adopts a strict product registration system for medical device manufacturers, completeness of product registrations for a wide range of products entails of strong market competitiveness.

### Strong research and development capabilities

We are a state-level high and new technology enterprise (國家級高新技術企業), dedicated to the development of innovative products and continuous improvement of its research and development capability. As at 31 December 2014, we possessed a total of 23 registered patents, including 9 invention patents and 14 utility patents, and has also submitted applications for 7 invention patents.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Extensive distribution and sales network

Currently, we have built an extensive distribution network covering all provinces, municipalities and autonomous regions in China (excluding Hong Kong, Macau and Taiwan), and our sales network has covered numerous hospitals located in these regions through our distributors. Most of our products are sold in China and some are exported to other countries in Asia, South America, Africa, Oceania and Europe under the brand name of “春立 Chunli”. We mainly sell our products through distributors, or on ODM and OEM bases. As at 31 December 2014, we had established stable relationship with approximately over 460 distributors, and had not placed reliance on any single distributor.

### Increase of production capacity

Currently, our Company has two production plants for the production of our joint prosthesis products and spinal products in Tongzhou, Beijing. In March 2014, our Company commenced construction of new production facilities in Daxing, Beijing, which we acquired in September 2012, to expand our production capacity of standard joint prosthesis products and spinal products, the development and commercialisation of advanced customized joint prosthesis products and the construction of a research and development center and a sales and marketing center.

## III. FINANCIAL REVIEW

### Revenue

Our revenue increased by 21.7% from approximately RMB110.5 million in 2013 to approximately RMB134.5 million in 2014. The increase in revenue was mainly attributable to the expansion of sales network resulting from the increase in the number of sales personnel. The revenue of our major products in 2014 and 2013 is as follows:

Product category	Year ended 31 December		Increase over corresponding period
	2014 (RMB'000)	2013 (RMB'000)	
Standard joint prosthesis products	91,987	77,449	18.8%
Custom joint prosthesis products	30,096	23,336	29.0%
Spinal products	12,451	9,761	27.6%
Total	134,534	110,546	21.7%

### Gross profit

Our gross profit increased by 24.4% from approximately RMB80.1 million in 2013 to approximately RMB99.6 million in 2014 and our gross profit margin increased from 72.4% in 2013 to 74.0% in 2014, which were mainly attributable to the increases in the sales and production volume of the higher-priced custom joint prosthesis products, resulting in the decrease in unit cost due to economies of scale.

### Selling expenses

Our selling expenses increased by 45.3% from approximately RMB20.1 million in 2013 to approximately RMB29.2 million in 2014. The increase in selling expenses was mainly attributable to the increase in the number of sales personnel and the increase in staff costs as a result of an increase in investment in our market development and our products promotion.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Administrative expenses

Our administrative expenses increased by 25.2% from approximately RMB20.6 million in 2013 to approximately RMB25.8 million in 2014, which was mainly attributable to the increase in our investment in research and development and the increase in listing expenses.

### Impairment loss of assets

Our impairment loss of assets increased by 71.4% from approximately RMB0.7 million in 2013 to approximately RMB1.2 million in 2014, which was mainly attributable to the increase in our accounts receivable in accordance with the impairment policy of the Company.

### Non-operating income

Our non-operating income increased by 16.7% from approximately RMB0.6 million in 2013 to approximately RMB0.7 million in 2014, which was mainly attributable to the increase in the government grants received by us.

### Non-operating expenses

The decrease in our non-operating expenses by 86.0% from approximately RMB0.2 million in 2013 to approximately RMB28,000 in 2014 was mainly attributable to our one-off disposal of fixed assets in 2013.

### Income tax expenses

Our income tax expenses increased by 7.3% from approximately RMB5.5 million in 2013 to approximately RMB5.9 million in 2014 and our effective tax rate decreased from 14.3% for the same period last year to 13.7% in 2014.

### Net profit for the year

Our net profit for the year increased by 13.1% from approximately RMB32.7 million in 2013 to approximately RMB37.0 million in 2014. The increase in net profit was mainly attributable to the increase in our revenue.

### Liquidity and capital resources

Our cash and bank deposits balances slightly decreased by 3.5% from approximately RMB65.9 million as of 31 December 2013 to approximately RMB63.6 million as of 31 December 2014. There are no bank borrowing during the year 31 December 2014.

Our principal sources of liquidity are cash generated from our operations. The Board is of the opinion that we have sufficient resources to support our operations and meet our foreseeable capital expenditures.

### Inventory

Our inventory increased by 53.7% from approximately RMB23.1 million as of 31 December 2013 to approximately RMB35.5 million as of 31 December 2014. The increase in inventory was mainly attributable to our business expansion and the growth in market demand in 2014 and the additional inventories for our ceramic hip joint prosthesis products.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Fixed assets and construction in progress

Our fixed assets and construction in progress increased by 32.4% from approximately RMB30.6 million as of 31 December 2013 to approximately RMB40.5 million as of 31 December 2014. The increases in fixed assets and construction in progress were mainly attributable to the increase in our investment in the renovation of our second production site (the “**Tongzhou Second Production Base**”), the expansion of our new production base (the “**Daxing New Production Base**”) and the acquisition of production facilities in 2014.

### Net current assets

Our net current assets increased by 15.8% from approximately RMB117.6 million as of 31 December 2013 to approximately RMB136.2 million as of 31 December 2014. The increase in net current assets was mainly attributable to the increase in our accounts receivables and inventory.

### Intangible assets

Our intangible assets slightly decreased by 2.2% from approximately RMB36.1 million as of 31 December 2013 to approximately RMB35.3 million as of 31 December 2014. The decrease in intangible assets was mainly attributable to the amortization of land use rights and software.

### Cash flow analysis

In 2014, our net cash flows generated from operating activities was RMB24.3 million; our net cash flows used in investing activities was RMB9.5 million, which was mainly due to the acquisition of fixed assets and construction in progress; our net cash flows used in financing activities was RMB17.0 million, which was mainly due to the payment of dividend and listing expenses; and our cash and cash equivalents decreased by RMB2.2 million as compared to the end of last year.

### Capital expenditure

During the year ended 31 December 2014, we incurred capital expenditure in respect of fixed assets and construction in progress of RMB13.1 million and our capital expenditure was mainly used in the renovation of Tongzhou Second Production Base, the expansion of Daxing New Production Base and the acquisition of production facilities.

### Contingent liabilities and guarantees

As of 31 December 2014, we did not have any significant contingent liabilities or guarantees.

### Capital commitment

As of 31 December 2014, our total capital commitment was approximately RMB442.2 million, which mainly comprised the expenses incurred due to the construction of new plants in Daxing New Production Base and the acquisition of equipment.

## SUBSEQUENT EVENTS

On 11 March 2015, the H shares of the Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The prospectus of the Company dated 27 February 2015 was published on the Company’s website ([www.clzd.com](http://www.clzd.com)) and the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

## MANAGEMENT DISCUSSION AND ANALYSIS

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H shares of the Company were listed on the Main Board on 11 March 2015 with net proceeds received by the Company from the global offering in the amount of approximately HK\$228.2 million after deducting underwriting commissions and all related expenses. The net proceeds received from the global offering will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated 27 February 2015.

Since the listing of the Company and up to the date of this report, the proceeds from the listing were not applied for any use.

### FUTURE PROSPECTS

Look forward, various favourable factors such as aging population, increasing per capita income and enlarging scope of the medical insurance coverage will continue to sustain the rapid development of healthcare market in the PRC, especially the orthopedic medical device industry. We believe that the demand of our products will continue to increase along with the growth of the PRC joint prosthesis market. In the long run, we aim to become a leading enterprise in the market with a full range of orthopedic medical device products and to become one of the internationally renowned orthopedic medical device manufacturers. We plan to implement the following strategies:

#### Expansion of the production facilities and strategic relocation

##### **Expansion plan and increase of production capacity**

We expect demand for our products would continue to increase. Our utilisation rate has increased steadily over the years. We plan to increase our production capacity significantly to meet the anticipated increasing market demand.

Meanwhile, we plan to purchase advanced equipment from overseas and optimise existing production facilities to strengthen our research and development capacity and trial testing standards, to ensure our sustainability and maintain our competitiveness by expanding our product portfolio while strengthening our competency and innovation capability.

To achieve these objectives, we are in the process of building a new production plant and facilities in Daxing New Production Base. Phase I of the development mainly involves the construction of the first production plant, the acquisition of equipment for the expansion of production capacity of standard joint prosthesis products and spinal products, the development and commercialisation of advanced customized joint prosthesis products and the construction of a research and development center and a sales and marketing center. Phase I of the development has commenced in March 2014, and it is expected to be completed in around December 2016 and commenced operation in around October 2017. Phase II of the development mainly includes the construction of the second production plant for the further development and commercialisation of ceramic hip joint prosthesis products and further expansion of production capacity of standard joint prosthesis products. Phase II of the development is expected to be commenced and completed in around January 2017 and December 2018 respectively. It is expected to commence operation in around October 2019.

##### **Strategic relocation to our Tongzhou Second Production Base**

We acquired the Tongzhou Second Production Base in January 2011, and the land on which it is erected adjacent to our current first production site (the “**Tongzhou First Production Base**”). We believed the Tongzhou Second Production Base could both cater for the needs of our business growth and serve as a replacement production site in case if we are required to relocate due to the title defect. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Diversify our product series and develop advanced customised joint prosthesis products

We will continue to conduct optimisation and modification of our existing products, and keep abreast of the technology development of the joint prosthesis sector and invest more resources in the research and development of new products. We will develop more products catering for patients' needs through the application of new materials and the improvement of production processes, in order to build a more comprehensive product series and to achieve product diversification. With our technical expertise, we will continue to diversify and expand the development of both joint prosthesis products and spinal products.

We are currently developing a new custom joint prosthesis product called advanced customised joint prosthesis. It is an advanced model of the conventional custom joint prosthesis products with the use of advanced technologies such as 3D reconstruction on the basis of the Chinese skeleton database (中國國民骨骼數據庫). The existing custom joint prosthesis products mainly target patients suffering from bone tumor and joint revision whereas the advanced customised joint prosthesis products have a wider range of application. They are high-end products which can better analyse and cater for specific needs of patients. As such, we believe that advanced customised joint prosthesis products can attract higher profit margin.

### Expand the breadth and depth of our distribution and sales network and further explore the overseas market

We plan to expand our distribution and sales network by establishing various sales and marketing centers in different provinces including our central sales and marketing center in Daxing New Production Base. We aim to establish a total of seven marketing service centers strategically located in markets where we have lower brand presence by 2016. We also plan to gradually hire another 90 sales representatives to increase our sales force by 2017.

Meantime, we plan to accelerate the expansion of our sales in the overseas market. We are preparing the application for registration of our products to relevant local health regulatory authorities of Brazil and the United States for export to these countries.

### Strengthen our innovation ability and increase the research and development resources

In the future, we shall continue our focus on the research and development of standard joint prosthesis products, advanced customised joint prosthesis products and spinal products. We plan to establish a product research and development center at our Daxing New Production Base, which is expected to consist of standard joint prostheses department, spinal products department, orthopedic trauma product department, biomechanics center and orthopedic devices standardization research and development center. Meanwhile, we would attract more research and development talents to join our research and development team. In addition, with our product research and development center, we can enhance our cooperation with well-known domestic and overseas medical institutes in order to strengthen our technology expertise and knowhow and competitiveness.

### Expand our brand influence

To further strengthen our brand, we will continue to implement strict supervision on product quality to maintain our brand image. At the same time, we will actively organise and participate in seminars for market practitioners including distributors and representatives from hospitals on orthopedic medical devices with well-known experts and professors in the industry from both China and overseas to promote our products during such seminars. We will also strengthen the cooperation with different academic institutes and hospitals, and organise academic seminars at different levels and in various aspects so as to further increase our brand influence.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Retention of talents

We will continue to adhere to our existing talent development policy and attract high quality talents with competitive remuneration package, on the other hand, we have established an effective incentive and appraisal system to motivate the employees and ensure the retention of talents.

### EMPLOYEES

As at December 31, 2014, our Group had a total of approximately 373 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff, general and administration staff. For the year ended 31 December 2014, the total salary and related cost paid to our employees were approximately RMB25.0 million. Our Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF OUR COMPANY

Neither our Company, nor its subsidiary purchased, redeemed or sold any of our Company's listed securities since the listing of the Company's shares on the Stock Exchange on 11 March 2015 (the "**Listing Date**").

### FINAL DIVIDEND

The Board proposed the declaration of final dividend of RMB0.088 per share (including tax charge) for the year ended 31 December 2014 (2013: RMB0.22 per share (including tax charge)). The declaration of the final dividend is subject to the shareholders approval in the forthcoming annual general meeting.

According to the articles of association of the Company (the "Articles of Association"), unless otherwise provided by the relevant laws and regulations, for the payment of cash dividend and other payment in foreign currency, the applicable conversion rate shall be the average mid-point rate of the relevant foreign currency as published by website of the People's Bank of China for the 7 business days immediately prior to the date of declaration of such dividend and other payments.



# BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Shi Chunbao (史春寶)**, aged 45, is our executive Director, chairman of our Board, general manager and sales and marketing director. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

Mr. Shi obtained a diploma in economics and management from the Business School of Beijing (北京商學院) (now known as Beijing Technology and Business University (北京工商大學)) in July 1995 and a degree of master in Business Administration from Concordia University Wisconsin, USA in August 2010.

**Ms. Yue Shujun (岳術俊)**, aged 43, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

Ms. Yue completed a course of Advanced Study in Modern Economics and Management (現代經濟管理高級研修班) at the School of Continuing Education at Tsinghua University, Beijing (清華大學) in September 2006 and a course of Master Financial Manager (高級財務經理人課程) at the School of Economics and Management at Tsinghua University, Beijing in September 2009. Ms. Yue obtained a certificate for Senior International Finance Manager (高級國際財務管理師) jointly awarded by the China Association of Chief Financial Officers (中國總會計師協會) and International Financial Management Association (國際財務管理協會) in April 2009.

**Mr. Ding Gang (丁罡)**, aged 35, is our executive Director, deputy general manager and secretary of the Board. He is responsible for the capital management and operations and human resources management of our Group. Mr. Ding was appointed as our Director on 22 December 2010 and has been our executive Director since 16 April 2014. Mr. Ding was the deputy general manager and the secretary of the Board of our Company since April 2011. Prior to joining our Group, Mr. Ding worked as an investment manager, senior investment manager and the head of the investment department of Xin'an Caifu (新安財富) from October 2005 to April 2010 the principal activity of which was investment management. Mr. Ding obtained a degree of bachelor in Safety Engineering (安全工程) from Capital University of Economics and Business, Beijing (首都經濟貿易大學) in January 2004. Mr. Ding is currently studying a master degree in business and administration for senior management personnel at Guanghua School of Management of Peking University, Beijing (北京大學).

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Non-Executive Director

**Mr. Lin Yiming (林一鳴)**, aged 46, is our non-executive Director. He is responsible for providing advice on the management as well as the strategic development of our Group. Mr. Lin became our Director on 17 September 2010 and has been our non-executive Director since 16 April 2014. Prior to joining our Group, Mr. Lin held the position of chairman of Beijing Shidai Kewei Education Consulting Co., Ltd. (北京時代柯維教育諮詢有限公司) from August 2009 to August 2012, the principal activities of which are providing education, consulting and trainings, and was the dean of School of Tourism, the dean of School of Business and an assistant to the principal at Beijing Geely University (北京吉利學院) respectively from January 2010 to June 2014. Mr. Lin has been the executive principle of Beijing Geely University since June 2014. Mr. Lin obtained a degree of master in Business Administration from Concordia University – Wisconsin, USA in September 2011.

Mr. Lin was a shareholder and legal representative of 海南科藝達酒店管理有限公司 (Hainan Keyida Hotel Management Co. Ltd.) (“**Hainan Keyida**”), 海南銘世酒店管理有限公司 (Hainan Mingshi Hotel Management Co. Ltd.) (“**Hainan Mingshi**”) and 海口遠鳴酒店管理有限公司 (Haikou Yuanming Hotel Management Co. Ltd.) (“**Haikou Yuanming**”), all of which were established in the PRC and their business licenses were revoked on 15 October 2001, 15 January 2004 and 2 November 1999 because they failed to take part in the annual inspection within the time period as stipulated by the relevant regulations.

The principal business activities of Hainan Keyida, Hainan Mingshi and Haikou Yuanming included the provision of hotel management services. Mr. Lin confirmed that none of the three companies were engaged in any competing business with the Group and that there were no claims against him in relation to their operations.

### Independent Non-Executive Directors

**Ms. Xu Hong (徐泓)**, aged 60, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Ms. Xu obtained the qualification as a Certified Public Accountant granted by the Chinese Institute of Certified Public Accountants in February 1999 and worked at Zhongsheng Certified Public Accountants Co., Ltd. (中盛會計師事務所有限責任公司) from 1999, the principal business activities of which are the provision of audit and consulting services. In May 2005, she obtained the qualification as a Certified Tax Agent from the Registered Taxation Administration Center of Xinjiang Uygur Autonomous Region (新疆維吾爾族自治區註冊稅務管理中心). Ms. Xu has been a teacher at the Department of Accounting at the School of Business at Renmin University of China (中國人民大學) since 1990 and then a professor at that university since 1999.

Ms. Xu obtained a degree of bachelor of Economics and a degree of master in Economics from Beijing College of Finance and Trade (北京財貿學院) and Beijing College of Economics (北京經濟學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) in July 1983 and November 1986, respectively. Ms. Xu completed a training course for independent directors of public companies jointly held by the CSRC and the School of Economics and Management of Tsinghua University (清華大學) in May 2002. As at the Latest Practicable Date, Ms. Xu is an independent Director of Chifeng Jilong Gold Mining Co., Ltd. (赤峰吉隆黃金礦業股份有限公司) (stock code: 600988) a company listed on the Shanghai Stock Exchange and mainly engaged in mining and processing gold for sale. She was also the independent Director of Hangzhou Zhongheng Electric Co., Ltd. (杭州中恒電氣股份有限公司) (stock code: 002364), a company listed on the Shenzhen Stock Exchange and mainly engaged in developing and producing electric appliances.

Ms. Xu was a shareholder and legal representative of 上海道治投資管理有限公司 (Shanghai Daozhi Investment Management Co. Ltd.) (“**Shanghai Daozhi**”) which was established in Shanghai, the PRC and its business license was revoked 24 February 2007. Since Ms. Xu was residing in Beijing at the material time and it was inconvenient and costly to manage a company in Shanghai, therefore she decided to cease its operation in 2007.

The principal business activities of Shanghai Daozhi was investment management. Ms. Xu confirmed that it was not engaged in any competing business with the Group and that there were no claims against her in relation to its operation.

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Tong Xiaobo (佟小波)**, aged 55, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Mr. Tong worked as a quality supervisor at the Beijing Medical Devices Testing Center (北京醫療器械檢測中心) of CFDA (Center for Quality Supervision and Testing of Medical Devices (醫療器械產品質檢站)) from 1985 to 1991. Mr. Tong then worked as the chief officer of the research center of Beijing Institute of Medical Devices (北京醫療器械研究所研究室), an institute engaging in medical devices testing apparatus and equipment research and development from 1993 to 1998, responsible for the research of the testing technologies of medical devices. Mr. Tong has been the director and chief engineer of Beijing Fuluke Measuring Technology Research Institute (北京福祿克測量技術研究所), an institute engaging in testing medical devices and consulting, since 2000 and is currently its authorised representative, responsible for testing the standards of medical devices and consultations. Mr. Tong has been the chief engineer of Beijing Tefan Medical Devices Laboratory (北京特凡醫療器械實驗室), an institute engaging in medical devices research, development, testing and consulting since 2007 and is currently its authorised representative, responsible for the consultation of medical devices. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience. Mr. Tong has been a shareholder of Beijing Tefan Medical Devices Laboratory since May 2004. Mr. Tong obtained a diploma in Electronics, the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University in August 1985.

**Mr. Cheung Ying Kwan (張應坤)**, aged 55, was appointed as our independent non-executive Director since 11 March 2015. Mr. Cheung has over 21 years of experience in financial management. Mr. Cheung is currently the company secretary of China Metal Resources Utilisation Limited, a listed company on the Main Board of the Hong Kong Stock Exchange (stock code: 1636) mainly engaged in manufacturing and sales of copper and copper products. From March 2006 to August 2013, Mr. Cheung was the financial controller of Gushan Environmental Energy Limited, the American depository shares of which were listed on the New York Stock Exchange from December 2007 to October 2012. From April 2001 to March 2006, Mr. Cheung also served as the qualified accountant and company secretary of Goldigit Atom-tech Holdings Limited, and as the authorised representative of that company from December 2002 to March 2006. The company is now known as Jinchuan Group International Resources Co. Ltd., a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2362) which mainly engaged in the development and production of pesticides in the PRC. From November 2005 to May 2013, Mr. Cheung was an independent non-executive director of Auto Italia Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0720) which mainly engaged in the import, marketing, distribution and after-sales services of high quality, branded products in Asia. Since June 2010, Mr. Cheung has been an independent non-executive director of Tian Shan Development (Holding) Limited, which is listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2118) and mainly engaged in property development.

Mr. Cheung was admitted as a fellow member of the Association of Chartered Certified Accountants in November 2000 and an associate member of the Hong Kong Institute of Certified Public Accountants in April 1995. Mr. Cheung obtained a diploma in fabric manufacturing from the Hong Kong Polytechnic in September 1981.

## SUPERVISORS

**Mr. Qi Yi (祁毅)**, aged 61, is a Supervisor and the chairman of the Board of Supervisors. Mr. Qi was the head of the department of production of Chunli Limited from October 2001 to December 2004, responsible for production management and the head of the department of quality control of Chunli Limited from January 2005 to December 2007, responsible for the management of quality of our products. Mr. Qi has been the chief officer of the corporate management department of Chunli Limited since January 2008 until September 2010, responsible for the management of product standards. Mr. Qi has been a Supervisor of our Company since 17 September 2010, responsible for supervising the operation and management of our Company and the Board and the senior management. Mr. Qi obtained a diploma in Business Administration (企業管理), the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University (北京廣播電視大學) in October 1991.

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Xie Fengbao (解鳳寶)**, aged 32, is a Supervisor of our Company. Mr. Xie was a designer in the technology department of our Company from March 2001 to March 2008, responsible for the enhancement of product design and blueprint drawings. Since August 2009, Mr. Xie has also been the chief officer of Chunli Limited's technology department, responsible for the overall operation of the Technology Department. Mr. Xie has been a Supervisor of our Company since 17 September 2010, responsible for supervising our Company's operation and management. Mr. Xie obtained a diploma in Machinery Manufacturing and Automation (機械製造與自動化) from a part-time continuing studies program held by Beijing University of Technology (北京工業大學).

