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

Interim Report 2015

* For identification purpose only

CONTENTS

Corporate Information

DIRECTORS

Executive Directors
Mr. Shi Chunbao *(Chairman)*
Ms. Yue Shujun
Mr. Zhang Zhendong

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. Yuan Rui
Mr. Ip Pui Sum (CPA (Practising), FCCA, ACMA, ACIS, ACS)

AUTHORISED REPRESENTATIVES

Mr. Yuan Rui
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

Management Discussion and Analysis

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, of which RMB10.9 billion will be used for the development of county-level hospitals and increasing the investment in infrastructures, medical service capabilities and the quality management of hospitals, and it is expected that county-level hospitals will become the major growth focus of the healthcare infrastructure market. With deepening development of 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 market is a segment of the medical device market. The inclusion of medical device products in medical care insurance coverage under the PRC healthcare reform has increased the demand and acceptance for orthopedic implants. In addition, 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 products, the medical device market in the PRC 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 market 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 currently dominating the market segment. Yet, with the advancement of the PRC healthcare reform and governmental support to Chinese companies through favourable policies, the Chinese companies with a leading position in the joint implant market are expected to increase their market share by upgrading their product offerings and enhancing their research and development capabilities.

BUSINESS REVIEW

We are 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.

For the six months ended 30 June 2015, we recorded a revenue of RMB93.4 million, representing an increase of 43.7% as compared to the corresponding period of last year (corresponding period in 2014: RMB65.0 million). The gross profit was RMB68.5 million, representing an increase of 43.3% as compared to the corresponding period of last year (corresponding period in 2014: RMB47.8 million). The profit attributable to the equity holders of the Company was RMB26.6 million, representing an increase of 35.7% as compared to the corresponding period of last year (corresponding period in 2014: RMB19.6 million). Basic earnings per share was RMB0.45, representing a year-on-year increase of 15.4% (corresponding period in 2014: RMB0.39).

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.

New business drivers

As the best abrasive medium for hip joint, ceramics have various advantages, including low abrasion rate, high sustainability of its prosthesis inside human body, no releasing of metallic ions, and it is widely used in related field. The Group is the first approved enterprise for Biolox delta ceramic hip joint prosthesis products in the PRC. Ceramic hip joint prosthesis products generated strong market response when they were launched in May 2015. Within the first three days after launching, more than 40 units of the Group's ceramic hip joint prosthesis products were used by more than 30 hospitals across the country. With the re-tendering and registration of ceramic hip joint prosthesis products as new products in various provinces, municipalities and districts, their sales and usage will gradually increase.

In addition, the Group officially cooperate with joint experts from Europe this year and promote the technology of hip joint anterior approach which is a minimal invasive surgery in mainland China. As a new surgical technology, minimally invasive hip joint has various benefits such as small incision, reduced damage to muscle tissues, faster recovery and less blood loss and is widely used in Europe and the USA. However, its application is still limited in the PRC due to restrictions such as lack of training, promotion, supporting equipment and facilities. Targeting at this new technology and market, the Group has imported a complete set of advanced traction bed, researched and developed a complete set of equipment, and invited experts from Europe to come to China to provide training and promotion for this technology. It is expected that this will provide important driving force for the sales of the Company's products and the promotion of our brand image.

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, all 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 30 June 2015, we held 10 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, all of which are Class III medical device registration certificates. The Group's original 5 Class I medical device registration certificates were revised to Class I products filing certificates in accordance with the revised Regulation on the Supervision and Administration of Medical Devices (醫療器械監督管理條例), thus they are not included in this category. As China adopts a strict product registration system for medical devices manufacturers, enterprises with complete product registrations are more competitive in the market.

Strong research and development capabilities

We are a state-level high and new technology enterprise (國家級高新技術企業) and are dedicated to the development of innovative products and continuous improvement of its research and development capability. As at 30 June 2015, we possessed a total of 29 registered patents, including 9 invention patents and 20 utility patents, and has also submitted applications for 22 invention patents.