**Ms. Zhang Lanlan (張蘭蘭)**, aged 26, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since 17 September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007.

### SENIOR MANAGEMENT

**Mr. Shi Chunbao (史春寶)**, is our executive Director, chairman of our Board, general manager and sales and marketing director. For further details, please see the subsection headed "Executive Directors" above.

**Ms. Yue Shujun (岳術俊)**, is our executive Director and deputy general manager. For further details, please see the subsection headed "Executive Directors" above.

**Mr. Ding Gang (丁罡)**, is our executive Director, deputy general manager and secretary of the Board. For further details, please see the subsection headed "Executive Directors" above.

**Mr. Zhao Shijie (趙世傑)**, aged 32, is our deputy general manager and chief financial officer. Mr. Zhao is mainly responsible for the financial management of our Group. Mr. Zhao has been our deputy general manager and chief financial officer since August 2011. Prior to joining the Group, Mr. Zhao was a project assistant and project manager at the Chongqing branch of Pan-China Certified Public Accountants LLP (天健會計師事務所) (previously known as Chongqing Pan-China Certified Public Accountants (重慶天健會計師事務所)), the principal businesses of which are the provision of audit, taxation and consulting services, from July 2006 to August 2011, responsible for the annual audit work of large-scale state-owned enterprises and listed companies. Mr. Zhao obtained a degree of bachelor in accounting from Chongqing University (重慶大學) in June 2006.

**Mr. Liu Jinshan (劉金山)**, aged 36, is our deputy general manager. Mr. Liu is mainly responsible for the daily operation of production lines and the factory. Mr. Liu was the workshop director of Chunli Limited from September 2004 to November 2005 and responsible for the management of workshops. Mr. Liu served as the director of the department of production of Chunli Limited from December 2005 to November 2007 and was responsible for production management. Mr. Liu has been the factory manager of Chunli Limited from December 2007 to September 2012 and was responsible for the daily operation of our production and production facilities. Mr. Liu has been the deputy general manager of our Company since September 2010. Mr. Liu obtained a diploma in Business and Enterprise Management (工商企業管理專科學歷) from Beijing Economic and Technological College (北京經濟技術研修學院) in July 2002.

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### JOINT COMPANY SECRETARIES

**Mr. Ding Gang (丁罡)** is the executive Director, deputy general manager and secretary to the Board, and has become one of our joint company secretaries since 11 March 2015. For biographical details of Mr. Ding, please see the subsection headed “Executive Directors” above.

**Mr. Ip Pui Sum (葉沛森)**, aged 55, has become one of our joint company secretaries since 11 March 2015. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statement audit, accounting and company secretary services. Mr. Ip was appointed as the company secretary of Tingyi (Cayman Islands) Holding Corp., a company listed on the Main Board of the Hong Kong Stock Exchange, (stock code: 0322), Luoyang Glass Company Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, (stock code: 1108) and National Agricultural Holdings Limited (stock code: 1236) on 12 January 1996, 6 August 2008 and 1 December 2011 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master of Business Administration from Henley Management School and Brunel University in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

# REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

## PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in China and has its principal place of business in Hong Kong at 19/F, Nan Dao Commercial Building, 359–361 Queen’s Road Central, Sheung Wan, Hong Kong. The Group’s principal place of business is in the PRC.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are the research and development, production and sale of implantable orthopedic medical devices.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the aggregated sales of the Group to the largest customer and the top five customers amounted to 4.7% (2013: 5.4%) and 20.3% (2013: 20.5%), respectively, of the total income of the Group for the year.

For the year ended 31 December 2014, the aggregated purchases of the Group to the largest supplier and the top five suppliers amounted to 17.7% (2013: 27.1%) and 56.8% (2013: 62.1%), respectively, of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company’s issued share capital) have any interest in any of the top five customers, suppliers of raw materials and subcontractors of the Group.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3 of the annual report. This summary does not form part of the audited consolidated financial statement.

## FINANCIAL STATEMENT

The profit of the Group for the year ended 31 December 2014 and the affair of the Company and the Group as at that date are set out on page 37 to page 120 in the consolidated financial statement.

Discussion and analysis in respect of the Group’s performance during the year and the material factors relevant to its results and financial position are set out in the section headed “Management Discussion and Analysis” in this annual report.

## PROPERTIES, PLANT AND EQUIPMENT

Details of movements in properties, plants and equipment for the year ended 31 December 2014 are set out in note E.8, 9 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Company during the year are set out in note E.23 to the financial statements, of which details of reserves distributable to shareholders of the Company are set out in note E.23 to the financial statements.



## REPORT OF THE DIRECTORS

### DIVIDEND

The Board proposed the payment of final dividend for the year ended 31 December 2014 as to RMB0.088 per share (including tax charge) and RMB6,086,995.2 (including tax charge) in aggregate (“**2014 Final Dividend**”), which is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (“**AGM**”) to be held on 16 June 2014. Dividend on domestic shares will be paid in RMB whereas dividend on H shares will be paid in Hong Kong dollars. Details of the distribution plan will be separately announced in due course.

Under the China Enterprise Income Tax Law and its implementation regulations and other relevant rules, where the Company distributes the proposed 2014 Final Dividend to non-resident enterprise shareholders whose names appear on the register of member for H shares of the Company, it is required to withhold enterprise income tax at the applicable tax rate of 10%. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, or trustees or other groups or organizations, will be treated as shares being held by the non-resident enterprise shareholders, and consequently will be subject to the withholding of the enterprise income tax.

“The Notice on the Issues Concerning Tax on the Earnings from Transfer of Stocks (Stock Rights) and on the Income Tax from Dividends Received by Enterprises with Foreign Investment, Foreign Enterprises and Individual Foreigners” (Guo Shui Fa [1993] No. 045) (《關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》(國稅發[1993]045號)) (the “**93 Notice**”) issued by the State Administration of Taxation of the PRC, where individual foreigners holding H Shares are exempted from paying individual income tax for dividends (bonuses) obtained from companies incorporated in the PRC that issue H Shares, was repealed under “The Announcement on the List of Fully and Partially Invalidated and Repealed Tax Regulatory Documents” (《關於公佈全文失效廢止、部分條款失效廢止的稅收規範性文件目錄的公告》) issued by the State Administration of Taxation of the PRC on 4 January 2011. On 28 June 2011, the State Administration of Taxation issued “The Notice on the Issues Concerning the Collection and Administration of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 45” (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) (the “**2011 Notice**”). The 2011 Notice has clarified the issues concerning the collection of individual income tax arising from H share dividends received by individual foreigners following the repeal of the 93 Notice.

Due to the change in the tax regulations of the PRC as mentioned above, a company, as the withholding agents, should withhold the individual income tax for the overseas resident individual shareholders on the dividends income (bonus) of the shares issued in Hong Kong by the mainland enterprises with non-foreign investment under the item of “interests, dividend and bonus income” in accordance with the laws. After the Company’s repeated consultation with competent tax authorities, they confirmed that the Company should withhold the individual income tax for the dividends or bonus income received by the overseas resident individual shareholders of the Company. However, the overseas resident individual shareholders holding the shares of the Company may be entitled to the relevant favourable tax treatments pursuant to the provisions in the tax treaties between the country(ies) in which they are domiciled and the PRC, and the tax arrangements between the mainland China and Hong Kong (Macau). As such, the Company will withhold individual income tax for H share individual shareholders in accordance with the following rules:

- for the H share individual shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders in the distribution of final dividend;
- for the H share individual shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of such shareholders in the distribution of final dividend, while such shareholders may apply for rebate in accordance with the actual tax rate under such tax treaties;

## REPORT OF THE DIRECTORS

- for the H share individual shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of final dividend;
- for the H share individual shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 20% on behalf of such shareholders in the distribution of final dividend.

Shareholders are recommended to consult their tax advisors for advice on the PRC, Hong Kong and other tax effects of holding and disposing of the Company's H shares.

According to the articles of association of the Company (the "Articles of Association"), unless otherwise provided by the relevant laws and regulations, for the payment of cash dividend and other payment in foreign currency, the applicable conversion rate shall be the average mid-point rate of the relevant foreign currency as published by website of the People's Bank of China for the 7 business days immediately prior to the date of declaration of such dividend and other payments.

## CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled to attend the 2014 Annual General Meeting, the Company's register of Shareholders of H Shares will be closed from Saturday, 16 May 2015 to Tuesday, 16 June 2015 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified to attend and vote at the 2014 Annual General Meeting, Shareholders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 15 May 2015.

Shareholders whose names appear on the Company's register of members at the close of business on Tuesday, 16 June 2015 are entitled to attend and vote at the Annual General Meeting.

In order to ascertain the Shareholders who are entitled to receive the final dividend for the year ended 31 December 2014, the Register of Members of the Company will be closed from Saturday, 20 June 2015 to Thursday, 25 June 2015 (both days inclusive), during which period no transfers of shares shall be effected. In order to be qualified for receiving the final dividend of the year 2014, any holders of H Shares whose transfers have not been registered have to lodge all transfers of shares accompanied by the relevant share certificates with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 19 June 2015.

Shareholders whose names appear on the Company's register of members at the close of business on Thursday, 25 June 2015 are entitled to receive the final dividend for the year ended 31 December 2014.

## SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the directors of the Company as of the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") at any time up to the date of this annual report.

## PURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2014, neither of the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## REPORT OF THE DIRECTORS

### DIRECTORS AND SUPERVISORS

The following table set forth the information relating to the Directors and Supervisors of the Company for the year ended 31 December 2014.

Name	Age	Position	Appointment date
Mr. Shi Chunbao (史春寶)	45	Executive Director, chairman of the Board, general manager and sales and marketing director	September 2010
Ms. Yue Shujun (岳術俊)	43	Executive Director and deputy general manager	September 2010
Mr. Ding Gang (丁罡)	35	Executive Director, deputy general manager and secretary of the Board	December 2010
Mr. Lin Yiming (林一鳴)	46	Non-executive Director	September 2010
Ms. Xu Hong (徐泓)	60	Independent non-executive Director	September 2010
Mr. Tong Xiaobo (佟小波)	55	Independent non-executive Director	September 2010
Mr. Cheung Ying Kwan (張應坤)	55	Independent non-executive Director	May 2014
Mr. Qi Yi (祁毅)	61	Chairman of the Board of Supervisors	September 2010
Mr. Xie Fengbao (解鳳寶)	32	Supervisor	September 2010
Ms. Zhang Lanlan (張蘭蘭)	26	Employee Supervisor	September 2010

The Company has received, from each of the independent non-executive director, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules, and considered that all independent non-executive directors are independent of the Company.

### BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the directors, supervisors and senior management of the Company are set out on page 14 to page 17 in this annual report.

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

Each of the directors and supervisors of the Company has entered into a service contract with the Company for a term of three years effective from the date of appointment.

Save as disclosed above, none of the directors or supervisors of the Company has or is proposed to have a service contract with the Group (other than contracts expiring or determinable by any member of the Group within one year without payment of compensation, other than statutory compensation).

### REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the directors and supervisors of the Company are set out in note K.2.b.(i) to the consolidated financial statements.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2014.

## REPORT OF THE DIRECTORS

### DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES OFFICER'S INTERESTS IN SECURITIES

As at 31 December 2014, the interests or short positions of the directors, supervisors and the chief executive officer in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), will be as follows:

### INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	48.5%
		18,762,913	Interest of Spouse	37.6%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	37.6%
		24,237,087	Interest of Spouse	48.5%
Mr. Lin Yiming	Domestic shares	1,160,000	Beneficial owner	2.3%

The calculation is based on the total number of 50,000,000 ordinary shares of the Company in issue as at 31 December 2014.

Saved as disclosed above, as at 31 December 2014, none of the directors, supervisors and the chief executive officer of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Interests and Short Positions of Substantial Shareholders

As at 31 December 2014, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	48.5%
		18,762,913	Interest of Spouse	37.6%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	37.6%
		24,237,087	Interest of Spouse	48.5%

Save as disclosed above, as at 31 December 2014, the directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS

Certain of the related party transaction for the year as disclosed in note K to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules, which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Details of such continuing connected transactions (as defined under the Listing Rules) are set out below in accordance with the requirements of the Listing Rules:

<b>Related Party</b>	<b>Details of the connected transactions</b>	<b>Amount for the current period</b>	<b>Amount for the corresponding period in the last year</b>
Beijing Gaoyang Materials Center	Sales of goods	6,300,152.99	5,955,245.21

#### Opinion from the Independent Non-Executive Directors and Auditor on the Continuing Connected Transactions

The directors (including all independent non-executive directors) have reviewed the above mentioned continuing connected transactions and confirmed that these transactions were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant transaction agreements and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pan-China Certified Public Accountants LLP, the auditor of the Company, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company has received an unqualified letter from Pan-China Certified Public Accountants LLP containing their finding and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in the paragraph headed "Continuing Connected Transactions" above and in note K to the consolidated financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director or supervisor of the Company had a material interest, subsisted at the end of the year or at any time during the year.

### PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing shareholders in proportion to their shareholdings.

### CONTRACTS OF SIGNIFICANCE

During the year, save as disclosed in note K to the consolidated financial statements and in the paragraph headed "Continuing Connected Transactions" in this report, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

## REPORT OF THE DIRECTORS

### COMPETING BUSINESS

During the year, none of the directors and their associates had any interest in any competing business with the Company or any of its subsidiaries.

### RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC. The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong.

### IN COMPLIANCE WITH THE CORPORATE GOVERNMENT CODE

Our Company has committed to delivering and maintaining a higher standard of corporate governance to meet business needs and shareholders' expectation. Our Company has adopted the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules as the basis of our Company's corporate governance practices. The Corporate Governance Code has been applicable to our Company with effect from the Listing Date. Pursuant to code provision A.2.1 of the Corporate Governance Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, Mr. Shi Chunbao currently performs the roles as the chairman and general manager. The Board believes that vesting the roles of both chairman and general manager in the same person has the benefit of ensuring consistent leadership within our Group and enables more efficient overall strategic planning for our Group. The Board considers that the balance of power and authority will not be impaired by the present arrangement and this structure will enable our Company to make and implement decisions promptly and effectively. After taking into account the overall circumstances of our Group, the Board will continue to review and consider whether the duties of the chairman and general manager should be separated.

### SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2014, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against the Company.

### EVENTS AFTER THE REPORTING PERIOD

H shares of the Company has been listed on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 11 March 2015. The prospectus of the Company dated 27 February 2015 has been posted on the Company's website at [www.clzd.com](http://www.clzd.com) and on the HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk).

### AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, which includes, the review of the Group's consolidated annual results for the year ended 31 December 2014.

### AUDITOR

The consolidated financial statements for the year ended 31 December 2014 has been audited by Pan-China Certified Public Accountants LLP, who shall be retired and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Pan-China Certified Public Accountants LLP as the auditor of the Group is to be proposed at the AGM.

By order of the Board  
**Beijing Chunlizhengda Medical Instruments Co., Ltd.\***  
**Shi Chunbao**  
*Chairman*

Beijing, PRC, 30 March 2015

\* For identification purpose only



# REPORT OF THE BOARD OF SUPERVISORS

The Board of Supervisors of Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “Board of Supervisors”) has executed its duties earnestly, safeguarded the rights and interests of the Company and shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of People’s Republic of China, other relevant laws and regulations and the Articles of Association.

During the year, the Board of Supervisors reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Company’s shareholders.

The Board of Supervisors have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2014 AGM. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up till now, none of the directors, chief executive nor senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the shareholders of the Company.

The Board of Supervisors is satisfied with the various tasks carried out by the Company in 2014 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

*Chairman of the Board of Supervisors*

**Qi Yi**

Beijing, PRC, 30 March 2015

# CORPORATE GOVERNANCE REPORT

The Company's Shares have been listed on the Stock Exchange since 11 March 2015. Corporate Governance Code has applied to the Company since the Listing Date. As the Company was not listed as of 31 December 2014, Corporate Governance Code does not apply to the Company during the reporting period. The Company has committed to delivering and maintaining a higher standard of corporate governance to meet business needs and shareholders' expectation. During the period from the Listing Date to the date of this report, saved as disclosed below, the Company has complied with all applicable principles and code provisions of the Corporate Governance Code. Corporate governance practices adopted by the Company are summarized below:

## 1. BOARD OF DIRECTORS

### 1.1 Composition of the Board of Directors

During the reporting period, the Board of Directors comprised seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The members of the board of directors of the Company are set out as follows:

<b>Name</b>	<b>Position</b>
Mr. Shi Chunbao	Chairman and general manager
Ms. Yue Shujun	Executive Director
Mr. Ding Gang	Executive Director
Mr. Lin Yiming	Non-executive Director
Ms. Xu Hong	Independent non-executive Director
Mr. Tong Xiaobo	Independent non-executive Director
Mr. Cheung Ying Kwan (effective from 11 March 2015)	Independent non-executive Director

From the Listing Date of the Company to the date of this report, the Board of Directors has complied with the requirement of the Listing Rules on appointment of at least three independent non-executive Directors, who shall jointly account for at least one third of members of the Board of Directors and at least one of whom shall have relevant professional qualifications, or accounting or relevant financial management expertise. The qualifications of the three independent non-executive Directors of the Company fully comply with Rules 3.10 (1) and (2) of the Listing Rules.

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

Ms. Xu Hong and Mr. Tong Xiaobo have been an independent non-executive Director of the Company since September 2010 with the term of office of three years and were re-elected and reappointed in the 2013 annual general meeting with the term of office of three years since 16 April 2014. The term of office of Mr. Cheung Ying Kwan is three years since 11 March 2015. Mr. Lin Yiming has been an non-executive Director of the Company since September 2010 with the term of office of three years and was re-elected and reappointed in the 2013 annual general meeting with the term of office of three years since 16 April 2014.

## CORPORATE GOVERNANCE REPORT

The details of the Directors' resumes are set out on pages 14 to 16 of this report. The relationship of the Chairman and general manager Mr. Shi Chunbao and executive Director Ms. Yue Shujun is husband and wife. Other than that, other Members of the Board of Directors do not have any relations between each other (including financial, business, family or other material or related relations). The Board of Directors is well-balanced in structure and each of its members is knowledgeable, richly experienced and talented in the business operation and development of the Company. All the Directors understand their joint and several responsibilities for Shareholders of the Company.

### 1.2 Board Meetings

The Board of Directors plans to hold Board meetings regularly, at least four meetings in each year and roughly on a quarterly basis. A notice of a regular Board meeting shall be delivered to all the Directors at least 14 days in advance for them to arrange the attendance for the meeting, with the matters to be discussed specified in agenda of the meeting.

A Board meeting shall be attended by more than half of the Directors. Directors shall personally attend the meeting. In the event that any Director is unable to attend a meeting for any reason, he may appoint another Director by a written power of attorney.

During the year ended 31 December 2014, the Board of Directors held 6 meetings in total, with details of the attendance of Directors specified as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman and general manager	6/6	100%
Ms. Yue Shujun	Executive Director	6/6	100%
Mr. Ding Gang	Executive Director	6/6	100%
Mr. Lin Yiming	Non-executive Director	6/6	100%
Ms. Xu Hong	Independent non-executive Director	6/6	100%
Mr. Tong Xiaobo	Independent non-executive Director	6/6	100%
Mr. Cheung Ying Kwan <sup>(1)</sup>	Independent non-executive Director	N/A	N/A

Note:

1. The term of office of Mr. Cheung Ying Kwan took effect on 11 March 2015.

### 1.3 Functions and powers exercised by the Board of Directors and the management

The rights and duties of the Board of Directors and the management are specified in the Articles, so as to guarantee an adequate balance and restriction mechanism for the excellent governance and internal control of the Company.

The Board of Directors shall be responsible for determining the Company's operation plans and investment programs and the setting of its internal management organizations, formulating basic management system of the Company, receiving the regular or irregular working reports of the Company's general manager or entrusted senior management, and approving general manager's working report.

## CORPORATE GOVERNANCE REPORT

The Board of Directors admits that it is the common responsibility of all Directors to perform the duty of corporate governance, including:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (c) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Company's Directors, Supervisors and employees; and
- (d) to review the Company's compliance with Corporate Governance Code and disclosure in the corporate governance report.

### 1.4 Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the Corporate Governance Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, Mr. Shi Chunbao currently performs the roles as the chairman and general manager. The Board believes that vesting the roles of both chairman and general manager in the same person has the benefit of ensuring consistent leadership within our Group and enables more efficient overall strategic planning for our Group. The Board considers that the balance of power and authority will not be impaired by the present arrangement and this structure will enable our Company to make and implement decisions promptly and effectively. After taking into account the overall circumstances of our Group, the Board will continue to review and consider whether the duties of the chairman and general manager should be separated.

### 1.5 Directors' Appointment and Re-election

According to the Articles, Directors shall be elected at the general meetings for a term of office of three years. Upon expiration of the term of office, a director is eligible for re-election and reappointment. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board of Directors, subject to the approval by the general meeting.

### 1.6 Board Diversity Policy

The Board of Directors adopted the Board Diversity Policy on 14 February 2015. The Nomination Committee shall review, at its discretion, the Board Diversity Policy of the Company. For designing the composition the Board of Directors, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointment will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board of Directors. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, race and educational background, professional experience, knowledge and skills.

## CORPORATE GOVERNANCE REPORT

### 1.7 Training for Directors

The Company has arranged relevant trainings to all Directors to ensure that they obtain comprehensive information that they need to make the contribution to the Board of Directors.

### 1.8 Directors' Insurance

The Company has arranged appropriate insurance cover in respect of legal litigation against its Directors.

## 2. BOARD COMMITTEES

There are three committees under the Board of Directors including Audit Committee, Nomination Committee and Remuneration Committee.

### 2.1 Audit Committee

The Audit Committee consists of three Directors including Mr. Lin Yiming (non-executive Director), Ms. Xu Hong (independent non-executive Director) and Mr. Tong Xiaobo (independent non-executive Director). Ms. Xu Hong is the chairman of the Audit Committee.