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 theses 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 "Chunli" (春立). We mainly sell our products through distributors, or on ODM and OEM bases. As at 30 June 2015, we had established stable relationship with approximately 490 distributors, and had not placed reliance on any single distributor.

Increase of production capacity

Currently, the Company has two production plants for the production of our joint prosthesis products and spinal products in Tongzhou, Beijing. In March 2014, the Company commenced the 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, to develop and commercialize advanced customized joint prosthesis products and to construct a research and development center and a sales and marketing center.

FINANCIAL REVIEW

Revenue

Our revenue increased by 43.7% from approximately RMB65.0 million for the six months ended 30 June 2014 to approximately RMB93.4 million for the six months ended 30 June 2015. The increase in revenue was mainly attributable to the launching of ceramic hip joint prosthesis products and the expansion of sales network. The revenue of major products for the six months ended 30 June 2015 and the six months ended 30 June 2014 is as follows:

Product category	**For the six months ended 30 June 2015 (RMB'000)**	For the six months ended 30 June 2014 (RMB'000)	Increase over corresponding period
Standard joint prosthesis products	**69,744**	45,489	53.3%
Custom joint prosthesis products	**18,262**	13,700	33.3%
Spinal products	**5,390**	5,819	-7.4%
Other business	**5**	0	–
Total	**93,401**	65,008	43.7%

Gross profit

Our gross profit increased by 43.3% from approximately RMB47.8 million for the six months ended 30 June 2014 to approximately RMB68.5 million for the six months ended 30 June 2015. Gross profit margin slightly decreased from 73.5% for the six months ended 30 June 2014 to 73.3% for the six months ended 30 June 2015.

Selling expenses

Our selling expenses increased by 91.7% from approximately RMB10.8 million for the six months ended 30 June 2014 to approximately RMB20.7 million for the six months ended 30 June 2015. The increase in selling expenses was mainly attributable to the increase in staff costs and the increase in expenditure in market development and product promotion as a result of business expansion.

Administrative expenses

Our administrative expenses increased by 35.9% from approximately RMB13.1 million for the six months ended 30 June 2014 to approximately RMB17.8 million for the six months ended 30 June 2015, which was mainly attributable to the increase in staff costs, the increase in our expenditure in research and development and the increase in listing expenses.

Impairment loss of assets

Our impairment loss of assets increased by 18.2% from approximately RMB1.1 million for the six months ended 30 June 2014 to approximately RMB1.3 million for the six months ended 30 June 2015. As there was an increase in accounts receivable, according to the impairment policy of the Company, the impairment also increased when calculating the impairment loss of accounts receivable.

Non-operating income

Our non-operating income increased by 33.3% from approximately RMB0.3 million for the six months ended 30 June 2014 to approximately RMB0.4 million for the six months ended 30 June 2015, which was mainly attributable to the increase in the government grants received by us.

Non-operating expenses

The significant increase in our non-operating expenses from approximately RMB5,000 for the six months ended 30 June 2014 to approximately RMB0.9 million for the six months ended 30 June 2015 was mainly attributable to the increase in our donation to The Community Chest of Hong Kong.

Income tax expenses

Our income tax expenses increased by 35.5% from approximately RMB3.1 million for the six months ended 30 June 2014 to approximately RMB4.2 million for the six months ended 30 June 2015 and the effective tax rate remained stable at 13.6% as compared to the corresponding period of last year.

Net profit for the period

Our net profit for the period increased by 35.7% from approximately RMB19.6 million for the six months ended 30 June 2014 to approximately RMB26.6 million for the six months ended 30 June 2015. The increase in net profit was mainly attributable to the increase in our revenue.

Liquidity and capital resources

Our cash and bank deposits balances increased by 249.5% from approximately RMB63.6 million as of 31 December 2014 to approximately RMB222.3 million as of 30 June 2015. There were no bank borrowings for the six months ended 30 June 2015.