The principal duties of the Audit Committee are making recommendations on the appointment, re-appointment and removal of the external auditors; reviewing and monitoring the independence and objectiveness of the external auditors and the effectiveness of the audit procedure in accordance with applicable standards; reviewing the preparation and disclosure of financial information of the Company; overseeing the financial reporting system and internal control procedure of the Company; and enhancing the communication between internal auditors and external auditors. During the year ended 31 December 2014, the Audit Committee held two meeting, the details of which are as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Lin Yiming	Non-executive Director	2/2	100%
Ms. Xu Hong	Independent non-executive Director	2/2	100%
Mr. Tong Xiaobo	Independent non-executive Director	2/2	100%

The Audit Committee directed and supervised the Company's internal audit department, considered and approved the reappointment of the external auditors, the Financial Reports 2013 of the Company and the continuing connected transactions of the Company.

The Audit Committee has reviewed the Company's consolidated financial statements for the year ended 31 December 2014, including the accounting principles and practices.

## CORPORATE GOVERNANCE REPORT

### 2.2 Nomination Committee

The Nomination Committee consists of three Directors including Mr. Shi Chunbao (Chairman and general manager), Ms. Xu Hong (independent non-executive Director) and Mr. Cheung Ying Kwan (independent non-executive Director). Mr. Shi Chunbao is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee are reviewing the selection requirements and procedures, structure, number, composition and diversity of the directors and senior management; identifying and selecting qualified candidates to be nominated as directors and senior management or making recommendations to the Board; making recommendations to the Board on the appointment or reappointment of and the succession planning for directors and senior management; reviewing, at its discretion, the board diversity policy; reviewing the independence of independent non-executive directors; and carrying out other duties as authorized by the Board. During the year ended 31 December 2014, the Nomination Committee held one meeting, the details of which are as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ meetings to be attended</b>	<b>Attendance rate</b>
Mr. Shi Chunbao	Chairman and general manager	1/1	100%
Ms. Xu Hong	Independent non-executive Director	1/1	100%
Mr. Cheung Ying Kwan <sup>(1)</sup>	Independent non-executive Director	N/A	N/A

Note:

1. The term of office of Mr. Cheung Ying Kwan took effect on 11 March 2015.

### 2.3 Remuneration Committee

The Remuneration Committee consists of three Directors including Mr. Shi Chunbao (Chairman and general manager), Ms. Xu Hong (independent non-executive Director) and Mr. Tong Xiaobo (independent non-executive Director). Mr. Tong Xiaobo is the chairman of the Remuneration Committee.

The Company has adopted the model recommended by the Remuneration Committee to the Board of Directors to recommend the remuneration packages of executive Directors, Supervisors and senior management.



## CORPORATE GOVERNANCE REPORT

The principal duties of the Remuneration Committee are evaluating the appointment, remuneration policies and assessment criteria for the directors and senior management, conducting such assessment and providing advice. It shall include setting the overall remuneration policy and structure for the directors and senior management of the Company and to propose to the Board in respect of establishing remuneration policy through a formal and transparent procedure; reviewing and approving the remuneration proposals for the management with reference to the corporate goals and objectives made by the Board; make recommendations to the Board on the remuneration packages of Directors and senior management; and carrying out other duties as authorized by the Board. During the year ended 31 December 2014, the Remuneration Committee held one meeting, the details of which are as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ meetings to be attended</b>	<b>Attendance rate</b>
Mr. Shi Chunbao	Chairman and general manager	1/1	100%
Ms. Xu Hong	Independent non-executive Director	1/1	100%
Mr. Tong Xiaobo	Independent non-executive Director	1/1	100%

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2014 is set out below:

<b>Remuneration bands (RMB)</b>	<b>Number of persons</b>
Nil –1,000,000	5
1,000,001–1,500,000	0

### 3 DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing annual financial statements of the Company as of 31 December 2014.

The Board of Directors is responsible for submitting a well defined assessment on the interim and annual reports, share price sensitive information, and other matters that need to be disclosed according to the Listing Rules and other regulatory provisions. The management has provided relevant and necessary explanation and information to the Board of Directors so that the Board of Directors could make informed assessment on the financial data and position of the Company for examination and approval.

The Company does not have any significant uncertainty likely to give rise to the significant doubt of the Company's capability of sustained operations.

The responsibility of the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

### 4 COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules). As the Company was not listed on the Stock Exchange as of 31 December 2014, related rules under the Listing Rules concerning the Model Code that Directors shall observe do not apply to the Company for the year ended 31 December 2014. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code from the Listing Date to the date of this report. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

### 5 JOINT COMPANY SECRETARIES

To maintain good corporate governance practices and compliance with the Listing Rules and applicable laws, the Company appointed Mr. Ding Gang (executive Director) and Mr. Ip Pui Sum as the joint company secretaries. Mr. Ip Pui Sum assists Mr. Ding Gang in performing his duties as company secretary of the Company. Mr. Ding Gang is the main contact person of the Company. The joint company secretaries confirmed having received no less than 15 hours' professional training.

### 6 INTERNAL CONTROL

The Directors of the Company understand that the Board of Directors shall be responsible for maintaining adequate internal control system to safeguard the investment of Shareholders and assets of the Company and reviewing the effectiveness of the system.

The Board of Directors has examined the effectiveness of internal control system of the Company, believing that the internal control system is effective and adequate.

### 7 AUDITOR'S REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under the review, the Company's payment paid or payable to the external auditor for audit and non-audit services is as follows:

Type of Service	RMB'000
Annual Audit Services	141
Audit Fee Paid in relation to the Listing of the Company	1,026
Non-audit Service Fee Paid in relation to the Listing of the Company (Note)	113
Total	1,280

Note: Review service fee on internal control paid to the external auditors of the Company.

During the year ended 31 December 2014, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

## 8 GENERAL MEETINGS

During the year ended 31 December 2014, the Company convened 3 general meetings, as detailed below:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman and general manager	3/3	100%
Ms. Yue Shujun	Executive Director	3/3	100%
Mr. Ding Gang	Executive Director	3/3	100%
Mr. Lin Yiming	Non-executive Director	3/3	100%
Ms. Xu Hong	Independent non-executive Director	3/3	100%
Mr. Tong Xiaobo	Independent non-executive Director	3/3	100%
Mr. Cheung Ying Kwan <sup>(1)</sup>	Independent non-executive Director	N/A	N/A

Note:

- The term of office of Mr. Cheung Ying Kwan took effect on 11 March 2015.

## 9 COMMUNICATIONS WITH SHAREHOLDERS

Where the Company convenes a general meeting, a notice of the meeting in written form or in electronic form (by posting on, including but not limited to, the website of the Stock Exchange and the website of the Company, same below) shall be given not less than 45 days before the date of the meeting to notify all of the Shareholders in the Shareholders' register of the matters to be considered and the date and venue of the meeting to be held. Any Shareholder intending to attend the meeting shall deliver to the Company a written reply showing his/her intention to attend at least 20 days before the meeting.

### 9.1 Shareholders' Rights to Propose Resolutions

When the Company convenes a general meeting, meeting of the Board of Directors and Board of Supervisors, shareholders severally or jointly holding more than 3% of the total number of shares shall have the right to propose resolutions.

When the Company convenes an annual general meeting, shareholders severally or jointly more than 3% of the total number of shares shall have the right to propose extraordinary resolutions in writing to the Company and the Company shall include the matters therein falling within the scope of functions and powers of the general meeting into the agenda of such meeting. An extraordinary resolution proposed by shareholders shall be subject to and conditional upon the substance of the resolution proposed shall not be in conflict with the laws and regulations, and shall fall within the scope of operation of the Company and the functions and powers of general meetings; there is a clear subject matter of discussion and specific matters to be resolved; and the resolution shall be submitted or served to the Board in writing 10 days before the date of the general meeting.

## CORPORATE GOVERNANCE REPORT

### 9.2 Shareholders' Right to Requisite a Meeting

Shareholders requisitioning an extraordinary general meeting or class meeting of shareholders shall abide by the following procedures:

- (a) Two or more shareholders severally or jointly holding 10% or more of the shares carrying the right to vote at the meeting sought to be held, by signing one or more counterpart requisition in writing stating the object of the meeting, require the Board to convene an extraordinary general meeting or a class meeting. The Board shall as soon as possible proceed to convene the extraordinary general meeting or the class meeting after receiving such requisition in writing. The shareholdings referred to above shall be calculated as of the date of the deposit of the requisition by the shareholders.
- (b) If the Board fails to issue a notice of convening such a meeting within 30 days from the date of the receipt of such requisition in writing, the shareholders individually or jointly holding more than 10% of shares carrying voting rights at the meeting intended to be held have the right to propose to the Board of Supervisors to convene an extraordinary general meeting or class meeting and shall request the Board of Supervisors in writing. If the Board of Supervisors fails to convene the meeting within 10 days from the date of the receipt of such requisition in writing, the shareholders individually or jointly holding more than 10% of shares for over 90 consecutive days may themselves convene such a meeting with the procedures as similar as possible as that in which shareholders' meetings are to be convened by the Board within 4 months from the date of the receipt of the requisition by the Board.

### 9.3 Inquiry and Communication of Shareholders

The Company releases its announcements, financial data and other relevant data on its website [www.clzd.com](http://www.clzd.com), which serves as a channel facilitating effective communication. The Shareholders may send any inquiry in writing to the Company's principal place of business in Hong Kong. The Company will properly handle all inquiries in due course.

The Board of Directors welcomes suggestions from Shareholders, and encourages Shareholders to attend general meetings to directly express misgivings that they may have to the Board of Directors and the management. Usually, the chairman of the Board of Directors and the chairmen of respective committees would attend annual general meetings and other general meetings to answer questions put forward by Shareholders.

Detailed voting procedure and resolutions voted on are set out in the Shareholders' circulars.

## 10 ARTICLES AND AMENDMENTS

The Articles of the Company took effect on the Listing Date. From the Listing Date to the date of this report, there were no significant changes in the Articles of the Company. The Articles of the Company are available on the websites of the Stock Exchange for information disclosure and the Company.

## 11 NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

Mr. Shi Chunbao and Ms. Yue Shujun are the controlling shareholders (within the meaning of the Listing Rules) of the Company (the "Controlling Shareholders"). Each of the Controlling Shareholders has confirmed to the Company that none of them is engaged in, or interested in any business (other than the Group) which directly or indirectly competes or may compete with the business of the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-competition undertaking in the Group's favour on 14 February 2015 (the "Deed of Non-competition"). Relevant details were disclosed in the section headed "Relationship with Controlling Shareholders and Directors – Deed of Non-competition" in the prospectus of the Company dated 27 February 2015. Each of the Controlling Shareholders has confirmed to the Company that he/she has complied with the Deed of Non-competition, and the independent nonexecutive Directors of the Company have reviewed the status of compliance and enforcement of the Deed of Non-competition and confirmed that all the undertakings thereunder have been complied with.

# INDEPENDENT AUDITOR'S REPORT



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PCCPAAR [2015]  
No. 8-112

## **TO THE SHAREHOLDERS OF BEIJING CHUNLIZHENGDA MEDICAL INSTRUMENTS CO., LTD.** *(incorporated in the People's Republic of China)*

We have audited the accompanying financial statements of 北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co. Ltd., the "Company") on pages 37 to 120, which comprise the consolidated and Company's balance sheets as at 31 December 2014, and the consolidated and Company's income statements, the consolidated and Company's statements of changes in shareholders' equity and the consolidated and Company's cash flow statements for the year then ended, and the notes to the financial statements.

### **1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with the China Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

### **2. AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **3. OPINION**

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Company's financial position as of 31 December 2014, and the consolidated and the Company's results of operations and cash flows for the year then ended in accordance with the China Accounting Standards for Business Enterprises.

**Pan-China Certified Public Accountants LLP**  
Hangzhou, China

**Chinese Certified Public Accountant: Mr. Zhang Kai**

**Chinese Certified Public Accountant: Mr. Yu Bocheng**

30 March 2015

# CONSOLIDATED BALANCE SHEET OF THE GROUP

Item	Notes	As at 31 December	
		2014 RMB	2013 RMB
<b>Current assets:</b>			
Cash and bank deposits	E(1)	63,563,110.13	65,856,195.97
Notes receivable	E(2)	7,684,649.00	6,339,878.88
Accounts receivable	E(3)	42,893,825.42	33,652,530.23
Prepayments	E(4)	3,669,393.96	787,244.78
Other receivables	E(5)	982,276.55	624,074.49
Inventories	E(6)	35,472,925.88	23,080,797.44
Other current assets	E(7)	8,234,493.57	2,363,584.88
<b>Total current assets</b>		<b>162,500,674.51</b>	132,704,306.67
<b>Non-current assets:</b>			
Fixed assets	E(8)	37,355,999.89	24,654,282.31
Construction in progress	E(9)	3,128,934.07	5,976,309.58
Intangible assets	E(10)	35,284,936.60	36,105,935.68
Deferred tax assets	E(11)	709,789.61	523,655.38
Other non-current assets	E(12)	875,690.60	669,021.96
<b>Total non-current assets</b>		<b>77,355,350.77</b>	67,929,204.91
<b>Total assets</b>		<b>239,856,025.28</b>	200,633,511.58
<b>Current liabilities:</b>			
Accounts payable	E(14)	14,860,329.15	4,235,146.49
Receipts in advance	E(15)	1,045,968.09	1,305,356.35
Employee benefits payable	E(16)	2,097,740.19	1,871,038.71
Taxes payable	E(17)	4,113,533.57	4,019,774.95
Other payables	E(18)	4,191,783.01	3,639,491.63
<b>Total current liabilities</b>		<b>26,309,354.01</b>	15,070,808.13
<b>Non-current liabilities:</b>			
Deferred income	E(19)	7,626,270.75	5,673,500.00
<b>Total non-current liabilities</b>		<b>7,626,270.75</b>	5,673,500.00
<b>Total liabilities</b>		<b>33,935,624.76</b>	20,744,308.13



## CONSOLIDATED BALANCE SHEET OF THE GROUP

Item	Notes	As at 31 December	
		2014 RMB	2013 RMB
<b>Shareholders' equity:</b>			
Share capital	E(20)	50,000,000.00	50,000,000.00
Capital reserve	E(21)	63,352,595.15	63,352,595.15
Surplus reserve	E(22)	13,570,973.75	9,851,777.79
Retained earnings	E(23)	78,996,831.62	56,684,830.51
<b>Total shareholders' equity</b>		<b>205,920,400.52</b>	179,889,203.45
<b>Total liabilities and shareholders' equity</b>		<b>239,856,025.28</b>	200,633,511.58
<b>Net current assets</b>		<b>136,191,320.50</b>	117,633,498.54
<b>Total assets less current liabilities</b>		<b>213,546,671.27</b>	185,562,703.45

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# BALANCE SHEET OF THE COMPANY

Item	Notes	As at 31 December	
		2014 RMB	2013 RMB
<b>Current assets:</b>			
Cash and bank deposits	H(1)	61,150,517.26	63,556,852.39
Notes receivable		7,684,649.00	6,339,878.88
Accounts receivable		42,893,825.42	33,652,530.23
Prepayments		3,669,393.96	787,244.78
Other receivables	H(2)	1,128,341.25	615,208.35
Inventories		35,472,925.88	23,080,797.44
Other current assets		8,234,493.57	2,363,584.88
<b>Total current assets</b>		<b>160,234,146.34</b>	130,396,096.95
<b>Non-current assets:</b>			
Investment in a subsidiary	H(3)	665,263.00	665,263.00
Fixed assets	H(4)	37,354,024.89	24,652,307.31
Construction in progress		3,128,934.07	5,976,309.58
Intangible assets		35,284,936.60	36,105,935.68
Deferred tax assets	H(5)	699,489.33	519,535.27
Other non-current assets		875,690.60	669,021.96
<b>Total non-current assets</b>		<b>78,008,338.49</b>	68,588,372.80
<b>Total assets</b>		<b>238,242,484.83</b>	198,984,469.75
<b>Current liabilities:</b>			
Accounts payable		14,860,329.15	4,235,146.49
Receipts in advance		1,045,968.09	1,305,356.35
Employee benefits payable	H(6)	2,088,579.37	1,860,734.50
Taxes payable	H(7)	4,377,221.93	4,409,867.81
Other payables	H(8)	4,181,783.01	3,629,491.63
<b>Total current liabilities</b>		<b>26,553,881.55</b>	15,440,596.78
<b>Non-current liabilities:</b>			
Deferred Income		7,626,270.75	5,673,500.00
<b>Total non-current liabilities</b>		<b>7,626,270.75</b>	5,673,500.00
<b>Total liabilities</b>		<b>34,180,152.30</b>	21,114,096.78

## BALANCE SHEET OF THE COMPANY

Item	Notes	As at 31 December	
		2014 RMB	2013 RMB
<b>Shareholders' equity:</b>			
Share capital		50,000,000.00	50,000,000.00
Capital reserve		63,352,595.15	63,352,595.15
Surplus reserve		13,570,973.75	9,851,777.79
Retained earnings	H(9)	77,138,763.63	54,666,000.03
<b>Total shareholders' equity</b>		<b>204,062,332.53</b>	177,870,372.97
<b>Total liabilities and shareholders' equity</b>		<b>238,242,484.83</b>	198,984,469.75
<b>Net current assets</b>		<b>133,680,264.79</b>	114,955,500.17
<b>Total assets less current liabilities</b>		<b>211,688,603.28</b>	183,543,872.97

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# CONSOLIDATED INCOME STATEMENT OF THE GROUP

Item	Notes	Year ended 31 December	
		2014 RMB	2013 RMB
<b>I. Revenue</b>	F(1) & (12)	<b>134,534,445.96</b>	110,545,519.29
Less: Cost of sales	F(1)	<b>34,956,829.21</b>	30,470,602.37
Business taxes and levies	F(2)	<b>1,308,772.95</b>	1,171,282.39
Selling expenses	F(3)	<b>29,173,984.36</b>	20,145,275.75
Administrative expenses	F(4)	<b>25,822,282.45</b>	20,581,299.15
Finance expenses	F(5)	<b>(138,687.32)</b>	22,616.29
Impairment loss of assets	F(6)	<b>1,224,414.42</b>	687,167.79
Add: Investment income	F(7)	<b>61,643.84</b>	241,339.26
<b>II. Operating profit</b>		<b>42,248,493.73</b>	37,708,614.81
Add: Non-operating income	F(8)	<b>692,127.25</b>	593,728.12
Less: Non-operating expenses	F(9)	<b>27,683.54</b>	186,463.66
Including: Loss on disposals of non-current assets		<b>-</b>	179,173.49
<b>III. Profit before tax for the year</b>		<b>42,912,937.44</b>	38,115,879.27
Less: Income tax expenses	F(10)	<b>5,881,740.37</b>	5,450,518.01
<b>IV. Net profit for the year</b>		<b>37,031,197.07</b>	32,665,361.26
Net profit attributable to the equity holders of the Company		<b>37,031,197.07</b>	32,665,361.26
<b>V. Earnings per share:</b>			
(I) Basic earnings per share	F(11)	<b>0.74</b>	0.65
(II) Diluted earnings per share	F(11)	<b>0.74</b>	0.65
<b>VI. Other comprehensive income</b>		<b>-</b>	-
<b>VII. Total comprehensive income</b>		<b>37,031,197.07</b>	32,665,361.26
<b>Total comprehensive income attributable to the equity holders of the Company</b>		<b>37,031,197.07</b>	32,665,361.26

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# INCOME STATEMENT OF THE COMPANY

Item	Notes	Year ended 31 December	
		2014 RMB	2013 RMB
I. <b>Revenue</b>	I(1)	<b>135,218,206.72</b>	111,485,690.23
Less: Cost of sales	I(1)	<b>35,640,590.01</b>	31,410,773.36
Business taxes and levies		<b>1,308,772.95</b>	1,171,282.39
Selling expenses		<b>29,159,266.36</b>	20,128,670.69
Administrative expenses		<b>25,685,851.97</b>	20,449,640.46
Finance expenses		<b>(129,760.84)</b>	34,187.10
Impairment loss of assets		<b>1,199,693.75</b>	692,918.14
Add: Investment income		<b>61,643.84</b>	241,339.26
II. <b>Operating profit</b>		<b>42,415,436.36</b>	37,839,557.35
Add: Non-operating income		<b>692,127.25</b>	593,728.12
Less: Non-operating expenses		<b>27,683.51</b>	186,463.66
Including: Loss on disposals of non-current assets		<b>-</b>	179,173.49
III. <b>Profit before tax for the year</b>		<b>43,079,880.10</b>	38,246,821.81
Less: Income tax expenses		<b>5,887,920.54</b>	5,449,080.42
IV. <b>Net profit for the year</b>		<b>37,191,959.56</b>	32,797,741.39
V. <b>Other comprehensive income</b>		<b>-</b>	-
VI. <b>Total comprehensive income</b>		<b>37,191,959.56</b>	32,797,741.39

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

Item	Notes	Year ended 31 December	
		2014 RMB	2013 RMB
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		142,862,347.35	119,628,524.65
Other cash receipts relating to operating activities	G(1)	645,918.00	331,463.66
Sub-total of cash inflows from operating activities		143,508,265.35	119,959,988.31
Cash payments for goods purchased and services received		37,327,824.17	27,227,935.77
Cash payments to and on behalf of employees		25,026,205.57	21,358,629.85
Payments of various types of taxes		21,645,878.69	19,914,125.40
Other cash payments relating to operating activities	G(2)	35,233,771.62	23,256,769.89
Sub-total of cash outflows from operating activities		119,233,680.05	91,757,460.91
Net cash flows from operating activities	G(5)	24,274,585.30	28,202,527.40
<b>II. Cash flows from investing activities:</b>			
Cash receipts from disposals of investments		10,000,000.00	78,648,000.00
Cash receipts from investment income		61,643.84	241,339.26
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		–	20,577.00
Other cash receipts relating to investing activities	G(3)	2,169,062.90	5,200,957.33
Sub-total of cash inflows from investing activities		12,230,706.74	84,110,873.59
Cash payments to acquire or construct of fixed assets, intangible assets and other long-term assets		11,770,172.87	6,704,315.38
Cash payments to acquire investments		10,000,000.00	78,648,000.00
Sub-total of cash outflows from investing activities		21,770,172.87	85,352,315.38
Net cash flow from investing activities		(9,539,466.13)	(1,241,441.79)
<b>III. Cash flows from financing activities:</b>			
Cash payments for distribution of dividends or profits		11,000,000.00	20,000,000.00
Other cash payments relating to other financing activities	G(4)	6,028,205.01	2,363,584.88
Sub-total of cash outflows from financing activities		17,028,205.01	22,363,584.88
Net cash flow from financing activities		(17,028,205.01)	(22,363,584.88)



## CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

Item	Notes	Year ended 31 December	
		2014 RMB	2013 RMB
IV. <b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		-	-
V. <b>Net increase in cash and cash equivalents</b>		<b>(2,293,085.84)</b>	4,597,500.73
<b>Add: Opening balance of cash and cash equivalents</b>		<b>65,856,195.97</b>	61,258,695.24
VI <b>Closing balance of cash and cash equivalents</b>	G(5)	<b>63,563,110.13</b>	65,856,195.97

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# CASH FLOW STATEMENT OF THE COMPANY

Item	Notes	Year ended 31 December	
		2014 RMB	2013 RMB
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		142,862,347.35	119,628,524.65
Other cash receipts relating to operating activities		645,918.00	1,081,463.66
Sub-total of cash inflows from operating activities		143,508,265.35	120,709,988.31
Cash payments for goods purchased and services received		37,327,824.17	27,227,935.77
Cash payments to and on behalf of employees		24,898,253.92	21,231,502.58
Payments of various types of taxes		21,645,878.69	19,914,125.40
Other cash payments relating to operating activities		35,465,646.08	23,366,183.18
Sub-total of cash outflows from operating activities		119,337,602.86	91,739,746.93
Net cash flows from operating activities	J(1)	24,170,662.49	28,970,241.38
<b>II. Cash flows from investing activities:</b>			
Cash receipts from disposals of investments		10,000,000.00	78,648,000.00
Cash receipts from investment income		61,643.84	241,339.26
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		–	20,577.00
Other cash receipts relating to investing activities		2,159,736.42	5,189,045.98
Sub-total of cash inflows from investing activities		12,221,380.26	84,098,962.24
Cash payments to acquire or construct of fixed assets, intangible assets and other long-term assets		11,770,172.87	6,704,315.38
Cash payments to acquire investments		10,000,000.00	78,648,000.00
Sub-total of cash outflows from investing activities		21,770,172.87	85,352,315.38
Net cash flow from investing activities		(9,548,792.61)	(1,253,353.14)
<b>III. Cash flows from financing activities:</b>			
Cash payments for distribution of dividends or profits		11,000,000.00	20,000,000.00
Other cash payments relating to other financing activities		6,028,205.01	2,363,584.88
Sub-total of cash outflows from financing activities		17,028,205.01	22,363,584.88
Net cash flow from financing activities		(17,028,205.01)	(22,363,584.88)

## CASH FLOW STATEMENT OF THE COMPANY

Year ended 31 December

Item	Notes	Year ended 31 December	
		2014 RMB	2013 RMB
IV. <b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		-	-
V. <b>Net increase in cash and cash equivalents</b>		<b>(2,406,335.13)</b>	5,353,303.36
<b>Add: Opening balance of cash and cash equivalents</b>		<b>63,556,852.39</b>	58,203,549.03
VI <b>Closing balance of cash and cash equivalents</b>	J(1)	<b>61,150,517.26</b>	63,556,852.39

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE GROUP

Item	Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Retained earnings RMB	Total shareholders' equity RMB
<b>Year ended 31 December 2013</b>					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19
II. Opening balance of the current year	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19
III. Changes for the year	-	-	3,279,774.14	9,385,587.12	12,665,361.26
(I) Net profit	-	-	-	32,665,361.26	32,665,361.26
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	32,665,361.26	32,665,361.26
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,279,774.14	(23,279,774.14)	(20,000,000.00)
1 Transfer to surplus reserve	-	-	3,279,774.14	(3,279,774.14)	-
2 Distribution to shareholders	-	-	-	(20,000,000.00)	(20,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
<b>Year ended 31 December 2014</b>					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
II. Opening balance of the current year	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
III. Changes for the year	-	-	3,719,195.96	22,312,001.11	26,031,197.07
(I) Net profit	-	-	-	37,031,197.07	37,031,197.07
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	37,031,197.07	37,031,197.07
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,719,195.96	(14,719,195.96)	(11,000,000.00)
1 Transfer to surplus reserve	-	-	3,719,195.96	(3,719,195.96)	-
2 Distribution to shareholders	-	-	-	(11,000,000.00)	(11,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	13,570,973.75	78,996,831.62	205,920,400.52

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

Item	Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Retained earnings RMB	Total shareholders' equity RMB
<b>Year ended 31 December 2013</b>					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58
II. Opening balance of the current year	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58
III. Changes for the year	-	-	3,279,774.14	9,517,967.25	12,797,741.39
(I) Net profit	-	-	-	32,797,741.39	32,797,741.39
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	32,797,741.39	32,797,741.39
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,279,774.14	(23,279,774.14)	(20,000,000.00)
1 Transfer to surplus reserve	-	-	3,279,774.14	(3,279,774.14)	-
2 Distribution to shareholders	-	-	-	(20,000,000.00)	(20,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	9,851,777.79	54,666,000.03	177,870,372.97
<b>Year ended 31 December 2014</b>					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	9,851,777.79	54,666,000.03	177,870,372.97
II. Opening balance of the current year	50,000,000.00	63,352,595.15	9,851,777.79	54,666,000.03	177,870,372.97
III. Changes for the year	-	-	3,719,195.96	22,472,763.60	26,191,959.56
(I) Net profit	-	-	-	37,191,959.56	37,191,959.56
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	37,191,959.56	37,191,959.56
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,719,195.96	(14,719,195.96)	(11,000,000.00)
1 Transfer to surplus reserve	-	-	3,719,195.96	(3,719,195.96)	-
2 Distribution to shareholders	-	-	-	(11,000,000.00)	(11,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	13,570,973.75	77,138,763.63	204,062,332.53

Legal Representative: \_\_\_\_\_

Person in Charge of the Accounting Body: \_\_\_\_\_

Chief Accountant: \_\_\_\_\_

# NOTES TO THE FINANCIAL STATEMENTS

## A GENERAL AND BASIC INFORMATION ABOUT THE COMPANY

### History and development

北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co., Ltd.\*; hereinafter referred to as the “Company”) was previously known as 北京市春立正達科技開發有限公司 (Beijing Chunlizhengda Technology Development Co., Ltd.\*; “Chunli Limited”). Chunli Limited was established as a limited liability company in the People’s Republic of China (the “PRC”) on 12 February 1998 with the initial registered capital of RMB300,000.00, and 史春寶先生 (Mr. Shi Chunbao) contributed assets of RMB200,000.00 and 岳術俊女士 (Ms. Yue Shujun, spouse of Mr. Shi Chunbao) contributed cash of RMB100,000.00 to the Company.

Pursuant to the resolution of the shareholders’ meeting of the Company passed on 11 December 2001, the registered capital of Chunli Limited was increased by RMB1,300,000 from RMB300,000.00 to RMB1,600,000.00. Out of which, Mr. Shi Chunbao and Ms. Yue Shujun contributed cash of RMB650,000.00 and RMB650,000.00, respectively to Chunli Limited. Subsequently, Mr. Shi Chunbao and Ms. Yue Shujun contributed capital of RMB850,000.00 and RMB750,000.00, representing 53.125% and 46.875% of the registered capital to the Company, respectively. An updated business licence was issued by 北京市工商行政管理局 (Beijing Administration for Industry and Commerce\*) on 18 December 2001.

Pursuant to the capital injection agreement between the Company and nine third parties in June 2010, 孫偉琦先生 (Mr. Sun Weiqi), 北京新安財富創業投資有限責任公司 (Beijing Xin’an Caifu Venture Investment Co., Ltd.\*; “Xin’an Caifu”, formerly known as 北京新安財富資本投資有限公司 (Beijing Xin’an Caifu Capital Investment Co., Ltd.\*)), 林一鳴先生 (Mr. Lin Yiming), 谷長躍先生 (Mr. Gu Changyue), 黃東先生 (Mr. Huang Dong), 何榮梅先生 (Mr. He Rongmei), 倪學禎先生 (Mr. Ni Xuezhen), 張朝暉女士 (Ms. Zhang Zhaohui) and 陳旭勝先生 (Mr. Chen Xusheng) contributed cash of RMB13,000,000.00, RMB10,000,000.00, RMB8,700,000.00, RMB6,000,000.00, RMB5,000,000.00, RMB5,000,000.00, RMB3,000,000.00, RMB2,000,000.00 and RMB800,000.00 for the contribution of registered capital of RMB64,698.00, RMB49,767.00, RMB43,297.00, RMB29,860.00, RMB24,883.00, RMB24,883.00, RMB14,930.00, RMB9,953.00 and RMB3,981.00, respectively to the Company. The excess between the total cash contributed of RMB53,500,000.00 over the contributed registered capital of RMB266,252.00 was RMB53,233,748.00, which was credited to the capital reserve of the Company for the year ended 31 December 2010. An updated business licence was issued by Beijing Administration for Industry and Commerce on 2 July 2010.

Pursuant to an agreement between Ms. Yue Shujun, 王海雅女士 (Ms. Wang Haiya) and 金杰先生 (Mr. Jin Jie) in June 2010, Ms. Yue Shujun transferred the registered capital of the Company of RMB24,883.00 and RMB49,767.00 to Ms Wang Haiya and Mr. Jin Jie, respectively for a total consideration of RMB15,000,000.00.

In August 2010, the shareholders of the Company decided to transform the Company into a joint stock company with limited liability. Based on the audited consolidated net assets of the Group as at 31 July 2010 of RMB111,552,595.15, representing registered capital of RMB1,866,252.00, capital reserve of RMB53,233,748.00, surplus reserve of RMB3,991,952.22 and retained earnings of RMB52,460,642.93, the Company was transformed into a joint stock limited liability company by way of promotion with a share capital of RMB50,000,000.00, divided into 50,000,000 domestic shares with a nominal value of RMB1.00 each in the Company. The excess between the net assets of RMB111,552,595.15 over the share capital of RMB50,000,000.00 was RMB61,552,595.15, which was credited to the share premium account of the Company for the year ended 31 December 2010. The shareholders and their percentage of shareholdings remain unchanged. The above share capital has been verified by capital verification report (Tianjianzhengxin Yan (2010) Zongzi No.030048 capital verification report) dated 28 August 2010 issued by us. On 17 September 2010, the Company obtained a new business license from the Beijing Administration for Industry and Commerce.

\* The English name is for identification purpose only



## NOTES TO THE FINANCIAL STATEMENTS

### A GENERAL AND BASIC INFORMATION ABOUT THE COMPANY (Continued)

#### History and development (Continued)

On 25 June 2012, Mr. Gu Changyue transferred his holding of 800,000 shares in the Company, representing 1.6% equity interest in the Company to Mr. Shi Chunbao. Subsequently, Mr. Shi Chunbao held 23,572,917 shares in the Company, representing approximately 47.1458% equity interest in the Company.

On 13 December 2013, Xin'an Caifu transferred its holding of 1,333,333 shares in the Company, representing approximately 2.67% equity interest in the Company to Mr. Shi Chunbao and Ms. Yue Shujun. Up to the date of this report, Mr. Shi Chunbao and Ms. Yue Shujun hold 24,237,087.00 shares and 18,762,913.00 shares in the Company, approximately 48.4742% and 37.5258% equity interests in the Company, respectively, representing a total of 86% of the equity interest in the Company.

The Company completed its initial public offering (the "Listing") of its overseas-listed foreign shares (the "H shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 March 2015. Pursuant to the Listing, the Company offered a total of 16,670,000 new shares with a nominal value of RMB1.00 per share at the price of HK\$13.88 per share to the public. The H shares of the Company were commenced trading on the Stock Exchange on 11 March 2015.

The address of the registered office is No.10 Xinmi Xi Er Road, Southern District of Tongzhou, Economic Development Zone, Tongzhou District, Beijing, the PRC.

#### Industry of the Company

The Company and its subsidiary (hereinafter collectively referred to as the "Group") are mainly engaged in the manufacture and trading of surgical implants, instruments and related products.

#### Scope of business

The business scopes of the Company are: the production of Class III medical devices such as III-6846-1 implants, III-6846-2 artificial organ implants, the sales of Class III medical devices such as implants materials and artificial organs, medical knitwear and adhesive, sales of Class II medical devices such as physiotherapy and rehabilitation equipment and orthopedics surgery devices, as well as the sales of Class I medical devices such as basic surgery devices, and normal operating projects: imports and exports and technology promotion (for those businesses and operations which have been approved by the relevant government bodies).

#### Others

The Company has a wholly owned subsidiary, 北京兆億特醫療器械有限公司 (Beijing Zhao Yi Te Medical Devices Co., Ltd.\*, "Zhao Yi Te") which was established on 8 June 2006 and details of which are set out in Note D.

\* The English name is for identification purpose only

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance which for the year ended 31 December 2014 continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 of the Hong Kong Companies Ordinance.

The financial statements have been prepared in accordance with the following accounting policies which conform to the Accounting Standards for Business Enterprises in the PRC ("ASBE") issued by the Ministry of Finance of the PRC ("MOF"), the related specific standards, the Accounting Standards for Business Enterprises Application Guidance; China Accounting Standards Bulletins and other relevant regulations (hereinafter referred to as "China Accounting Standards for Business Enterprises", "CASBE").

In preparing the financial statements of the Company for the year ended 31 December 2014, the Group has adopted all of the new and revised CASBE issued by MOF that are effective for the financial year beginning on 1 January 2014 and during the year ended 31 December 2014.

The Company has adopted the accrual basis of accounting and the financial statements have been prepared on a historical cost basis.

#### Statement of compliance with the CASBE

In the opinion of the directors of the Company, the financial statements for the years ended 31 December 2013 and 31 December 2014 have been prepared in accordance with the CASBE and presents truly and completely the Group's and the Company's financial position as at 31 December 2013 and 31 December 2014 and the Group's and the Company's financial performance and cash flows for the years ended 31 December 2013 and 31 December 2014.

#### Accounting period

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

#### Functional currency

The directors assessed the Group's functional currency and concluded that the functional currency of the Group is Renminbi ("RMB"), which is also the presentation currency of its financial statements.

#### The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

##### (a) Business combinations involving enterprises under common control

The assets and liabilities obtained by the Company in the business combination are measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets acquired and the carrying amount of the consideration paid for the combination (or the total face value of shares issued) is adjusted in the capital reserve. If the capital reserve is insufficient, any excess is adjusted to retained earnings. Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control (Continued)

#### (b) Business combinations not involving enterprises under common control

Where the costs arising from the business combination by the acquirer exceeds the fair value at the date of acquisition of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the costs arising from the business combination by the acquirer is less than the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately to profit or loss for the current period.

The costs incurred by the acquirer that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

#### Preparation of financial statements

The Company includes its subsidiary under its control in the scope of consolidation for the preparation of the financial statements. An investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. Based on the financial statements of the parent and its subsidiary and other relevant information, the financial statements were prepared in accordance with the ASBE No. 33 "Consolidated financial statements".

All significant intra-group balances and transactions are eliminated on consolidation.

#### Recognition criteria of cash and cash equivalents

Cash shown in the statement of cash flows comprises cash on hand and bank deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Translation of transactions and financial statements denominated in foreign currencies

##### (a) Transactions denominated in foreign currencies

Foreign currency transactions are translated into RMB, on initial recognition, by applying the spot exchange rates on the date of the transactions. At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from different exchange rates are recognised to profit or loss for the period, except that: those exchange differences regarding the principal and interest for a specific-purpose borrowing denominated in foreign currency that qualify for capitalisation; Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currencies at the spot exchange rates on the dates of the transactions and the amounts of RMB remain unchanged; Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rates on the dates the fair value is determined and the differences are recognised in profit and loss or capital reserve.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Translation of transactions and financial statements denominated in foreign currencies (Continued)

##### (b) Translation of financial statements denominated in foreign currencies

Assets and liabilities on the balance sheet are translated at the spot exchange rates prevailing at the balance sheet date; Shareholders' equity items except for "retained earnings" are translated at the spot exchange rates at the dates on which such items arose; Income and expense items in the income statement are translated at the exchange rates that approximate the actual spot exchange rates on the dates of the transactions. The above differences are separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the shareholders' equity in the balance sheet.

#### Financial instruments

##### (a) Classification of financial assets and financial liabilities

On initial recognition, the financial assets are classified into one of the four categories: financial assets at fair value through profit or loss (including financial assets held for trading and financial assets designated at fair value through profit or loss); held-to-maturity investments; loans and receivables; and available-for-sale financial assets.

On initial recognition, financial liabilities are classified into one of the two categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and financial liabilities designated at fair value through profit or loss) and other financial liabilities.

Financial assets or financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets or financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised to profit or loss. For other financial assets or financial liabilities, transaction costs are included in their initial recognised amounts.

##### (b) Recognition, measurement and derecognition of financial assets and financial liabilities

Financial assets are subsequently measured at fair value without considering of the possible transaction costs upon the disposal thereof in the future, except that: (i) Held-to-maturity investments and loans and receivables are subsequently measured at amortised cost using the effective interest method; and (ii) Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except that: (i) Financial liabilities at fair value through profit are subsequently measured at fair value without considering of the possible transaction costs upon the settlement thereof in the future; (ii) Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument without a quoted price in an active market whose fair value cannot be reliably measured, they are subsequently measured at cost; and (iii) Financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss, or loan commitments to provide a loan at a below-market interest rate, which are not designated at fair value through profit or loss, subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with ASBE No. 13 "Contingencies"; and (ii) the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in ASBE No. 14 "Revenue".

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Financial instruments (Continued)

##### (b) Recognition, measurement and derecognition of financial assets and financial liabilities (Continued)

Any gains or losses arising from changes in the fair value on financial assets or financial liabilities, other than those hedging instrument, are accounted for as follows: (i) Gains or losses arising from the change in fair value on financial assets or financial liabilities at fair value through profit or loss are recorded as gains or losses from change in fair value; Any interest or dividend income earned during the holding on such financial assets are recognised to profit or loss. On disposal, the differences between the consideration received and initial recognised amount are recognised as investment income and adjust to the gains or losses from change in fair value accordingly; and (ii) Changes in fair value of available-for-sale financial assets are recorded in the capital reserve. Interest calculated using the effective interest method for the periods, in which the assets are held, are recognised as investment income. Cash dividends from available-for-sale equity investments are recognised as investment income when the dividends are declared by the investee. On disposal, the differences between the considerations received and the carrying amounts of financial assets after deducting the accumulated fair values adjustments previously recorded in the capital reserve are recognised as investment income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when it transfers substantially all the risks and rewards of ownership of the asset to another entity. A financial liability (or part of it) is derecognised only when the underlying present obligations (or part of it) are discharged, cancelled or expired.

##### (c) Recognition and measurement on transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of the financial asset to the transferee, the financial asset should be derecognised; If the Group retains substantially all the risks and rewards of ownership of a financial asset, the transferred financial asset should be recognised and the consideration receipt should be recognised as a financial liability; If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Financial instruments (Continued)

##### (c) Recognition and measurement on transfer of financial assets (Continued)

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference of the following is recognised to profit or loss: (i) The carrying amount of the financial asset transferred; and (ii) The sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income. If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference of the following is recognised to profit or loss: (i) The carrying amount allocated to the part derecognised; and (ii) The sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised.

##### (d) Determination of fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

For a financial asset or financial liability which has an active market, the Group considers the quoted price in the active market to determine its fair value. For a financial assets or financial liability which has no active market, the Group uses a valuation technique (valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models) to determine its fair value. For a financial asset acquired or a financial liability assumed initially, its fair value is based on the recent arm's length market transactions.

##### (e) Assessment and provision for impairment on financial assets

At each balance sheet date, the Group assesses the carrying amounts of its financial assets other than those financial assets at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss.

At the end of the reporting period, if there is objective evidence that an impairment loss on a financial asset carried at amortised cost has occurred, an impairment loss is recognised as the excess of the carrying amount of the financial asset over its present value of estimated future cash flows to profit or loss. If an impairment loss has been incurred on an investment in unquoted equity instrument without a quoted price in an active market whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such equity instrument, an impairment loss is recognised as the excess of the carrying amount of the unquoted equity investment or a derivative financial asset over its present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset to profit or loss. An impairment is recognised where there is a significant decrease in the fair value of available-for-sale financial assets, or taken into account all factors, the decrease trend is not temporary to profit or loss. The cumulative loss arising from decline in fair value previously recognised directly in the capital reserve is reclassified from the capital reserve to profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Financial instruments (Continued)

##### (e) Assessment and provision for impairment on financial assets (Continued)

Objective evidence indicating a financial asset is impaired includes the following observable events:

- (i) Significant financial difficulty of the issuer or obligor;
- (ii) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- (iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;
- (v) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (vi) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
  - Adverse changes in the payment status of borrower in the group of assets; and
  - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets.
- (vii) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- (ix) Other objective evidence indicating there is an impairment of the financial assets.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.



## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Financial instruments (Continued)

##### (e) Assessment and provision for impairment on financial assets (Continued)

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether the financial asset is significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment.

The objective evidence which indicates impairment in fair value of available-for-sale equity instruments includes the significant and prolonged decline in fair value of the available-for-sale equity instruments. The Group has separately tested various available-for-sale equity instruments at the balance sheet date. At the balance sheet date, if the fair value of the equity instrument is lower than its cost by more than 50% (including 50%) or the low state has lasted for longer than twelve months (including twelve months), this indicates an impairment of the equity instrument; While the lower proportion is more than 20% (including 20%) but is lower than 50% or the low state has lasted for longer than six months (including six months) but is not longer than 12 months, the Group will take other factors such as price fluctuation into consideration to estimate whether the equity instrument has impaired or not.

If there is objective evidence that an impairment loss on available-for-sale financial assets incurred, the cumulative losses arising from the decline in fair value that had been recognised directly in shareholders' equity are transferred out from the shareholders' equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in shareholders' equity.

##### (f) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity.

All types of distributions made by the Group to holders of equity instruments are deducted from shareholders' equity. The Group does not recognise any changes in the fair value of equity instruments.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Receivables

At the end of the reporting period, if there is objective evidence that an impairment loss on receivables, provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows.