Our sources of fund are mainly from the cash generated from our operations and the issue of H shares. The board of directors (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 22.0% from approximately RMB35.5 million as of 31 December 2014 to approximately RMB43.3 million as of 30 June 2015. The increase in inventory was mainly attributable to our business expansion and the growth in market demand.

Fixed assets and construction in progress

Our fixed assets and construction in progress increased by 18.5% from approximately RMB40.5 million as of 31 December 2014 to approximately RMB48.0 million as of 30 June 2015. 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.

Net current assets

Our net current assets increased by 148.6% from approximately RMB136.2 million as of 31 December 2014 to approximately RMB338.6 million as of 30 June 2015. The increase in net current assets was mainly attributable to the proceeds from the issue of H shares.

Intangible assets

Our intangible assets slightly decreased by 1.1% from approximately RMB35.3 million as of 31 December 2014 to approximately RMB34.9 million as of 30 June 2015. The decrease in intangible assets was mainly attributable to the amortization of land use rights and software.

Cash flow analysis

For the six months ended 30 June 2015, our net cash flows used in operating activities was approximately RMB33.5 million, which was mainly attributable to the extended credit period for certain customers; our net cash flows used in investing activities was approximately RMB3.5 million, which was mainly due to the acquisition of fixed assets and construction in progress; our net cash flows generated from financing activities was approximately RMB193.8 million, which was mainly due to the proceeds from the issue of H shares; and our cash and cash equivalents increased by RMB158.8 million as compared to the end of last year.

Capital expenditure

For the six months ended 30 June 2015, we incurred capital expenditure in respect of fixed assets and construction in progress of approximately RMB14.8 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 30 June 2015, we did not have any significant contingent liabilities or guarantees.

Capital commitment

As of 30 June 2015, our total capital commitment was approximately RMB428.1 million, which mainly comprised the expenses incurred in the construction of new plants in Daxing New Production Base and the acquisition of equipment.

SUBSEQUENT EVENTS

From the end of the reporting period to the date of this announcement, the Group did not have any other significant events.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (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.

As of 30 June 2015, the proceeds from the global offering were not applied for any use.

FUTURE PROSPECTS

Looking 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 been 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. Currently, we have carried out production at these two production sites simultaneously.

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 currently 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.

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 30 June 2015, the Group had a total of approximately 421 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff, general and administration staff. For the six months ended 30 June 2015, the total salary and related cost paid to our employees were approximately RMB15.2 million. The 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 THE COMPANY

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

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2015.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

The Company has committed to delivering and maintaining a higher standard of corporate governance to meet business needs and shareholders' expectation. The 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 the Company's corporate governance practices. The Corporate Governance Code has been applicable to the 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 the Group and enables more efficient overall strategic planning for the Group. The Board considers that the balance of power and authority will not be impaired by the present arrangement and this structure will enable the Company to make and implement decisions promptly and effectively. After taking into account the overall circumstances of the Group, the Board will continue to review and consider whether the duties of the chairman and general manager should be separated.

Save as disclosed above, during the period from the Listing Date to the date of this report, the Company has complied with all applicable principles and code provisions of the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct for directors' and supervisors' securities transactions. Having made specific enquiry with the directors and supervisors, all of the Directors and Supervisors confirmed that they have complied with the required standard as set out in the Model Code for the period commencing on the Listing Date and ending on the date of this report.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Board has reviewed the Company's unaudited consolidated financial statements for the six months ended 30 June 2015, including the accounting principles and practices. These financial statements have been reviewed by the Group's auditor, Pan-China Certified Public Accountants LLP.

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

As at 30 June 2015, the interests or short positions of the directors, supervisors and the chief executive officer of the Company 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 as set out in Appendix 10 to the Listing Rules, 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	35.0%
		18,762,913	Interest of Spouse	27.1%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	27.1%
		24,237,087	Interest of Spouse	35.0%
Mr. Lin Yiming	Domestic shares	1,160,000	Beneficial owner	1.7%

The calculation is based on the total number of 69,170,400 ordinary shares of the Company in issue as at 30 June 2015.

Saved as disclosed above, as at 30 June 2015, 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 30 June 2015, 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	35.0%
		18,762,913	Interest of Spouse	27.1%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	27.1%
		24,237,087	Interest of Spouse	35.0%

Save as disclosed above, as at 30 June 2015, 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.

Independent Auditor's Report

天健会计师事务所
Pan-China Certified Public Accountants

Add: 128XixiRd.Hangzhou
P c: 310007
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999
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 reviewed the accompanying interim 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**") and its subsidiary, which comprise the Company's and consolidated balance sheets as at 30 June 2015, and the Company's and consolidated income statements, the Company's and consolidated statements of changes in shareholders' equity and the Company's and consolidated cash flow statements for the six months then ended, and the notes to the financial statements. The directors are responsible for the preparation and presentation of these interim consolidated financial statements. Our responsibility is to issue a review report on these interim consolidated financial statements based on our review.

We conducted our review in accordance with China Certified Public Accountant Review Standard No. 2101 "*Review of Financial Statement*". This standard requires us to plan and conduct a review to obtain limited assurance about whether the interim financial statements are free from material misstatement. A review of these interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Company are not present fairly, in all material aspects, the Company's and consolidated financial position as of 30 June 2015, and the Company's and consolidated results of operations and cash flows for the six months then ended, in accordance with Accounting Standards for Business Enterprise

Pan-China Certified Public Accountants LLP
Hangzhou, China

Chinese Certified Public Accountant: Ms. Huang Qiaomei

Chinese Certified Public Accountant: Mr. ChenYingjue

31 August 2015

* *The English name is for identification purpose only*

Consolidated Balance Sheet of the Group

Item	*Notes*	As at 30 June 2015 RMB (Unaudited)	As at 31 December 2014 RMB (Audited)
Current assets:			
Cash and bank deposits	*E(1)*	**222,314,833.74**	63,563,110.13
Notes receivable	*E(2)*	**10,660,390.78**	7,684,649.00
Accounts receivable	*E(3)*	**89,965,027.67**	42,893,825.42
Prepayments	*E(4)*	**13,015,576.89**	3,669,393.96
Other receivables	*E(5)*	**1,343,959.67**	982,276.55
Inventories	*E(6)*	**43,336,174.38**	35,472,925.88
Other current assets	*E(7)*	**–**	8,234,493.57
Total current assets		**380,635,963.13**	162,500,674.51
Non-current assets:			
Fixed assets	*E(8)*	**39,216,787.47**	37,355,999.89
Construction in progress	*E(9)*	**8,760,762.36**	3,128,934.07
Intangible assets	*E(10)*	**34,874,438.06**	35,284,936.60
Deferred tax assets	*E(11)*	**902,647.79**	709,789.61
Other non-current assets	*E(12)*	**6,859,960.60**	875,690.60
Total non-current assets		**90,614,596.28**	77,355,350.77
Total assets		**471,250,559.41**	239,856,025.28
Current liabilities:			
Accounts payable	*E(14)*	**18,165,299.88**	14,860,329.15
Receipts in advance	*E(15)*	**1,055,354.09**	1,045,968.09
Employee benefits payable	*E(16)*	**2,443,605.11**	2,097,740.19
Taxes payable	*E(17)*	**10,435,330.78**	4,113,533.57
Dividends payable	*E(18)*	**6,086,995.20**	–
Other payables	*E(19)*	**3,839,502.26**	4,191,783.01
Total current liabilities		**42,026,087.32**	26,309,354.01
Non-current liabilities:			
Deferred income	*E(20)*	**16,904,763.03**	7,626,270.75
Total non-current liabilities		**16,904,763.03**	7,626,270.75
Total liabilities		**58,930,850.35**	33,935,624.76