Criteria and methods of provision for bad debt of receivables are as follows:

**(a) Receivables those are individually significant for which bad debt provision is individually assessed**

Basis or monetary criteria for determining an individually significant receivable	Trade receivable is considered individually significant if the amount is 2% or above of the total balance of accounts receivable; Other receivable is considered individually significant if the amount is 10% or above of the total balance of other receivables
Method of determining provision for receivables that are individually significant for which bad debts provision is individually assessed	The Group assesses the receivables individually for impairment. Provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows

**(b) Receivables for which bad debts provision is collectively assessed on a portfolio basis**

- (i) Basis for determining the groupings and the methods of determining provision for bad debts by groupings:

Basis for determining the groupings is as follows:

Related party group within the Group	Receivables from related parties
Aging group	Receivables within the same aging category have similar credit risk characteristics

Methods of determining provision for bad debts by groupings are as follows:

Related party group within the Group	No provision for bad debts was provided
Aging group	Aging analysis method

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Receivables (Continued)

**(b) Receivables for which bad debts provision is collectively assessed on a portfolio basis (Continued)**

- (ii) The percentages of provision used in the aging analysis method amongst aforesaid groups are as follows:

Aging	Percentage of provision for accounts receivable %	Percentage of provision for other receivables %
Within 1 year (inclusive)	3.00	3.00
1 to 2 years (inclusive)	8.00	8.00
2 to 3 years (inclusive)	20.00	20.00
3 to 4 years (inclusive)	50.00	50.00
4 to 5 years (inclusive)	80.00	80.00
Over 5 years	100.00	100.00

**(c) Receivables with amounts those are not individually significant but subject to separate assessment for provision for bad debts**

Reason for making separate assessment for provision for bad debts      Significant differences between the present value of estimated future cash flows and the present value of estimated future cash flows with aforesaid credit risk characteristics

Method of determining provision for bad debts      The Group assesses the receivables individually for impairment. Provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows

Provision is recognised when the present value of the estimated future cash flows of notes receivable, prepayments, other non-current assets and other receivables are below their carrying amounts.

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Inventories

**(a) Classifications of inventories**

Inventories include finished goods or merchandise held for sale in the ordinary course of business, work in progress in the process of production, raw materials to be consumed in the production process.

**(b) Valuation method of inventories upon delivery**

The inventories are carried at the actual cost. The costs of raw materials and merchandise inventories transferred out is determined by using the weighted average method on a monthly basis.

**(c) Basis for determining net realisable value of inventories and provision methods for decline in value of inventories**

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value is below the cost of inventories, a provision for decline in value of inventories is made. For inventories directly for sale, net realisable value is measured based on the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale and relevant taxes. For inventories that need processing, net realisable value is measured based on the estimated selling price of finished goods in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. At the balance sheet date, for an item of inventories where a portion of inventories is subject to contractual price while the remainder is not, their net realisable values are determined separately and compared with their corresponding costs respectively to recognise the amount of provision for decline in value of inventories, or reversal of the provision. Net realisable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

**(d) Inventory system**

The perpetual inventory system is maintained for stock system.

**(e) Amortisation method for low cost and short-lived consumable items and packaging materials**

Low cost and short-lived consumable items and packing materials are amortised using the immediate write-off method.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Long-term equity investments

##### (a) Determination of investment cost

- (i) For a business combination involving entities under common control, if the consideration for combination is settled in cash, by way of transfer of non-cash assets, assumption of liabilities or issuance of equity securities, the initial investment cost of the long-term equity investment is the carrying value of the absorbing party's share of the shareholders' equity of the party being absorbed at the date of combination. The difference between the initial investment cost of a long-term equity investment and the carrying amount of the consideration given or the total nominal value of shares issued, the amount is adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained earnings.

Where a business combination involving enterprises under common control is achieved in stages that involve multiple transactions, the initial investment cost recognised in the separate financial statements and the consolidated financial statements is the percentage of shareholders' share the carrying value of the absorbing party's share of the shareholders' equity at the date of combination. The difference between the carrying amount of the equity investment in the party being absorbed prior to the date of business combination plus the additional investment costs as at the date of business combination and the initial investment costs of the long-term equity investments is adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained earnings.

- (ii) For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost is the fair value of the consideration given for combination at the date of acquisition.

Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the relevant accounting treatments adopted in the separate financial statements and the consolidated financial statements are as follows:

- (1) In the separate financial statements, the initial equity investment cost of an investment represents the aggregate of the carrying amount of equity investment in the acquiree held by the Company prior to the date of acquisition and the additional investment cost as at the date of acquisition. Any other comprehensive income attributable to the equity investment in acquiree held by the Company prior to the date of acquisition is transferred to investment income upon the disposal of such investment.
- (2) In the consolidated financial statements, the equity investment in the acquiree held by the Company prior to the date of acquisition is remeasured at its fair value at the date of acquisition. The difference between the fair value and the carrying amount of the equity investment is recognised in the investment income for the current period. The other comprehensive income attributable to the equity investment in acquiree held by the Company and the related other comprehensive income of the Company is transferred to investment income at the date of acquisition.
- (3) For a long-term equity investment acquired other than through a business combination: If the investment is acquired by paying of cash, the initial investment cost is the actual purchase price paid; If the investment is acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued; If the investment is contributed by the investor, the initial investment cost is the value stipulated in the investment contract or agreement, except that where the value stipulated in the investment contract or agreement is not fair.

### **B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

#### Long-term equity investments (Continued)

**(b) Subsequent measurement and recognition of profit or loss**

The long-term equity investments are stated in accordance with cost method where the Company can exercise control over the investee; In preparing the consolidated financial statements, the investments are adjusted in accordance with equity method; For a long-term equity investment where the Company has joint control or significant influence over the investee, the investment is stated in accordance with equity method.

**(c) Basis for determining for significant influence over investee**

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

**(d) Methods of impairment assessment and determining the provision for impairment loss**

Where long-term equity investments accounted for using the cost method that are not quoted in active market and whose fair value cannot be reliably measured, when there is objective evidence that the investments are impaired at the balance sheet date, a provision for impairment loss is recognised on the excess of the carrying amounts of the investments over their recoverable amounts. Where other long-term equity investments that the investments are not quoted in an active market and their fair value cannot be reliably measured, a provision for impairment loss is recognised in accordance with ASBE No. 22 "Recognition and measurement of financial instruments".

Once an impairment loss is recognised for a long-term equity instrument, it will not be reversed in any subsequent period.

**(e) Accounting treatment regarding the disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost**

(i) Other than the transactions which are associated with the disposal of equity investment when the control on the investee was lost are a series of transactions, the accounting treatment of the Company regarding the disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost are as follows.

- (1) Accounting treatments regarding the disposal of a portion of the investment in a subsidiary prior to the control on the investee was lost

For the disposal of investment in a subsidiary over which the Company has still control, the relevant accounting treatments adopted in the separate financial statements and the consolidated financial statements are as follows:

In the separate financial statements, the carrying amount of the long-term equity investment attributable to the equity interest to be disposed is transferred out, and the difference between the proceeds from the disposal and the transferred out of the carrying amount of the long-term equity investment is recognised in profit or loss; and

In the consolidated financial statements, whereas the difference between the proceeds from the disposal and the amount of the share of the subsidiary's net assets attributable to the disposal are adjusted to the capital reserve (or share premium). If the balance of the capital reserve is insufficient, any excess is adjusted to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Long-term equity investments (Continued)

##### (e) Accounting treatment regarding the disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost (Continued)

(i) (Continued)

(2) For the disposal of a portion of investment in a subsidiary over which the Company has lost control, the relevant accounting treatments adopted in the separate financial statements and the consolidated financial statements are as follows:

In the separate financial statements, the carrying amount of the long-term equity investment attributable to the equity interest to be disposed is transferred out, and the difference between the proceeds from the disposal and the transferred out of the carrying amount of the long-term equity investment is recognised in profit or loss. At the same time, regarding the remaining equity investment, the related carrying amount is recognised as long-term equity investment or other relevant financial assets. Subsequent to the disposal, where the remaining equity investment may still has joint control or significant influence over the previously controlled subsidiary, the accounting treatment relating to changing from cost method to equity method is adopted.

In the consolidated financial statements, regarding the remaining equity investment, the amount is remeasured at its fair value at the date when the Group has lost control over the subsidiary. The amount between the sum of consideration received from the disposal of the equity investment and the fair value of the remaining equity investment less the amount of the original percentage of shareholding's share of the previously controlled subsidiary's net assets since the date of acquisition is recognised as investment income during the current period in which the control on the investee was lost (deducting the relevant amount of goodwill, if any). Other comprehensive income associated with the investment in equity investment of the previously controlled subsidiary is transferred to investment income when the control on the investee was lost.

(ii) For the Company disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost are a series of transactions, in the separate financial statements, the accounting treatment is same as when the transactions that are not part of a series of transactions. In the consolidated financial statements, the relevant accounting treatment is adopted on the basis that such transactions are collectively treated as a transaction associated with the disposal of a subsidiary where the control on the investee was lost. Nonetheless, prior to the control on the investee was lost, the differences between the amounts of the proceeds from each of the disposals and the amounts of the share of the subsidiary's net assets on such disposals are recognised as other comprehensive income in the consolidated financial statements, and the aggregate amount is transferred to profit or loss during the period when the control on the investee was lost.

Where the terms, conditions and financial effects of the transactions involving the disposal of equity investment in a subsidiary meet one or more of the following situations, in general, the accounting treatments is adopted on the basis that such transactions are treated as a series of transactions: (a) such transactions are entered into concurrently or after considering the effects on each other; (b) such transactions will only constitute a completion of business deal if they are counted as a whole; (c) whether a transaction proceed will be conditional on the completion of at least one of the other transactions; and (d) the profitability of a transaction is determined along with other subsequent transactions instead of being viewed separately.



## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Fixed assets

##### (a) Recognition, measurement and depreciation of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

Fixed assets are measured at cost at the date of acquisition. Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred. Depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight line method.

##### (b) Depreciation of each category of fixed assets

Item	Depreciation	Residual	Annual
	period	value rate	depreciation
	Years	%	rate
			%
Buildings	30	5	3.17
Machinery and equipment	10	5	9.50
Motor vehicles	5	5	19.00
Office equipment	5	5	19.00

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

##### (c) Methods of impairment assessment and determining the provision for impairment losses of fixed assets

At the balance sheet date, when there is any indication that the fixed assets may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts to profit or loss for the current period. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognised, it is not be reversed in any subsequent period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recorded in profit or loss for the period.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Construction in progress

- (a) Construction in progress is recognised when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured. The construction in progress is measured at the actual expenditures incurred before it is ready for its intended use and not depreciated.
- (b) Construction in progress is transferred to fixed assets when it is ready for its intended use based on the actual costs incurred. When the construction in progress is ready for its intended use but the final account of the completed project has not been issued, the cost of the asset is transferred to fixed assets based on its estimated cost. When the final account of completed project is issued, the estimated cost is adjusted to the actual cost, while the depreciation charge is not adjusted retrospectively.
- (c) At the balance sheet date, when there is any indication that the construction in progress may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts to profit or loss for the current period.

#### Borrowing costs

**(a) Recognition principle on capitalisation of the borrowing costs**

For the borrowing costs incurred by the Group that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the costs of the assets. Other borrowing costs are recognised as expenses in the period in which they are incurred.

**(b) The period of capitalisation of the borrowing costs**

Borrowing costs are capitalised when the following conditions are met: (i) The expenditures for the assets are being incurred; (ii) The borrowing costs are being incurred; and (iii) The activities relating to the acquisition or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

Capitalisation of borrowing costs is suspended during periods in which the acquisition or production of the asset is suspended abnormally and when the suspension is for a continuous period of more than three months. The borrowing costs incurred during the suspension period are recognised as an expense in the profit or loss for the current period until activities relating to the acquisition or production of the asset is resumed.

The capitalisation of borrowing costs for the acquisition or production of the asset ceases when the qualifying asset being acquired or produced becomes ready for its intended use or sale.

**(c) Capitalised amount of borrowing costs**

Where funds are borrowed under a specific-purpose borrowing that are directly attributable to the acquisition or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual interest expense incurred on that borrowing for the period (including amortisation of discount or premium determined using the effective interest method) less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; Where funds are borrowed under general-purpose borrowings that are directly attributable to the acquisition or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific-purpose borrowings.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Intangible assets and development expenditures

Intangible assets comprise land use rights and software are initially measured at cost.

Intangible assets with definite useful lives are reasonably amortised over their estimated useful lives based on the pattern of the economic benefits relating to the intangible assets are expected to be realised. Intangible assets whose economic benefits realisation pattern cannot be reliably anticipated are amortised on a straight line basis over the following useful lives:

Item	Amortisation period Year
Land use rights	37.50; 49.00
Software	5.00

The Group reviews the useful life and amortisation method at the end of the reporting period, and makes adjustments when necessary.

At the balance sheet date, when there is any indication that the intangible assets with finite useful lives may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts to profit or loss for the current period.

The expenditures on internal research and development project during the research phase are recognised as expenses in the period in which they are incurred. The expenditures on internal research and development project during the development phase that meets all of the following conditions at the same time is recognised as intangible asset: (i) It is technically feasible to complete the intangible asset so that it will be available for use or sale; (ii) The Group has the intention to complete the intangible asset and use or sell it; (iii) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) The expenditure attributable to the intangible asset during its development phase can be reliably measured. The expenditure on internal research and development project during development phase that does not meet the above conditions is recognised in profit or loss for the period. If the expenditures cannot be distinguished between the research phase and development phase, the Group recognises all of them in profit or loss for the period.

#### Long-term prepaid expenses

Long-term prepaid expenses are measured at actual incurred amounts are amortised on the straight line basis over the expected period in which benefits are derived. When the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortised balance is then fully transferred to profit or loss for the current period.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Employee benefits

Employee benefits include salary, post-employment benefits, severance and other long-term employee benefits.

Actual salary is recognised as liability and charged to profit or loss during the current accounting period in which the services have been rendered by the employees.

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

#### Dividends distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the shareholders' meeting.

#### Provisions

Provisions are recognised when the Group has a present obligation related to a contingency such as provision of products warranty, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably measured.

A provision is initially measured by the Group at its best estimate of the expenditure required to settle the related present obligation. The carrying amount of the provision is reviewed at the balance sheet date.

#### Revenue

Revenue from sale of goods comprises the fair value of the consideration received or receivable and the amount was shown net of returns and discounts.

##### (a) Revenue from sales of goods

Revenue from sale of goods is recognised when all the following conditions are met: (i) The significant risks and rewards of ownership of goods have been transferred to the buyers; (ii) The Group retains neither continuing managerial involvements to the degree usually associated with ownership nor effective control over the goods sold; (iii) The amount of revenue can be reliably measured; (iv) It is probable that the associated economic benefits will probably flow to the Group; and (v) The associated costs incurred or to be incurred can be reliably measured. Goods returns or exchanges are only allowed with the management's consent.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Revenue (Continued)

##### (b) Revenue from rendering of services

Revenue from rendering of services is recognised when: The amount of revenue can be reliably measured; it is probable that the associated economic benefits will probably flow to the Group; the stage of completion of the transaction can be reliably measured; the associated costs incurred or to be incurred for the transaction can be reliably measured. Revenue from rendering of services is recognised by reference to the stage of completion of the transaction by using the proportion of costs incurred to date to the estimated total costs.

Where the outcome of the transaction involved the rendering of services cannot be reliably estimated at the balance sheet date: If the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged as service cost; If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

#### Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

The government grants obtained by the Group to purchase or construct or otherwise for long-term assets are categorised as asset-related government grants. Other than asset-related government grants are income-related government grants.

For companies with evidences at the end of the reporting period indicating that they conform to the relevant conditions of the financial supporting policy and that they are expected to receive financial assistance, government grants are recognised as amount receivable. Otherwise, government grants should be recognised when they are received.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised to profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately to profit or loss for the current period.

## NOTES TO THE FINANCIAL STATEMENTS

### **B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

#### Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets and liabilities and their tax bases (for items not yet recognised as assets and liabilities that have their tax bases determined by reference to the provision in the relevant tax laws, the difference between such tax bases and their carrying amounts is applied), the deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled.

Deferred tax is generally recognised for all temporary difference. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. At the balance sheet date, if there is objective evidence that future taxable profits will be available against which deductible temporary differences can be utilised, deferred tax assets not recognised in prior accounting periods is recognised.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits are available in the future to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits are available.

The Group's income tax comprises current and deferred tax and is recognised as income or expense in the profit or loss, except for the income tax arising from the following: (i) Business combination; (ii) The transactions and events that are directly recognised in the shareholders' equity.

#### Operating lease

When the Group is a lessee, operating lease payments are recognised on a straight line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

When the Group is a lessor, rental income from operating lease is recognised to profit or loss on a straight line basis over the term of the relevant lease. Other than the initial direct costs with significant amount are capitalised when incurred and are recognised to profit or loss over the lease term, the initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are credited to profit or loss in the period in which they actually arise.

## NOTES TO THE FINANCIAL STATEMENTS

### B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Segment information

The Group determines the operating segments based on the internal organisation structure, management requirements and internal reporting system. An operating segment is a component of the Group that satisfies all of the following conditions:

- (a) The component is able to generate revenues and incur expenses from its ordinary activities;
- (b) Whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance; and
- (c) For which the information on financial position, operating results and cash flows is available to the Group.

The Group determines reporting segments based on the operating segments. Inter-segment revenues are measured on the basis of actual transaction price for such transactions. The common assets employed by the reporting segments and the common expenditures incurred for the operating segments are allocation based on the proportional revenue of respective segments.

#### Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are considered to be reasonable.

The following are the critical assumptions and uncertainties on such estimated which may cause material adjustments to the carrying amounts of assets and liabilities concerning the future at the balance sheet date:

**(a) Useful lives of fixed assets and intangible assets**

The Group reviewed the estimated useful lives for its fixed assets and intangible assets annually. The estimated useful lives are determined by management by reference to the historical experience of similar assets, the estimation generally used by other companies in the same industry and anticipated renovation in technologies. When there are significant changes in previous estimates, the Group should adjust the depreciation and amortisation expense in future periods.

**(b) Provision for decline in the value of inventories**

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable values. The Group determines the net realisable values of inventories based on the estimated selling price of similar inventories less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. When the realised selling price or costs or expenses are different with previous estimates, the Group should adjust the net realisable values of inventories. Therefore, the estimates based on current experience may be different with the real situation, which could result in adjustment to the carrying amount of inventories in the balance sheet date.

**(c) Provision for receivables**

Provision for receivables is made when there is objective evidence that the recoverability of receivables becomes doubtful. The provision contains uncertainties because the management is required to make assumptions and to apply judgement regarding historical settlement experience, debt aging, financial status of debtors and general economic conditions. There is no reason to believe that there will be a material change in the future estimates or assumptions which are used in the calculations of the provision for receivables. However, when the actual outcome or expectation in future is different from the original estimates, the carrying value of receivables and provision may change.



## NOTES TO THE FINANCIAL STATEMENTS

### C TAXATION

#### Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added Tax ("VAT")	Sales of goods or rendering of services	17%
City Construction and Maintenance Tax	In accordance with Value-added Tax payable	5%
Education Fee Surcharge	In accordance with Value-added Tax payable	3%
Local Education Fee Surcharge (Note below)	In accordance with Value-added Tax payable	2%
Enterprise Income Tax ("EIT")	In accordance with income tax payable	Company: 15%; Zhao Yi Te: 25%

#### Preferential tax policies and approvals

##### (a) VAT

The Company's export commodities are subject to taxation method of "exemption, reduction and rebate", including output tax rates are as follows: 13% refund for bars, rods, profiles products; 15% refund for artificial joints; 15% refund for orthopedic or fracture appliances; and 17% refund for other medical instruments which are not listed on the Tax Document Number: 90.18.

##### (b) EIT

During the year ended 31 December 2012, the Company passed the certification of high and new technology enterprise review and the Company obtained The High and New Technology Enterprise Certificate, with the effective date till 30 October 2015, which was issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, State Tax Bureau of Beijing City and Beijing Municipal Local Tax Bureau on 30 October 2012. Pursuant to the Administrative Measures for the Determination of High and New Technology Enterprises and The People's Republic of China on Enterprise Income Tax and the related regulations and rules, the Company was recognised as a high and new technology enterprise and accordingly, the Company is eligible to a concessionary PRC EIT tax rate of 15% for a period of three years from 2012 to 2014.

### D BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Information about the subsidiary – Subsidiary acquired through establishment or investment

Name	Type	Place of registration	Scope of business	Registered capital	Legal representative	Business scope	Organisation code	Capital contribution	Percentage of shareholding/ voting rights as at		Whether financial statements are consolidated	Non-controlling interest
								as at 31 December 2014	31 December 2013	2014		
								RMB'000	RMB	%	%	
Zhao Yi Te	Wholly owned subsidiary	Tongzhou Beijing	Selling of medical devices	665,263.00	Mr. Zhai Jianling	Selling of medical devices	790699716	665,263.00	100	100	Yes	-

The statutory financial statements of Zhao Yi Te prepared in accordance with CASBE for the year ended 31 December 2014 were audited by Pan-China Certified Public Accountants LLP in accordance with the China Standards on Auditing.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP

#### 1 Cash and bank deposits

Item	As at 31 December 2014			As at 31 December 2013		
	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB
Cash on hand:						
RMB	-	-	81,720.66	-	-	4,891.48
USD	44,468.46	6.1190	272,102.51	28,466.93	6.0969	173,560.05
EUR	1,315.63	7.4556	9,808.81	1,315.63	8.4189	11,076.16
Subtotal			363,631.98			189,527.69
Bank deposits:						
RMB	-	-	60,329,791.12	-	-	64,625,941.35
USD	468,979.74	6.1190	2,869,687.03	170,697.72	6.0969	1,040,726.93
EUR	-	-	-	-	-	-
Subtotal			63,199,478.15			65,666,668.28
Total			63,563,110.13			65,856,195.97

At the end of reporting period, there are no funds with use restriction (as they are collateralised, pledged as security or frozen, etc.).

At the end of reporting period, there are no funds being kept in a foreign country or with potential recovery risk should be disclosed separately.

#### 2 Notes receivable

Item	As at 31 December 2014			As at 31 December 2013		
	Cost RMB	Provision RMB	Carrying value RMB	Cost RMB	Provision RMB	Carrying value RMB
Bank acceptance notes	6,861,819.00	-	6,861,819.00	5,733,578.88	-	5,733,578.88
Commercial acceptance notes	822,830.00	-	822,830.00	606,300.00	-	606,300.00
Total	7,684,649.00	-	7,684,649.00	6,339,878.88	-	6,339,878.88

At the end of reporting period, there are no notes receivable which have been pledged as security.

At the end of reporting period, there are no notes receivable that have been endorsed to other parties which are not yet due at the end of the period.

At the end of reporting period, the Group did not discount any commercial acceptance notes to banks or did not have any commercial acceptance notes which have been pledged as security.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 3 Accounts receivable

Categories of accounts receivable:

Item		Individually significant and for which provision is individually assessed	Determining provision for bad debts by grouping basis	By aging group	Sub-total	Not individually significant but for which provision is individually assessed	Total
<b>As at 31 December 2013</b>							
Carrying amount	Amount (RMB)	-	36,919,123.32	36,919,123.32	36,919,123.32	-	36,919,123.32
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	3,266,593.09	3,266,593.09	3,266,593.09	-	3,266,593.09
	Percentage (%)	-	8.85	8.85	8.85	-	8.85
Net amount		-	33,652,530.23	33,652,530.23	33,652,530.23	-	33,652,530.23
<b>As at 31 December 2014</b>							
Carrying amount	Amount (RMB)	-	47,301,982.23	47,301,982.23	47,301,982.23	-	47,301,982.23
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	4,408,156.81	4,408,156.81	4,408,156.81	-	4,408,156.81
	Percentage (%)	-	9.32	9.32	9.32	-	9.32
Net amount		-	42,893,825.42	42,893,825.42	42,893,825.42	-	42,893,825.42

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 3 Accounts receivable (Continued)

Grouping of accounts receivable for which bad debt provision has been assessed using the aging analysis approach (based on the date of billing):

Aging	As at 31 December 2014			As at 31 December 2013		
	Carrying amount			Carrying amount		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within 90 days	24,781,988.98	52.38	743,459.67	16,670,506.93	45.16	500,115.21
90 to 180 days	8,545,267.62	18.07	256,358.03	5,610,420.73	15.20	168,312.62
180 to 360 days	6,856,990.41	14.50	205,709.71	6,434,910.50	17.43	193,047.31
1 to 2 years	2,385,252.08	5.04	190,820.17	3,915,153.13	10.60	313,212.25
2 to 3 years	1,105,475.35	2.34	221,095.07	1,643,272.57	4.45	328,654.51
3 to 4 years	1,091,689.73	2.31	545,844.87	1,561,785.26	4.23	780,892.63
4 to 5 years	1,452,243.86	3.07	1,161,795.09	503,578.20	1.36	402,862.56
More than 5 years	1,083,074.20	2.29	1,083,074.20	579,496.00	1.57	579,496.00
<b>Total</b>	<b>47,301,982.23</b>	<b>100.00</b>	<b>4,408,156.81</b>	<b>36,919,123.32</b>	<b>100.00</b>	<b>3,266,593.09</b>

The Group trades with its customers primarily on credit terms and allows a credit period ranging from 30 to 210 days to its trade customers. The Group allows different credit periods for certain customers if they have long term credit quality history or they are significant customers to the Group, or the Group decides to develop a long term business relationship with such customers.

Details of aging regarding the carrying amounts of accounts receivable which are past due (based on the date of billing) are as follows:

Aging	As at 31 December 2014			As at 31 December 2013		
	Carrying amount RMB	Provision RMB	Net amount RMB	Carrying amount RMB	Provision RMB	Net amount RMB
	Within one year	10,952,269.03	328,568.06	10,623,700.97	10,196,305.23	305,889.15
1 to 2 years	2,385,252.08	190,820.17	2,194,431.91	3,915,153.13	313,212.25	3,601,940.88
2 to 3 years	1,105,475.35	221,095.07	884,380.28	1,643,272.57	328,654.51	1,314,618.06
More than 3 years	3,627,007.79	2,790,714.16	836,293.63	2,644,859.46	1,763,251.19	881,608.27
<b>Total</b>	<b>18,070,004.25</b>	<b>3,531,197.46</b>	<b>14,538,806.79</b>	<b>18,399,590.39</b>	<b>2,711,007.10</b>	<b>15,688,583.29</b>

The Group did not provide any allowance on those customers within the granted credit period or the receivables are past due as, in the opinion of the directors of the Company, there has not been a significant change in credit quality of the customers and the amounts are still considered recoverable based on the historical experience. However, the Group will recognise provision for accounts receivable according to the aging category which have similar credit risk characteristics. The Group does not hold any collateral over such accounts receivables.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 3 Accounts receivable (Continued)

Top five parties with the largest balances of accounts receivable

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total other receivables %
<b>As at 31 December 2014</b>			
Party A	Third party	<b>4,199,087.40</b>	<b>8.88</b>
北京高陽物資中心 (Beijing Gaoyang Materials Centre*, "Gaoyang Materials")	Related party	<b>3,831,703.98</b>	<b>8.10</b>
Party B	Third party	<b>3,396,170.00</b>	<b>7.18</b>
Party C	Third party	<b>2,936,699.60</b>	<b>6.21</b>
Party D	Third party	<b>2,801,300.00</b>	<b>5.92</b>
Total		<b>17,164,960.98</b>	<b>36.29</b>
<b>As at 31 December 2013</b>			
Party A	Third party	3,653,746.30	9.90
Gaoyang Materials	Related party	2,719,970.98	7.37
Party D	Third party	2,463,900.00	6.67
Party E	Third party	1,832,656.92	4.96
Party C	Third party	1,354,952.60	3.67
Total		12,025,226.80	32.57

\* The English name is for identification purpose only

At the end of reporting period, there is no accounts receivable due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

#### Receivables due from related parties

Name	As at 31 December 2014		As at 31 December 2013	
	Carrying amount RMB	Provision RMB	Carrying amount RMB	Provision RMB
Gaoyang Materials	<b>3,831,703.98</b>	<b>114,951.12</b>	2,719,970.98	81,599.13

At the end of reporting period, there are no accounts receivable that have been derecognised.

At the end of reporting period, there are no accounts receivable pledged as collateral.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 4 Prepayments

Aging analysis of prepayments is as follows:

Aging	As at 31 December 2014			As at 31 December 2013		
	Carrying amount RMB	Percentage %	Provision RMB	Carrying amount RMB	Percentage %	Provision RMB
Within one year	2,970,845.42	80.96	-	552,874.78	70.22	-
1 to 2 years	476,978.54	13.00	-	201,890.00	25.65	-
2 to 3 years	189,090.00	5.15	-	12,500.00	1.59	-
More than 3 years	32,480.00	0.89	-	19,980.00	2.54	-
Total	3,669,393.96	100.00	-	787,244.78	100.00	-

#### Top five parties with the significant balances of prepayments

Name	Relationship with the Group	Amount RMB
<b>As at 31 December 2014</b>		
Party F	Third party	1,892,163.53
Party G	Third party	300,000.00
Party H	Third party	281,301.50
Party I	Third party	113,250.00
Party J	Third party	101,075.72
Total		2,687,790.75
<b>As at 31 December 2013</b>		
Party K	Third party	182,000.00
Party L	Third party	85,000.00
Party M	Third party	82,950.00
Party N	Third party	75,000.00
Party O	Third party	65,000.00
Total		489,950.00

At the end of reporting period, there are no prepayments due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of reporting period, there are no prepayments due from related parties.

At the end of reporting period, there is no significant prepayment with aging more than one year.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 5 Other receivables

Categories of other receivables:

Item		Individually significant and for which provision is individually assessed	Determining provision for bad debts by grouping basis	By aging group	Sub-total	Not individually significant but for which provision is individually assessed	Total
<b>As at 31 December 2013</b>							
Carrying amount	Amount (RMB)	-	837,530.33	837,530.33	837,530.33	-	837,530.33
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	213,455.84	213,455.84	213,455.84	-	213,455.84
	Percentage (%)	-	25.49	25.49	25.49	-	25.49
Net amount		-	624,074.49	624,074.49	624,074.49	-	624,074.49
<b>As at 31 December 2014</b>							
Carrying amount	Amount (RMB)	-	1,278,583.09	1,278,583.09	1,278,583.09	-	1,278,583.09
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	296,306.54	296,306.54	296,306.54	-	296,306.54
	Percentage (%)	-	23.17	23.17	23.17	-	23.17
Net amount		-	982,276.55	982,276.55	982,276.55	-	982,276.55



## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 5 Other receivables (Continued)

Grouping of other receivables for which bad debt provision has been assessed using the aging analysis approach:

Aging	As at 31 December 2014			As at 31 December 2013		
	Carrying amount			Carrying amount		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within one year	714,570.76	55.89	21,437.12	341,768.00	40.80	10,253.04
1 to 2 years	143,950.00	11.26	11,516.00	129,785.00	15.50	10,382.80
2 to 3 years	99,785.00	7.80	19,957.00	162,878.99	19.45	32,575.80
3 to 4 years	141,178.99	11.04	70,589.50	31,457.09	3.76	15,728.55
4 to 5 years	31,457.09	2.46	25,165.67	135,628.00	16.19	108,502.40
More than 5 years	147,641.25	11.55	147,641.25	36,013.25	4.30	36,013.25
Total	1,278,583.09	100.00	296,306.54	837,530.33	100.00	213,455.84

#### Top five parties with the largest balances of other receivables

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total other receivables %
<b>As at 31 December 2014</b>			
Party P	Third party	128,828.00	10.08
Party Q	Third party	82,402.24	6.44
Party R	Third party	73,470.40	5.75
Party S	Third party	62,045.00	4.85
Party T	Third party	50,000.00	3.91
Total		396,745.64	31.03
<b>As at 31 December 2013</b>			
Party P	Third party	128,828.00	15.38
Party Q	Third party	82,402.24	9.84
Party S	Third party	62,045.00	7.41
Party U	Third party	40,000.00	4.78
Party V	Third party	30,000.00	3.58
Total		343,275.24	40.99

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 5 Other receivables (Continued)

At the end of reporting period, there are no other receivables due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of reporting period, there are no other receivables advanced to related parties.

At the end of reporting period, there are no other receivables that have been derecognised.

At the end of reporting period, there are no other receivables pledged as collateral.

#### 6 Inventories

Item	As at 31 December 2014			As at 31 December 2013		
	Cost RMB	Provision for decline in value RMB	Net amount RMB	Cost RMB	Provision for decline in value RMB	Net amount RMB
Raw materials	14,367,829.62	-	14,367,829.62	6,956,144.55	-	6,956,144.55
Work in progress	7,149,783.89	-	7,149,783.89	6,133,306.34	-	6,133,306.34
Finished goods	13,955,312.37	-	13,955,312.37	9,991,346.55	-	9,991,346.55
Total	35,472,925.88	-	35,472,925.88	23,080,797.44	-	23,080,797.44

At the end of reporting period, the Group did not capitalise any borrowing costs.

At the end of reporting period, there are no inventories pledged as collateral.

#### 7 Other current assets

Item	As at 31 December	
	2014 RMB	2013 RMB
Payments regarding the Listing	8,234,493.57	2,363,584.88

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 8 Fixed assets

Item	Buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
<b>Cost</b>					
As at 1 January 2013	9,828,622.42	23,755,486.65	1,550,631.00	1,975,029.69	37,109,769.76
Additions	–	435,948.80	–	65,307.86	501,256.66
Disposals	–	(657,112.85)	–	(4,228.00)	(661,340.85)
As at 31 December 2013	9,828,622.42	23,534,322.60	1,550,631.00	2,036,109.55	36,949,685.57
Additions	7,309,776.36	8,494,457.50	–	137,079.50	15,941,313.36
As at 31 December 2014	17,138,398.78	32,028,780.10	1,550,631.00	2,173,189.05	52,890,998.93
<b>Accumulated depreciation</b>					
As at 1 January 2013	500,693.44	6,970,632.77	949,531.30	1,202,330.23	9,623,187.74
Provided for the year	363,235.49	2,256,614.12	214,503.78	299,452.49	3,133,805.88
Eliminated on disposals	–	(457,573.76)	–	(4,016.60)	(461,590.36)
As at 31 December 2013	863,928.93	8,769,673.13	1,164,035.08	1,497,766.12	12,295,403.26
Provided for the year	407,616.82	2,373,575.69	153,230.67	305,172.60	3,239,595.78
As at 31 December 2014	1,271,545.75	11,143,248.82	1,317,265.75	1,802,938.72	15,534,999.04
<b>Carrying amounts</b>					
As at 31 December 2013	8,964,693.49	14,764,649.47	386,595.92	538,343.43	24,654,282.31
As at 31 December 2014	15,866,853.03	20,885,531.28	233,365.25	370,250.33	37,355,999.89

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 8 Fixed assets (Continued)

##### Allocation of depreciation charge for each of the accounting period

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Administrative expenses	704,203.49	764,593.99
Cost of sales	2,269,757.71	2,115,049.85
General and administrative expenses – Research and development expenses	265,634.58	254,162.04
Total	3,239,595.78	3,133,805.88

During the year ended 31 December 2014, the Company had construction in progress amounting to RMB9,251,934.34 which was transferred to fixed assets.

At the end of reporting period, there are no temporary idle fixed assets.

At the end of reporting period, there are no fixed assets leased under finance leases.

At the end of reporting period, there are no fixed assets leased out under operating leases.

At the end of reporting period, there are no fixed assets held for sale.

At the end of reporting period, the Group has obtained certificates of titles for all of its fixed assets.

At the end of reporting period, there are no fixed assets pledged as collateral.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 9 Construction in progress

Item	As at 31 December 2014			As at 31 December 2013		
	Cost RMB	Provision for impairment RMB	Net amount RMB	Cost RMB	Provision for impairment RMB	Net amount RMB
Construction of Tongzhou factory plant	-	-	-	4,501,347.58	-	4,501,347.58
Expansion of new production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park ("Daxing New Production Base") – First stage construction work	2,373,344.00	-	2,373,344.00	1,474,962.00	-	1,474,962.00
Construction of factory plant	755,590.07	-	755,590.07	-	-	-
<b>Total</b>	<b>3,128,934.07</b>	<b>-</b>	<b>3,128,934.07</b>	<b>5,976,309.58</b>	<b>-</b>	<b>5,976,309.58</b>

The movements of construction in progress are as follows:

Item	Budget amount RMB	At beginning of the year RMB	Addition for the year RMB	Transfer to fixed assets for the year RMB	Other deduction RMB	At end of the year RMB	Percentage of cost incurred over budget amount
							%
<b>Year ended 31 December 2013</b>							
Construction of Tongzhou factory plant	(note below)	-	4,501,347.58	-	-	4,501,347.58	-
Daxing New Production Base – First stage construction work	218,402,800.00	676,333.00	798,629.00	-	-	1,474,962.00	0.68
<b>Total</b>		<b>676,333.00</b>	<b>5,299,976.58</b>	<b>-</b>	<b>-</b>	<b>5,976,309.58</b>	
<b>Year ended 31 December 2014</b>							
Construction of Tongzhou factory plant	(note below)	4,501,347.58	4,750,586.76	(9,251,934.34)	-	-	-
Daxing New Production Base – First stage construction work	218,402,800.00	1,474,962.00	898,382.00	-	-	2,373,344.00	1.09
Construction of factory plant	(note below)	-	755,590.07	-	-	755,590.07	-
<b>Total</b>		<b>5,976,309.58</b>	<b>6,404,558.83</b>	<b>(9,251,934.34)</b>	<b>-</b>	<b>3,128,934.07</b>	

Note: There was no budget for this construction project.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 10 Intangible assets

Item	Land use rights RMB	Software RMB	Total RMB
<b>Cost</b>			
As at 1 January 2013	37,052,810.33	200,000.00	37,252,810.33
Additions	–	48,200.00	48,200.00
As at 31 December 2013 and 31 December 2014	37,052,810.33	248,200.00	37,301,010.33
<b>Accumulated amortisation</b>			
As at 1 January 2013	355,562.23	23,333.31	378,895.54
Provided for the year	771,359.15	44,819.96	816,179.11
As at 31 December 2013	1,126,921.38	68,153.27	1,195,074.65
Provided for the year	772,162.49	48,836.59	820,999.08
As at 31 December 2014	1,899,083.87	116,989.86	2,016,073.73
<b>Carrying amounts</b>			
As at 31 December 2013	35,925,888.95	180,046.73	36,105,935.68
As at 31 December 2014	35,153,726.46	131,210.14	35,284,936.60

#### Allocation of amortisation charge for each of the accounting period

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Administrative expenses	820,999.08	816,179.11

The Group's two pieces of land use rights which were located in the PRC have lease term of 50 years. The Group amortises the land use rights to their remaining useful lives of 37.5 years and 49 years, respectively.

At the end of reporting period, the Group has obtained certificates of titles for all of its land use rights.

At the end of reporting period, there are no intangible assets pledged as collateral.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 11 Deferred tax assets

##### (a) Recognised deferred tax assets

Item	Year ended 31 December	
	2014 RMB	2013 RMB
<i>Deferred tax assets:</i>		
Provision for impairment losses of assets	<b>709,789.61</b>	523,655.38

##### (b) Details of deductible differences

Item	Year ended 31 December	
	2014 RMB	2013 RMB
<i>Deferred tax assets:</i>		
Provision for impairment losses of assets	<b>4,704,463.35</b>	3,480,048.93

#### 12 Other non-current assets

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Construction project prepayments	<b>369,000.00</b>	513,221.96
Machinery equipment prepayments	<b>506,690.60</b>	155,800.00
Total	<b>875,690.60</b>	669,021.96



## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 13 Details of provision for impairment losses of assets

Item	At beginning of the year RMB	Recognised for the year RMB	Decrease for the year Reversals RMB	Written-off RMB	At end of the year RMB
<b>Impairment on accounts receivable:</b>					
Year ended 31 December 2013	2,199,592.87	1,067,000.22	–	–	3,266,593.09
Year ended 31 December 2014	3,266,593.09	1,141,563.72	–	–	4,408,156.81
<b>Impairment on others receivable:</b>					
Year ended 31 December 2013	593,288.27	–	(379,832.43)	–	213,455.84
Year ended 31 December 2014	213,455.84	82,850.70	–	–	296,306.54
<b>Total impairments:</b>					
Year ended 31 December 2013	2,792,881.14	1,067,000.22	(379,832.43)	–	3,480,048.93
Year ended 31 December 2014	3,480,048.93	1,224,414.42	–	–	4,704,463.35

#### 14 Accounts payable

Item	As at 31 December	
	2014 RMB	2013 RMB
Purchasing of materials	13,242,775.57	4,148,026.53
Purchasing of machinery and equipment	1,617,553.58	87,119.96
Total	14,860,329.15	4,235,146.49

Aging analysis of accounts payable is as follows:

Item	As at 31 December	
	2014 RMB	2013 RMB
Within 1 year	14,585,983.66	4,102,731.00
1 to 2 years	232,869.29	90,939.29
2 to 3 years	–	41,476.20
3 years or above	41,476.20	–
Total	14,860,329.15	4,235,146.49

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 14 Accounts payable

##### Top five parties with the largest balances of accounts payable

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total accounts payable %
<b>As at 31 December 2014</b>			
Party W	Third party	889,200.00	5.98
Party X	Third party	657,016.00	4.42
Party Y	Third party	526,780.00	3.54
Party Z	Third party	522,442.00	3.52
Party AA	Third party	448,120.00	3.02
Total		3,043,558.00	20.48
<b>As at 31 December 2013</b>			
Party Z	Third party	335,688.00	7.93
Party AB	Third party	177,664.59	4.20
Party AC	Third party	164,709.00	3.89
Party AD	Third party	152,180.00	3.59
Party AE	Third party	142,955.00	3.38
Total		973,196.59	22.99

At the end of reporting period, there are no payables to shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of reporting period, there are no payables to related parties.

#### 15 Receipts in advance

Item	As at 31 December	
	2014 RMB	2013 RMB
Payment of goods	1,045,968.09	1,305,356.35

At the end of reporting period, there are no receipts in advance from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 16 Employee benefits payable

Item	Wages or salaries bonuses allowances and subsidies	Staff welfares	Social security contributions and related costs	Housing funds	Labour union	Total
	RMB	RMB	RMB	RMB	RMB	RMB
As at 1 January 2013	1,556,234.81	–	–	–	–	1,556,234.81
Increase	16,718,934.61	887,289.97	2,907,567.95	740,766.00	418,875.22	21,673,433.75
Decrease	(16,898,550.90)	(887,289.97)	(2,593,503.01)	(645,414.00)	(333,871.97)	(21,358,629.85)
As at 31 December 2013	1,376,618.52	–	314,064.94	95,352.00	85,003.25	1,871,038.71
Increase	19,848,526.81	952,303.54	3,295,128.44	762,143.00	394,805.26	25,252,907.05
Decrease	(19,639,343.75)	(952,303.54)	(3,296,732.90)	(762,527.00)	(375,298.38)	(25,026,205.57)
As at 31 December 2014	1,585,801.58	–	312,460.48	94,968.00	104,510.13	2,097,740.19

Arrangements on expected timing, amount, etc. of employee benefits payable:

As at 31 December 2013 and 31 December 2014, the wages or salaries, bonuses, allowances and subsidies were paid in January for each of the following year.

#### 17 Taxes payable

Item	As at 31 December	
	2014 RMB	2013 RMB
VAT payable	<b>2,156,892.80</b>	2,312,649.41
EIT payable	<b>1,685,512.24</b>	1,410,590.01
Withholding Individual Income Tax payable	<b>68,143.59</b>	60,837.93
City Construction and Maintenance Tax payable	<b>104,393.35</b>	146,930.71
Education Fee Surcharge payable	<b>59,928.52</b>	88,158.42
Local Education Fee Surcharge payable	<b>38,663.07</b>	608.47
Total	<b>4,113,533.57</b>	4,019,774.95

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 17 Taxes payable (Continued)

Details of movements of EIT payable are as follows:

Item	At beginning of the year RMB	Recognised for the year RMB	Decrease for the year RMB	At end of the year RMB
Year ended 31 December 2013	1,633,974.99	5,553,018.14	(5,776,403.12)	1,410,590.01
Year ended 31 December 2014	<b>1,410,590.01</b>	<b>6,067,874.60</b>	<b>(5,792,952.37)</b>	<b>1,685,512.24</b>

#### 18 Other payables

Item	As at 31 December	
	2014 RMB	2013 RMB
Provision for sales rebate	<b>3,164,858.75</b>	2,854,862.98
Accrual for Listing expenses	<b>838,219.07</b>	700,141.51
Others	<b>188,705.19</b>	84,487.14
Total	<b>4,191,783.01</b>	3,639,491.63

At the end of reporting period, there are no other payables to shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of reporting period, there are no significant other payables with aging more than one year.