Item	*Notes*	**As at 30 June 2015 RMB (Unaudited)**	As at 31 December 2014 RMB (Audited)
Shareholders' equity:			
Share capital	*E(21)*	**69,170,400.00**	50,000,000.00
Capital reserve	*E(22)*	**230,039,180.01**	63,352,595.15
Surplus reserve	*E(23)*	**13,570,973.75**	13,570,973.75
Retained earnings	*E(24)*	**99,539,155.30**	78,996,831.62
Total shareholders' equity		**412,319,709.06**	205,920,400.52
Total liabilities and shareholders' equity		**471,250,559.41**	239,856,025.28
Net current assets		**338,609,875.81**	136,191,320.50
Total assets less current liabilities		**429,224,472.09**	213,546,671.27

Legal Representative: ______________________ Person in Charge of the Accounting Body: ______________________

Chief Accountant: ______________________

Balance Sheet of the Company

Item	Notes	As at 30 June 2015 RMB (Unaudited)	As at 31 December 2014 RMB (Audited)
Current assets:			
Cash and bank deposits	*H(1)*	220,252,767.20	61,150,517.26
Notes receivable		10,660,390.78	7,684,649.00
Accounts receivable		89,965,027.67	42,893,825.42
Prepayments		13,015,576.89	3,669,393.96
Other receivables	*H(2)*	1,302,758.55	1,128,341.25
Inventories		43,336,174.38	35,472,925.88
Other current assets		–	8,234,493.57
Total current assets		378,532,695.47	160,234,146.34
Non-current assets:			
Investment in a subsidiary	*H(3)*	665,263.00	665,263.00
Fixed assets	*H(4)*	39,214,812.47	37,354,024.89
Construction in progress		8,760,762.36	3,128,934.07
Intangible assets		34,874,438.06	35,284,936.60
Deferred tax assets	*H(5)*	892,347.51	699,489.33
Other non-current assets		6,859,960.60	875,690.60
Total non-current assets		91,267,584.00	78,008,338.49
Total assets		469,800,279.47	238,242,484.83
Current liabilities:			
Accounts payable		18,165,299.88	14,860,329.15
Receipts in advance		1,055,354.09	1,045,968.09
Employee benefits payable	*H(6)*	2,443,605.11	2,088,579.37
Taxes payable	*H(7)*	10,698,944.16	4,377,221.93
Dividends payables		6,086,995.20	–
Other payables	*H(8)*	3,910,118.08	4,181,783.01
Total current liabilities		42,360,316.52	26,553,881.55
Non-current liabilities:			
Deferred Income		16,904,763.03	7,626,270.75
Total non-current liabilities		16,904,763.03	7,626,270.75
Total liabilities		59,265,079.55	34,180,152.30

Item	Notes	As at 30 June 2015 RMB (Unaudited)	As at 31 December 2014 RMB (Audited)
Shareholders' equity:			
Share capital		**69,170,400.00**	50,000,000.00
Capital reserve		**230,039,180.01**	63,352,595.15
Surplus reserve		**13,570,973.75**	13,570,973.75
Retained earnings	*H(9)*	**97,754,646.16**	77,138,763.63
Total shareholders' equity		**410,535,199.92**	204,062,332.53
Total liabilities and shareholders' equity		**469,800,279.47**	238,242,484.83
Net current assets		**336,172,378.95**	133,680,264.79
Total assets less current liabilities		**427,439,962.95**	211,688,603.28

Legal Representative: ______________________ Person in Charge of the Accounting Body: ______________________