Details of significant other payables are as below:

Item	Details	Amount RMB
As at 31 December 2014	Provision for sales rebate	<b>3,164,858.75</b>
	Accrual for Listing expenses	<b>838,219.07</b>
		<b>4,003,077.82</b>
As at 31 December 2013	Provision for sales rebate	2,854,862.98
	Accrual for Listing expenses	700,141.51
		3,555,004.49

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 19 Deferred income

Item	As at 31 December	
	2014 RMB	2013 RMB
Fund on Industrialisation of Ceramic Femoral Head on Ceramic Hip Joint Prostheses (note (a))	5,629,770.75	5,673,500.00
Fund on Clinical study of PEEK interbody fusion cage (note (b))	1,996,500.00	–
<b>Total</b>	<b>7,626,270.75</b>	5,673,500.00

#### Notes:

- (a) Pursuant to document 《中示區組發[2010]16號－陶瓷球頭對陶瓷襯髖關節假體產業化》(Zhongshiquzufa [2010] No.16 – Notice regarding Fund on Industrialisation of Ceramic Femoral Head on Ceramic Hip Joint Prostheses\*) issued by the Beijing Municipal Science and Technology Commission on 15 July 2010, the Group obtained funds of RMB5,946,000.00 in December 2012 as follows:
- i. Development expenditure grant of RMB272,500.00 – In the opinion of the directors, the grant relating to income in respect of a compensation for related expenses which were incurred for the year ended 31 December 2013 and accordingly, the amount of RMB272,500.00 was credited to the consolidated income statement for the year ended 31 December 2013; and
  - ii. Research and development equipment grant of RMB5,673,500.00 – In the opinion of the directors, the grant relating to the acquisition of an asset and accordingly, the amount is amortised to profit or loss over the useful life of the related assets in the subsequent periods. During the year ended 31 December 2014, an amount of RMB43,729.25 was credited to the consolidated income statement.
- (b) Pursuant to document 《北京市科學技術委員會關於下達「弧形PEEK椎間融合器的臨床研究」經費的通知》(Notice regarding Fund on Clinical study of PEEK interbody fusion cage\*) issued by the Beijing Municipal Science and Technology Commission on 3 June 2014, the Group obtained research and development equipment grant of RMB1,996,500.00. In the opinion of the directors, the grant relating to the acquisition of an asset and accordingly, the amount is amortised to profit or loss over the useful life of the related assets in the subsequent periods.
- \* The English name is for identification purpose only

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 20 Share capital

Name	As at 31 December	
	2014 RMB	2013 RMB
Mr. Shi Chunbao	24,237,087.00	24,237,087.00
Ms. Yue Shujun	18,762,913.00	18,762,913.00
Mr. Sun Weiqi	1,733,333.00	1,733,333.00
Mr. Jin Jie	1,333,333.00	1,333,333.00
Mr. Lin Yiming	1,160,000.00	1,160,000.00
Ms Wang Haiya	666,667.00	666,667.00
Mr. Huang Dong	666,667.00	666,667.00
Mr. He Rongmei	666,667.00	666,667.00
Mr. Ni Xuezhen	400,000.00	400,000.00
Ms Zhang Zhaohui	266,666.00	266,666.00
Mr. Chen Xusheng	106,667.00	106,667.00
Total	50,000,000.00	50,000,000.00

At the end of reporting period, the share capital of the Company is RMB50,000,000.00, representing 50,000,000 domestic shares with a nominal value of RMB1.00 each in the Company.

Details of the changes in share capital, the name of certified public accountants firm that performs the verification and the reference number of the capital verification report are as follows:

**(a) Year ended 31 December 2013:**

On 13 December 2013, Xin'an Caifu transferred its holding of 1,333,333 shares in the Company, representing approximately 2.67% equity interest in the Company to Mr. Shi Chunbao and Ms. Yue Shujun. Subsequently, Mr. Shi Chunbao and Ms. Yue Shujun hold 24,237,087 shares and 18,762,913 shares in the Company, representing approximately 48.4742% and 37.5258% equity interest in the Company and details of which are set out in Note A.

**(b) Year ended 31 December 2014:**

There were no movements in the share capital of the Company for the year ended 31 December 2014.

## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 21 Capital Reserve

Item	As at 31 December	
	2014 RMB	2013 RMB
Capital premium	61,552,595.15	61,552,595.15
Other capital reserve	1,800,000.00	1,800,000.00
Total	63,352,595.15	63,352,595.15

#### 22 Surplus reserve

Item	As at 31 December	
	2014 RMB	2013 RMB
Statutory surplus reserve	13,570,973.75	9,851,777.79

As stipulated by the relevant laws and regulations for enterprises in the PRC, each of the entities comprising the Group is required to maintain a statutory reserve fund which is non-distributable. The appropriations to such reserve are made out of net profit after taxation of the statutory financial statements of the relevant PRC companies. The statutory reserve fund can be used to make up prior period losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

The details, reasons and bases of the changes of surplus reserve are as follows:

**(a) For the year ended 31 December 2013:**

Pursuant to the Articles of the Company, the Company transferred 10% of net profit for the year ended 31 December 2013, representing RMB3,279,774.14 to statutory reserve fund.

**(b) For the year ended 31 December 2014:**

Pursuant to the Articles of the Company, the Company transferred 10% of net profit for the year ended 31 December 2014, representing RMB3,719,195.96 to statutory reserve fund.



## NOTES TO THE FINANCIAL STATEMENTS

### E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP (Continued)

#### 23 Retained earnings

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Closing balance of the preceding year	<b>56,684,830.51</b>	47,299,243.39
Opening balances of the current year	<b>56,684,830.51</b>	47,299,243.39
Add: Net profit attributable to equity holders of the Company	<b>37,031,197.07</b>	32,665,361.26
Less: Transfer to statutory reserve fund	<b>(3,719,195.96)</b>	(3,279,774.14)
Dividend declared	<b>(11,000,000.00)</b>	(20,000,000.00)
Closing balances of the current year	<b>78,996,831.62</b>	56,684,830.51

Details of dividends are as follows:

**(a) 2012 final dividend**

Pursuant to the resolution of the meeting of the Board of Directors on 20 April 2013 and the resolution of the general meeting of the shareholders for the year ended 31 December 2012 on 20 May 2013, the Company declared the 2012 final dividend to the shareholders of the Company at the rate of RMB0.40 per share (including tax charge), amounting to RMB20,000,000.00.

**(b) 2013 final dividend**

Pursuant to the resolution of the meeting of the Board of Directors on 3 March 2014 and the resolution of the general meeting of the shareholders for the year ended 31 December 2013 on 16 April 2014, the Company declared the 2013 final dividend to the shareholders of the Company at the rate of RMB0.22 per share (including tax charge), amounting to RMB11,000,000.00.

**(c) 2014 final dividend**

Pursuant to the resolution of the meeting of the Board of Directors on 30 March 2015, the Company declared the 2014 final dividend to the shareholders of the Company at the rate of RMB0.088 per share (including tax charge), which is subject to the shareholder approval in the forthcoming annual general meeting of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 1 Revenue and cost of sales

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Revenue from principal operation	134,534,445.96	110,545,519.29
Revenue from other operations	–	–
Cost of sales	34,956,829.21	30,470,602.37

#### Revenue and cost of sales (classified by products)

Item	Year ended 31 December	
	2014 RMB	2013 RMB
<b>Revenue</b>		
Revenue from principal operation:		
– Medical Surgical Implants	134,534,445.96	110,545,519.29
<b>Cost of sales</b>		
Cost of sales for principal operation:		
– Medical Surgical Implants	34,956,829.21	30,470,602.37

#### Revenue (classified by geographical areas)

The geographical areas of the revenue are based on the location of the customers at which the goods are delivered as follows:

Area	Year ended 31 December	
	2014 RMB	2013 RMB
<b>The PRC</b>		
North	35,665,548.50	33,360,870.76
West	16,717,763.85	11,260,558.89
Central	31,183,867.46	26,064,098.13
East	19,259,778.55	15,726,904.84
South	12,522,260.62	10,784,131.11
<b>Other than the PRC</b>	115,349,218.98	97,196,563.73
	19,185,226.98	13,348,955.56
Total	134,534,445.96	110,545,519.29

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 1 Revenue and cost of sales (Continued)

##### Revenue from the Company's top five customers

Name	Revenue RMB	Percentage to the total sales %
<b>Year ended 31 December 2014</b>		
Party AF	6,310,790.94	4.69
Gaoyang Materials	6,300,152.99	4.68
Party D	5,378,376.07	4.00
Party AG	5,369,227.41	3.99
Party AH	3,916,813.30	2.91
Total	27,275,360.71	20.27
<b>Year ended 31 December 2013</b>		
Gaoyang Materials	5,955,245.21	5.39
Party D	5,051,584.62	4.57
Party AF	4,099,133.16	3.71
Party A	3,948,766.92	3.57
Party AI	3,624,959.57	3.28
Total	22,679,689.48	20.52

#### 2 Business taxes and levies

Item	Year ended 31 December	
	2014 RMB	2013 RMB
City Construction and Maintenance Tax	625,304.54	614,723.11
Education Fee Surcharge	375,182.73	368,833.86
Local Education Fee Surcharge	308,285.68	187,725.42
Total	1,308,772.95	1,171,282.39

Note: The base of the above taxes and levies are set out in Note C.

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 3 Selling expenses

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Staff salaries and related costs	5,045,912.15	3,995,403.36
Travelling expenses	8,381,715.89	4,814,890.91
Office expenses	1,834,254.29	1,455,926.23
Advertising expenses	9,044,008.53	4,784,780.35
Transportation expenses	725,436.62	684,550.96
Rentals	81,616.90	129,479.82
Sale rebates	3,164,858.75	2,854,667.61
Others	896,181.23	1,425,576.51
<b>Total</b>	<b>29,173,984.36</b>	<b>20,145,275.75</b>

#### 4 Administrative expenses

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Staff salaries and related – costs	7,798,621.40	6,928,769.57
Travelling expenses	938,302.04	448,846.91
Motor vehicle expenses	455,735.02	370,078.54
Rentals	782,713.38	1,165,112.11
Depreciation	704,203.49	764,593.99
Office expenses	767,981.36	979,067.91
Other tax charges	272,007.45	210,362.39
Professional and other fees relating to Listing	3,438,344.35	2,107,311.32
Other professional fees	561,770.87	1,013,996.11
Auditor's remuneration	141,509.43	141,509.43
Research and development expenses	8,001,956.92	4,807,936.70
Amortisation of intangible assets	820,999.08	816,179.11
Entertainments	141,446.41	176,735.30
Others	996,691.25	650,799.76
<b>Total</b>	<b>25,822,282.45</b>	<b>20,581,299.15</b>

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 5 Finance expenses

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Interest expenses	-	-
Less: Interest income	(172,562.90)	(200,957.33)
Add: Foreign exchange losses	-	177,389.33
Less: Foreign exchange gains	(33,853.69)	-
Add: Bank charges	67,729.27	46,184.29
Total	(138,687.32)	22,616.29

#### 6 Impairment losses on assets

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Impairment loss recognised on accounts receivable	1,141,563.72	1,067,000.22
Impairment loss recognised (reversal) on other receivables	82,850.70	(379,832.43)
Total	1,224,414.42	687,167.79

#### 7 Investment income

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Income from bank structured products	61,643.84	241,339.26

During the year ended 31 December 2014, the Group has purchased certain bank structured products with the total amount of RMB10,000,000.00 in three listed commercial banks and thus, the Group recognised investment income of RMB61,643.84 for the year ended 31 December 2014.

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 8 Non-operating income

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Government grants	689,647.25	588,241.00
Others	2,480.00	5,487.12
Total	692,127.25	593,728.12

Details of breakdown of government grants are as follows:

Nature	Amount RMB	Source from	Supporting documents
<b>Year ended 31 December 2014</b>			
Advanced Enterprise Tax Incentives	100,000.00	Beijing Jin San Jiao Investment Management Co., Ltd.	Huofa [2013] No. 25
Grant for Small and Medium Enterprise In Developing International Market	519,918.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Grant for Industrialisation of Ceramic Femoral head on Ceramic hip prostheses	43,729.25	Beijing Municipal Science and Technology Commission	Zhongshiquzufa [2010] No.16
Grant for Application on Patent	26,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Total	689,647.25		
<b>Year ended 31 December 2013</b>			
Grant for Industrialisation of Ceramic Femoral head on Ceramic hip prostheses	272,500.00	Beijing Municipal Science and Technology Commission	Zhongshiquzufa [2010] No.16
Grant for Small and Medium Enterprise In Developing International Market	202,741.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Advanced Enterprise Tax Incentives	100,000.00	北京市金三角投資管理有限公司 (Beijing Jin San Jiao Investment Management Co., Ltd*)	Huofa [2013] No. 1
Grant for Outstanding Technology Enterprise in Tongzhou 2012	10,000.00	北京市通州區科學技術委員會 (Beijing Tongzhou District Science and Technology Commission*)	Tongkelingbanfa [2013] No. 1
Grant for Application on Patent	3,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Total	588,241.00		

\* The English name is for identification purpose only

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 9 Non-operating expenses

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Loss from disposals of fixed assets	-	179,173.49
Donations	14,982.14	6,192.90
Others	12,701.40	1,097.27
Total	27,683.54	186,463.66

#### 10 Income tax expense

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Current income tax calculated in accordance with relevant tax laws and regulations	6,067,874.60	5,553,018.14
Deferred income tax	(186,134.23)	(102,500.13)
Total	5,881,740.37	5,450,518.01

#### Applicable tax rate

Item	Year ended 31 December	
	2014	2013
<i>Standard tax rates:</i>		
The Company	25%	25%
Zhao Yi Te	25%	25%
<i>Applicable tax rates:</i>		
The Company	15%	15%
Zhao Yi Te	25%	25%

Note: Details of the applicable tax rate of the Company and Zhao Yi Te are set out in Note C.



## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 10 Income tax expense (Continued)

Reconciliation of income tax expenses to the accounting profit is as follows:

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Profit before tax	42,912,937.44	38,115,879.27
Applicable standard tax rates	15% & 25%	15% & 25%
Current income tax expenses calculated at standard tax rates	6,461,982.01	5,745,422.09
Tax effect on non-deductible expenses	234,799.44	176,268.80
Others, such as tax effects on deductible research and development costs	(815,041.08)	(471,172.88)
Income tax expenses	5,881,740.37	5,450,518.01

#### 11 Calculation process of basic earnings per share and diluted earnings per share

##### Calculation result

Item	Year ended 31 December	
	2014 RMB	2013 RMB
<i>Earnings per share</i>		
Net profit attributable to equity holders of the Company	0.74	0.65
<i>Diluted earnings per share</i>		
Net profit attributable to equity holders of the Company	0.74	0.65

## NOTES TO THE FINANCIAL STATEMENTS

### F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP (Continued)

#### 11 Calculation process of basic earnings per share and diluted earnings per share (Continued)

##### Calculation process of basic earnings per share

Item		Year ended 31 December	
		2014	2013
Net profit attributable to equity holders of the Company (RMB)	A	37,031,197.07	32,665,361.26
Number of shares at beginning of the year	B	50,000,000	50,000,000
Number of shares at closing of the year	C	50,000,000	50,000,000
Number of months	D	12	12
Weighted average number of ordinary shares outstanding	$E=(B+C)/2$	50,000,000	50,000,000
Basic earnings per share (RMB)	$F=A/E$	0.74	0.65

##### Calculation process of diluted earnings per share

The calculation process of diluted earnings per share is the same as calculation process of basic earnings per share. As there were no dilutive potential ordinary shares and accordingly, the diluted earnings per share equal to the basic earnings per share.

#### 12 Segment information

The Group is mainly engaged in the manufacture and trading of surgical implants, instruments and related products. Based on the Group's internal organisational structure, management requirements, internal reporting policies, the operation of the Company constitutes one single reportable segment, i.e. manufacture and trading of surgical implants, instruments and related products, which is under the provisions on segment information in business statements of the ASBE No. 35 "Segment Reporting" and Accounting Standards for Business Enterprises Bulletin No. 3 and accordingly, no separate segment information is prepared.

At the end of each reporting period, the Group's assets and liabilities were mainly located in the PRC.

The Group's revenue of top five customers and the geographical areas of the revenue of the Group during the years ended 31 December 2013 and 31 December 2014 are set out in Note F(1).

## NOTES TO THE FINANCIAL STATEMENTS

### G. NOTES TO ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENTS OF THE GROUP

#### 1 Other cash receipts relating to operating activities

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Government grants	645,918.00	315,741.00
Deposit receipts	–	–
Others	–	15,722.66
<b>Total</b>	<b>645,918.00</b>	<b>331,463.66</b>

#### 2 Other cash payments relating to operating activities

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Advertising expenses	9,044,008.53	4,784,780.35
Travelling expenses	9,320,017.93	5,263,737.82
Office expenses	2,602,235.65	2,434,994.14
Research and development expenses	5,407,449.56	2,771,034.52
Professional fees	3,846,250.78	3,262,816.86
Others	5,013,809.17	4,739,406.20
<b>Total</b>	<b>35,233,771.62</b>	<b>23,256,769.89</b>

#### 3 Other cash receipts relating to investing activities

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Interest income	172,562.90	200,957.33
Refund of construction deposits	–	5,000,000.00
Government grants	1,996,500.00	–
<b>Total</b>	<b>2,169,062.90</b>	<b>5,200,957.33</b>

## NOTES TO THE FINANCIAL STATEMENTS

### G. NOTES TO ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENTS OF THE GROUP (Continued)

#### 4 Other cash payments relating to financing activities

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Deposit paid regarding the Listing	<b>6,028,205.01</b>	2,363,584.88

#### 5 Supplementary information to the consolidated cash flow statements

Item	Year ended 31 December	
	2014 RMB	2013 RMB
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit	<b>37,031,197.07</b>	32,665,361.26
Add: Impairment losses on assets	<b>1,224,414.42</b>	687,167.79
Depreciation	<b>3,239,595.78</b>	3,133,805.88
Amortisation of intangible assets	<b>820,999.08</b>	816,179.11
Loss on disposals of fixed assets	-	179,173.49
Finance expenses	<b>(138,687.32)</b>	22,616.29
Income from bank structured products	<b>(61,643.84)</b>	(241,339.26)
Decrease in deferred income tax assets	<b>(186,134.23)</b>	(102,500.13)
Decrease in inventories	<b>(12,392,128.44)</b>	(3,494,058.62)
Decrease accounts receivable	<b>(14,869,189.46)</b>	(7,272,988.37)
Increase in accounts payable	<b>9,606,162.24</b>	1,809,109.96
Net cash flows from operating activities	<b>24,274,585.30</b>	28,202,527.40
2 Significant investing and financing activities that do not involve cash receipts and payments	-	-
3 Net changes in cash and cash equivalents:		
Cash balances at end of the year	<b>63,563,110.13</b>	65,856,195.97
Less: Cash balances at beginning of the year	<b>(65,856,195.97)</b>	(61,258,695.24)
Add: Balances of cash and cash equivalent at end of the year	-	-
Balances of cash and cash equivalent at beginning of the year	-	-
Changes in cash and cash equivalent	<b>(2,293,085.84)</b>	4,597,500.73

## NOTES TO THE FINANCIAL STATEMENTS

### G. NOTES TO ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENTS OF THE GROUP (Continued)

#### 7 Composition of cash and cash equivalents

Item	Year ended 31 December	
	2014 RMB	2013 RMB
1 Cash	<b>63,563,110.13</b>	65,856,195.97
Including:		
– Cash on hand	<b>363,631.98</b>	189,527.69
– Bank balances that can be readily withdrawn on demand	<b>63,199,478.15</b>	65,666,668.28
– Other cash that can be readily drawn on demand	–	–
2 Cash equivalents	–	–
3 Closing balance of cash and cash equivalents	<b>63,563,110.13</b>	65,856,195.97

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY

#### 1 Cash and bank deposits

Item	As at 31 December 2014			As at 31 December 2013		
	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB
Cash on hand:						
RMB	–	–	<b>81,720.66</b>	–	–	4,891.48
USD	<b>44,468.46</b>	<b>6.1190</b>	<b>272,102.51</b>	28,466.93	6.0969	173,560.05
EUR	<b>1,315.63</b>	<b>7.4556</b>	<b>9,808.81</b>	1,315.63	8.4189	11,076.16
Subtotal			<b>363,631.98</b>			189,527.69
Bank deposits:						
RMB	–	–	<b>57,917,198.25</b>	–	–	62,326,597.77
USD	<b>468,979.74</b>	<b>6.1190</b>	<b>2,869,687.03</b>	170,697.72	6.0969	1,040,726.93
EUR	–	–	–	–	–	–
Subtotal			<b>60,786,885.28</b>			63,367,324.70
Total			<b>61,150,517.26</b>			63,556,852.39

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 2 Other receivables

Categories of other receivables:

Item		Individually significant and for which provision is individually assessed	Due from a subsidiary	By aging group	Sub-total	Not individually significant but for which provision is individually assessed	Total
<b>As at 31 December 2013</b>							
Carrying amount	Amount (RMB)	-	57,055.65	755,128.09	812,183.74	-	812,183.74
	Percentage (%)	-	7.02	92.98	100.00	-	100.00
Provision	Amount (RMB)	-	-	196,975.39	196,975.39	-	196,975.39
	Percentage (%)	-	-	26.09	24.25	-	24.25
Net amount		-	57,055.65	558,152.70	615,208.35	-	615,208.35
<b>As at 31 December 2014</b>							
Carrying amount	Amount (RMB)	-	187,265.82	1,196,180.85	1,383,446.67	-	1,383,446.67
	Percentage (%)	-	13.54	86.46	100.00	-	100.00
Provision	Amount (RMB)	-	-	255,105.42	255,105.42	-	255,105.42
	Percentage (%)	-	-	21.33	18.44	-	18.44
Net amount		-	187,265.82	941,075.43	1,128,341.25	-	1,128,341.25

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 2 Other receivables (Continued)

Grouping of other receivable, other than amount due from a subsidiary, for which bad debt provision has been assessed using the aging analysis approach:

Aging	As at 31 December 2014			As at 31 December 2013		
	Carrying amount			Carrying amount		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within one year	714,570.76	59.75	21,437.12	341,768.00	45.25	10,253.04
1 to 2 years	143,950.00	12.03	11,516.00	129,785.00	17.19	10,382.80
2 to 3 years	99,785.00	8.34	19,957.00	80,476.75	10.66	16,095.35
3 to 4 years	58,776.75	4.91	29,388.38	31,457.09	4.17	15,728.55
4 to 5 years	31,457.09	2.63	25,165.67	135,628.00	17.96	108,502.40
More than 5 years	147,641.25	12.34	147,641.25	36,013.25	4.77	36,013.25
<b>Total</b>	<b>1,196,180.85</b>	<b>100.00</b>	<b>255,105.42</b>	755,128.09	100.00	196,975.39

The movements of provision for bad debts of other receivable are as follows:

Item	At beginning of the year	Recognised for the year	Decrease for the year		At end of the year
	RMB	RMB	Reversals RMB	Written off RMB	RMB
<b>Impairment on others receivable:</b>					
Year ended 31 December 2013	571,057.47	–	(374,082.08)	–	196,975.39
Year ended 31 December 2014	<b>196,975.39</b>	<b>58,130.03</b>	–	–	<b>255,105.42</b>



**H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)**

2 Other receivables (Continued)

**Top five parties with the largest balances of other receivables**

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total other receivables %
<b>As at 31 December 2014</b>			
Zhao Yi Te	Subsidiary	<b>187,265.82</b>	<b>13.54</b>
Party P	Third party	<b>128,828.00</b>	<b>9.31</b>
Party R	Third party	<b>73,470.40</b>	<b>5.31</b>
Party S	Third party	<b>62,045.00</b>	<b>4.48</b>
Party T	Third party	<b>50,000.00</b>	<b>3.61</b>
Total		<b>501,609.22</b>	<b>36.25</b>
<b>As at 31 December 2013</b>			
Party P	Third party	128,828.00	15.86
Party S	Third party	62,045.00	7.64
Zhao Yi Te	Subsidiary	57,055.65	7.02
Party U	Third party	40,000.00	4.92
Party V	Third party	30,000.00	3.69
Total		317,928.65	39.13

At the end of reporting period, there are no other receivables due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of reporting period, there are no other receivables advanced to related parties.

At the end of reporting period, there are no other receivables that have been derecognised.

At the end of reporting period, there are no other receivables pledged as collateral.

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 3 Investment in a subsidiary

Name	Accounting method	Investment cost RMB	At beginning of the year RMB	Movements RMB	At end of the year RMB	Percentage of shareholding %	Percentage of voting rights %	Provision for impairment RMB	Impairment recognised for the year RMB	Dividend paid for the year RMB
<b>As at 31 December 2013</b>										
Zhao Yi Te	Cost	665,263.00	665,263.00	-	665,263.00	100	100	-	-	-
<b>As at 31 December 2014</b>										
Zhao Yi Te	Cost	665,263.00	665,263.00	-	665,263.00	100	100	-	-	-

#### 4 Fixed assets

Item	Buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
<b>Cost</b>					
As at 1 January 2013	9,828,622.42	23,755,486.65	1,550,631.00	1,935,529.69	37,070,269.76
Additions	-	435,948.80	-	65,307.86	501,256.66
Disposals	-	(657,112.85)	-	(4,228.00)	(661,340.85)
As at 31 December 2013	9,828,622.42	23,534,322.60	1,550,631.00	1,996,609.55	36,910,185.57
Additions	7,309,776.36	8,494,457.50	-	137,079.50	15,941,313.36
As at 31 December 2014	17,138,398.78	32,028,780.10	1,550,631.00	2,133,689.05	52,851,498.93
<b>Accumulated depreciation</b>					
As at 1 January 2013	500,693.44	6,970,632.77	949,531.30	1,167,005.87	9,587,863.38
Provided for the year	363,235.49	2,256,614.12	214,503.78	297,251.85	3,131,605.24
Eliminated on disposals	-	(457,573.76)	-	(4,016.60)	(461,590.36)
As at 31 December 2013	863,928.93	8,769,673.13	1,164,035.08	1,460,241.12	12,257,878.26
Provided for the year	407,616.82	2,373,575.69	153,230.67	305,172.60	3,239,595.78
As at 31 December 2014	1,271,545.75	11,143,248.82	1,317,265.75	1,765,413.72	15,497,474.04
<b>Carrying amounts</b>					
As at 31 December 2013	8,964,693.49	14,764,649.47	386,595.92	536,368.43	24,652,307.31
As at 31 December 2014	15,866,853.03	20,885,531.28	233,365.25	368,275.33	37,354,024.89

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 4 Fixed assets (Continued)

##### Allocation of depreciation charge for each accounting period

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Administrative expenses	704,203.49	762,393.35
Cost of sales	2,269,757.71	2,115,049.85
General and administrative expenses – Research and development expenses	265,634.58	254,162.04
Total	3,239,595.78	3,131,605.24

During the year ended 31 December 2014, the Company had construction in progress amounting to RMB9,251,934.34 which was transferred to fixed assets.

At the end of reporting period, there are no temporary idle fixed assets.

At the end of reporting period, there are no fixed assets leased under finance leases.

At the end of reporting period, there are no fixed assets leased out under operating leases.

At the end of reporting period, there are no fixed assets held for sale.

At the end of reporting period, the Company's has obtained certificates of titles for all of its fixed assets.

At the end of reporting period, there are no fixed assets pledged as collateral.

#### 5 Deferred tax assets

##### Recognised deferred tax assets

Item	As at 31 December	
	2014 RMB	2013 RMB
<i>Deferred tax assets:</i>		
Provision for impairment losses of assets	699,489.33	519,535.27

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 5 Deferred tax assets (Continued)

##### Details of deductible differences

Item	As at 31 December	
	2014 RMB	2013 RMB
<i>Deductible temporary differences:</i>		
Provision for impairment losses of assets	4,663,262.23	3,463,568.48

#### 6 Employee benefits payables

Item	Wages or salaries bonuses allowances and subsidies RMB	Staff welfares RMB	Social security contributions and related costs RMB	Housing funds RMB	Labour union RMB	Total RMB
As at 1 January 2013	1,547,969.38	–	–	–	–	1,547,969.38
Increase	16,619,318.90	887,164.47	2,882,535.11	736,374.00	418,875.22	21,544,267.70
Decrease	(16,798,985.51)	(887,164.47)	(2,570,074.63)	(641,406.00)	(333,871.97)	(21,231,502.58)
As at 31 December 2013	1,368,302.77	–	312,460.48	94,968.00	85,003.25	1,860,734.50
Increase	19,740,263.19	952,303.54	3,280,183.80	758,543.00	394,805.26	25,126,098.79
Decrease	(19,531,925.20)	(952,303.54)	(3,280,183.80)	(758,543.00)	(375,298.38)	(24,898,253.92)
As at 31 December 2014	1,576,640.76	–	312,460.48	94,968.00	104,510.13	2,088,579.37

Arrangements such as expected timing, amount, etc. of employee benefits payable:

As at 31 December 2014, the wages or salaries, bonuses, allowances and subsidies were paid in January for each of the following year.

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 7 Tax payable

Item	As at 31 December	
	2014 RMB	2013 RMB
VAT payable	2,420,581.16	2,702,742.27
EIT payable	1,685,512.24	1,410,590.01
Withholding Individual Income Tax payable	68,143.59	60,837.93
City Construction and Maintenance Tax payable	104,393.35	146,930.71
Education Fee Surcharge payable	59,928.52	88,158.42
Local Education Fee Surcharge payable	38,663.07	608.47
Total	4,377,221.93	4,409,867.81

Details of movements of EIT payable are as follows:

Item	At beginning of the year RMB	Recognised for the year RMB	Decrease for the year RMB	At end of the year RMB
Year ended 31 December 2013	1,633,974.99	5,553,018.14	(5,776,403.12)	1,410,590.01
Year ended 31 December 2014	1,410,590.01	6,067,874.60	(5,792,952.37)	1,685,512.24

#### 8 Other payables

Item	As at 31 December	
	2014 RMB	2013 RMB
Provision for sales rebate	3,164,858.75	2,854,862.98
Accrual for rentals	–	–
Accrual for Listing expenses	838,219.07	700,141.51
Others	178,705.19	74,487.14
Total	4,181,783.01	3,629,491.63

At the end of reporting period, there are no other payables to shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of reporting period, there are no significant other payables with aging more than one year.

## NOTES TO THE FINANCIAL STATEMENTS

### H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY (Continued)

#### 8 Other payables (Continued)

Details of significant other payables are as below:

Item	Details	Amount RMB
As at 31 December 2014	Provision for sales rebate	<b>3,164,858.75</b>
	Accrual for Listing expenses	<b>838,219.07</b>
		<b>4,003,077.82</b>
As at 31 December 2013	Provision for sales rebate	2,854,862.98
	Accrual for Listing expenses	700,141.51
		3,555,004.49

#### 9 Retained earnings

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Closing balance of the preceding year	<b>54,666,000.03</b>	45,148,032.78
Opening balances of the current year	<b>54,666,000.03</b>	45,148,032.78
Add: Net profit attributable to equity owners of the Company	<b>37,191,959.56</b>	32,797,741.39
Less: Transfer to statutory reserve fund	<b>(3,719,195.96)</b>	(3,279,774.14)
Dividend declared	<b>(11,000,000.00)</b>	(20,000,000.00)
Closing balances of the current year	<b>77,138,763.63</b>	54,666,000.03

As at 31 December 2014, the aggregate amount of reserves available for distribution amounted to RMB77,138,763.63.

Details of the Company's dividend declared during the years ended 31 December 2013 and 31 December 2014 are set out in Note E(23).

## NOTES TO THE FINANCIAL STATEMENTS

### I NOTES TO ITEMS IN THE INCOME STATEMENTS OF THE COMPANY

#### 1 Revenue and cost of sales

Item	Year ended 31 December	
	2014 RMB	2013 RMB
Revenue from principal operation		
– External sales	134,534,445.96	110,545,519.29
– Internal sales	683,760.76	940,170.94
	135,218,206.72	111,485,690.23
Revenue from other operations – External sales	–	–
	135,218,206.72	111,485,690.23
Cost of sales	35,640,590.01	31,410,773.36

### J NOTES TO ITEMS IN THE CASH FLOW STATEMENT OF THE COMPANY

#### 1 Supplementary information to cash flow statements of the Company

Item	Year ended 31 December	
	2014 RMB	2013 RMB
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit	37,191,959.56	32,797,741.39
Add: Impairment losses on assets	1,199,693.75	692,918.14
Depreciation	3,239,595.78	3,131,605.24
Amortisation of intangible assets	820,999.08	816,179.11
Loss on disposals of fixed assets	–	179,173.49
Finance expenses	(129,760.84)	34,187.10
Income from bank structured products	(61,643.84)	(241,339.26)
Decrease in deferred income tax assets	(179,954.06)	(103,937.72)
Decrease in inventories	(12,392,128.44)	(3,494,058.62)
Decrease accounts receivable	(14,999,399.63)	(6,845,142.95)
Increase in accounts payable	9,481,301.13	2,002,915.46
Net cash flows from operating activities	24,170,662.49	28,970,241.38
2 Significant investing and financing activities that do not involve cash receipts and payments	–	–
3 Net changes in cash and cash equivalents:		
Cash balances at end of the year	61,150,517.26	63,556,852.39
Less: Cash balances at beginning of the year	(63,556,852.39)	(58,203,549.03)
Add: Balances of cash and cash equivalent at end of the year	–	–
Balances of cash and cash equivalent at beginning of the year	–	–
Changes in cash and cash equivalent	(2,406,335.13)	5,353,303.36

## NOTES TO THE FINANCIAL STATEMENTS

### K RELATED PARTIES AND REPEATED PARTY TRANSACTIONS

#### 1 Information about related parties

##### (a) Name of controlling shareholders

Name	Nationality	Position in the Group	Percentage of shareholding in the Group	Percentage of voting rights in the Group
Mr. Shi Chunbao	PRC	Chairman and General Manager	48.4742%	48.4742%
Ms. Yue Shujun	PRC	Executive Director and Deputy General Manager	37.5258%	37.5258%

Mr. Shi Chunbao and Ms. Yue Shujun are couple and the changes in their percentage of shareholdings in the Company are set out in Note A.

(b) The information of the Company and its subsidiary are set out in Note D.

(c) Information of the related parties:

Name	Relationship with the Group
Gaoyang Materials	Mr. Guo Fuxiang is the husband of the cousin of Mr. Shi Chunbao and who is responsible for the day to day management and decision making of Gaoyang Materials

#### 2 Related parties transactions

##### (a) Sales of goods or rendering of services to related parties transactions

Related party	Nature of the transactions	Pricing and decision making procedures	Year ended 31 December 2014		Year ended 31 December 2013	
			Amount, excluding VAT RMB	Proportion to that of similar transactions %	Amount, excluding VAT RMB	Proportion to that of similar transactions %
Gaoyang Materials	Sales of products	Based on contract	6,300,152.99	4.68	5,955,245.21	5.39



## NOTES TO THE FINANCIAL STATEMENTS

### K RELATED PARTIES AND REPEATED PARTY TRANSACTIONS (Continued)

#### 2 Related parties transactions (Continued)

##### (b) Directors' and supervisors' emoluments

(i) Details of directors' and supervisors' emoluments are as follows:

Item	Directors' fees RMB	Salary and allowances RMB	Social insurance housing funds and related pension costs RMB	Performance related bonus RMB	Total RMB
<b>Year ended 31 December 2014</b>					
<b>Executive directors:</b>					
Mr. Shi Chunbao	-	287,664.00	18,528.00	-	306,192.00
Ms. Yue Shujun	-	211,144.00	18,528.00	-	229,672.00
Mr. Ding Gang	-	299,944.00	32,112.00	-	332,056.00
<b>Supervisors:</b>					
Mr. Qi Yi	-	93,504.00	-	-	93,504.00
Mr. Xie Fengbao	-	104,444.20	12,744.12	-	117,188.32
Ms. Zhang Lanlan	-	44,144.39	12,600.12	-	56,744.51
<b>Non-executive director:</b>					
Mr. Lin Yiming	-	-	-	-	-
<b>Independent non-executive directors:</b>					
Ms. Xu Hong	100,000.00	-	-	-	100,000.00
Mr. Tong Xiaobo	100,000.00	-	-	-	100,000.00
	200,000.00	1,040,844.59	94,512.24	-	1,335,356.83
<b>Year ended 31 December 2013</b>					
<b>Executive directors:</b>					
Mr. Shi Chunbao	-	288,000.00	15,648.00	-	303,648.00
Ms. Yue Shujun	-	211,200.00	15,648.00	-	226,848.00
Mr. Ding Gang	-	300,000.00	23,472.00	-	323,472.00
<b>Supervisors:</b>					
Mr. Qi Yi	-	86,314.00	-	-	86,314.00
Mr. Xie Fengbao	-	85,309.90	9,203.76	-	94,513.66
Ms. Zhang Lanlan	-	43,796.23	9,203.76	-	52,999.99
<b>Non-executive director:</b>					
Mr. Lin Yiming	-	-	-	-	-
<b>Independent non-executive directors:</b>					
Ms. Xu Hong	100,000.00	-	-	-	100,000.00
Mr. Tong Xiaobo	100,000.00	-	-	-	100,000.00
	200,000.00	1,014,620.13	73,175.52	-	1,287,795.65

## NOTES TO THE FINANCIAL STATEMENTS

### K RELATED PARTIES AND REPEATED PARTY TRANSACTIONS (Continued)

#### 2 Related parties transactions (Continued)

##### (b) Directors' and supervisors' emoluments (Continued)

- (ii) Five highest paid individuals  
Number of five highest paid individuals involved directors or supervisors and other employee are set out as follows:

Item	Year ended 31 December	
	2014	2013
	Number of person	
Directors or supervisors	3	3
Other than directors or supervisor	2	2

The emolument of the directors are set out in Note K(2)(b)(i) above. The emoluments of the remaining highest paid individuals are as follows:

Item	Year ended 31 December	
	2014	2013
	RMB	RMB
Salary and allowances	359,190.36	357,362.35
Social insurance housing funds and related pension costs	67,356.00	39,120.00
Performance related bonus	180,000.00	180,000.00
Total	606,546.36	576,482.35

Numbers of emoluments of the remaining the highest paid individuals were as follows:

Item	Year ended 31 December	
	2014	2013
	Number of person	
Nil to HK\$1,000,000	2	2

- (iii) None of the directors has waived or agreed to waive any emoluments during the year ended 31 December 2014 (2013: Nil). No emolument was paid to the directors, supervisors or the five highest paid as an inducement to join or upon joining the Group or as the compensation for loss of office, during the years ended 31 December 2014 (2013: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

### K RELATED PARTIES AND REPEATED PARTY TRANSACTIONS (Continued)

#### 3 Receivables from and payable to related parties

##### Receivables from related parties

Item	As at 31 December 2014		As at 31 December 2013	
	Amount RMB	Provision RMB	Amount RMB	Provision RMB
Receivable from: Gaoyang Materials	3,831,703.98	114,951.12	2,719,970.98	81,599.13

### L CONTINGENCIES

At the end of each reporting period, there are no significant contingencies should be disclosed.

### M COMMITMENTS

#### 1 Operating lease commitments

Item	As at 31 December	
	2014 RMB	2013 RMB
Within one year	1,661,764.00	1,335,272.53
Second to fifth years, inclusive	1,280,649.33	2,438,818.30
Total	2,942,413.33	3,774,090.83

#### 2 Capital commitments

Item	As at 31 December	
	2014 RMB	2013 RMB
Contracted for but not yet recognised	17,693,115.44	2,495,136.04
Authorised but not yet contracted for – Daxing New Production Base		
– First stage construction work	164,360,891.87	183,497,838.00
– Second stage construction work	260,112,700.00	260,112,700.00
	424,473,591.87	443,610,538.00
Total	442,166,707.31	446,105,674.04

At the end of reporting period, other than disclosed in above, there are no other significant commitment should be disclosed.

## NOTES TO THE FINANCIAL STATEMENTS

### N OTHERS

#### 1 Business combination

There is no business combination during the years ended 31 December 2013 and 31 December 2014.

#### 2 Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged for the years ended 31 December 2013 and 31 December 2014.

The capital structure of the Group and the Company consists of bank balances, cash and cash equivalents and equity attributable to shareholders of the Company, comprising share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues as well as issue of new debts or redemption of existing debts.

#### 3 Financial risk management

##### (a) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include cash and bank deposits, notes receivable, accounts receivable, other receivables, accounts payable, employee benefits payable and other payables, etc. and details of these financial instruments are disclosed in respective notes to this report. The major risks arising from the Group's financial instruments are: (i) interest rate risk; (ii) foreign currency risk; (iii) credit risk; and (iv) liquidity risk. The Group currently does not use any derivative contracts to hedge against its exposure to the risks listed above. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's and the Company's exposures to these market risks or the manner in which it manages and measures the risks for the years ended 31 December 2013 and 31 December 2014.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

##### (i) Interest rate risk

The Group and the Company have limited exposure to interest rate risk because the Group has no significant interest bearing financial assets and liabilities as at 31 December 2014, other than the interest bearing bank deposits and balances. The future variations in interest rates will not have a significant impact on the results of the Group, as the Group's and the Company's variable rates bank deposits and balances are all short-term in nature and at the prevailing market interest rates. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise. The directors of the Company considered the Group's and the Company's exposure to interest rate risk is not material. Hence, no interest rate risks sensitively analysis is presented.

There are no bank borrowings during the years ended 31 December 2013 and 31 December 2014. The future increase in interest rates will have an impact in the interest expenses if the Group makes a bank borrowing in the future, but the management of the Group will consider to implement a hedging policy to manage the interest rate risk according to the market situation.

### N OTHERS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk management objectives and polices (Continued)

###### (ii) Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of its expenditures as well as capital expenditures in RMB. As at end of each reporting period, certain of the Group's and the Company's cash on hand and bank deposits are denominated in foreign currencies, which expose the Group and the Company to foreign currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. However the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As the directors of the Company consider that the Group's and the Company's financial assets that are denominated in foreign currencies are insignificant as at the end of the reporting period and accordingly, no sensitivity analysis of foreign currencies against RMB has been presented.

###### (iii) Credit risk

The Group's credit risk mainly arises from cash at bank, notes receivable and accounts receivable etc. The Group expects that there is no significant credit risk associated with cash at bank and notes receivable since they are deposited at state-owned banks and other medium or large size listed banks.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt at the balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Because the Group's trade receivable risks were diversified into a range of partners and customers mainly in PRC, 20.27% of the Group's revenue came from the top 5 customers as of 31 December 2014, respectively and details of which are set out in Note E(5). In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Group has no significant concentration of credit risk on the remaining trade receivables, with exposure spread over a number of counterparties and customers.

###### (iv) Liquidity risk

Ultimate responsibility for liquidity risk rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and continuously monitoring forecast and actual cash flows.

## NOTES TO THE FINANCIAL STATEMENTS

### N OTHERS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk management objectives and policies (Continued)

###### (iv) Liquidity risk (Continued)

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve at the end of the reporting period.

Item	Less than 3 months RMB	3 months to 1 year RMB	Total undiscounted cash flows RMB	Carrying amount RMB
<b>The Group</b>				
As at 31 December 2014				
Accounts payable	14,860,329.15	–	14,860,329.15	14,860,329.15
Employee benefits payable	2,097,740.19	–	2,097,740.19	2,097,740.19
Other payables	4,191,783.01	–	4,191,783.01	4,191,783.01
	<b>21,149,852.35</b>	<b>–</b>	<b>21,149,852.35</b>	<b>21,149,852.35</b>
As at 31 December 2013				
Accounts payable	4,235,146.49	–	4,235,146.49	4,235,146.49
Employee benefits payable	1,871,038.71	–	1,871,038.71	1,871,038.71
Other payables	3,639,491.63	–	3,639,491.63	3,639,491.63
	9,745,676.83	–	9,745,676.83	9,745,676.83
<b>The Company</b>				
As at 31 December 2014				
Accounts payable	14,860,329.15	–	14,860,329.15	14,860,329.15
Employee benefits payable	2,088,579.37	–	2,088,579.37	2,088,579.37
Other payables	4,181,783.01	–	4,181,783.01	4,181,783.01
	<b>21,130,691.53</b>	<b>–</b>	<b>21,130,691.53</b>	<b>21,130,691.53</b>
As at 31 December 2013				
Accounts payable	4,235,146.49	–	4,235,146.49	4,235,146.49
Employee benefits payable	1,860,734.50	–	1,860,734.50	1,860,734.50
Other payables	3,629,491.63	–	3,629,491.63	3,629,491.63
	9,725,372.62	–	9,725,372.62	9,725,372.62

##### (b) Fair value of financial instruments

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

### **O** EVENTS AFTER THE END OF REPORTING PERIOD

The Company had the following significant events after the end of the reporting period:

- (a) On 11 March 2015, the Company's H shares were listed on the Main Board of the Stock Exchange following the completion of the global offering as described in the prospectus of the Company dated 27 February 2015 and an aggregate of 16,670,000 H shares of RMB1.00 each were issued and offered for subscription under global offering at a price of HK\$13.88 per share upon the listing of the Company's H shares on the Stock Exchange.
- (b) Pursuant to the resolution of the meeting of the Board of Directors on 30 March 2015, the Company declared the 2014 final dividend to the shareholders of the Company at the rate of RMB0.088 per share (including tax charge), which is subject to the shareholder approval in the forthcoming annual general meeting of the Company.