Chief Accountant: ______________________

Consolidated Income Statement of the Group

Item		Notes	Six months ended 30 June 2015 RMB (Unaudited)	2014 RMB (Audited)
I.	**Revenue**	F(1) & (11)	**93,400,647.69**	65,008,048.83
	Less: Cost of sales	F(1)	**24,947,461.55**	17,211,577.66
	Business taxes and levies	F(2)	**1,069,974.46**	579,555.61
	Selling expenses	F(3)	**20,733,811.84**	10,779,526.39
	Administrative expenses	F(4)	**17,766,535.08**	13,066,600.47
	Finance expenses	F(5)	**(3,698,057.51)**	(90,364.81)
	Impairment loss of assets	F(6)	**1,285,721.18**	1,102,599.12
II.	**Operating profit**		**31,295,201.09**	22,358,554.39
	Add: Non-operating income	F(7)	**376,575.86**	337,788.00
	Less: Non-operating expenses	F(8)	**854,912.04**	4,589.50
	Including: Loss on disposals of non-current assets		**55,779.22**	–
III.	**Profit before tax for the period**		**30,816,864.91**	22,691,752.89
	Less: Income tax expenses	F(9)	**4,187,546.03**	3,085,163.75
IV.	**Net profit for the period**		**26,629,318.88**	19,606,589.14
	Net profit attributable to the equity holders of the Company		**26,629,318.88**	19,606,589.14
V.	**Earnings per share:**			
	(I) Basic earnings per share	F(10)	**0.45**	0.39
	(II) Diluted earnings per share	F(10)	**0.45**	0.39
VI.	**Other comprehensive income**		**–**	–
VII.	**Total comprehensive income**		**26,629,318.88**	19,606,589.14
	Total comprehensive income attributable to the equity holders of the Company		**26,629,318.88**	19,606,589.14

Legal Representative: ______________________ Person in Charge of the Accounting Body: ______________________

Chief Accountant: ______________________

Income Statement of the Company

Item		Notes	Six months ended 30 June 2015 RMB (Unaudited)	2014 RMB (Audited)
I.	**Revenue**	*I(1)*	**93,400,647.69**	65,178,989.01
	Less: Cost of sales	*I(1)*	**24,947,461.55**	17,382,517.86
	Business taxes and levies		**1,069,974.46**	579,555.61
	Selling expenses		**20,728,459.84**	10,771,498.39
	Administrative expenses		**17,694,185.12**	12,999,834.71
	Finance expenses		**(3,693,914.40)**	(86,194.05)
	Impairment loss of assets		**1,285,721.18**	1,102,599.12
II.	**Operating profit**		**31,368,759.94**	22,429,177.37
	Add: Non-operating income		**376,575.86**	337,788.00
	Less: Non-operating expenses		**854,912.04**	4,589.50
	Including: Loss on disposals of non-current assets		**55,779.22**	–
III.	**Profit before tax for the period**		**30,890,423.76**	22,762,375.87
	Less: Income tax expenses		**4,187,546.03**	3,085,163.75
IV.	**Net profit for the period**		**26,702,877.73**	19,677,212.12
V.	**Other comprehensive income**		**–**	–
VI.	**Total comprehensive income**		**26,702,877.73**	19,677,212.12

Legal Representative: ______________________ Person in Charge of the Accounting Body: ______________________

Chief Accountant: ______________________

Consolidated Cash Flow Statement of the Group

Item		Notes	Six months ended 30 June 2015 RMB (Unaudited)	2014 RMB (Audited)
I.	**Cash flows from operating activities:**			
	Cash received from sales of goods and rendering of services		**56,345,313.36**	57,682,628.40
	Other cash receipts relating to operating activities	*G(1)*	**118,470.00**	354,682.08
	Sub-total of cash inflows from operating activities		**56,463,783.36**	58,037,310.48
	Cash payments for goods purchased and services received		**37,099,567.59**	13,204,807.66
	Cash payments to and on behalf of employees		**15,162,281.62**	11,589,700.85
	Payments of various types of taxes		**9,628,791.79**	10,606,097.04
	Other cash payments relating to operating activities	*G(2)*	**28,115,892.02**	15,595,362.65
	Sub-total of cash outflows from operating activities		**90,006,533.02**	50,995,968.20
	Net cash flows from operating activities	*G(5)*	**(33,542,749.66)**	7,041,342.28
II.	**Cash flows from investing activities:**			
	Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		**73,200.00**	–
	Other cash receipts relating to investing activities	*G(3)*	**11,173,284.19**	2,091,673.22
	Sub-total of cash inflows from investing activities		**11,246,484.19**	2,091,673.22
	Cash payments to acquire or construct of fixed assets, intangible assets and other long-term assets		**14,780,802.95**	3,748,208.03
	Sub-total of cash outflows from investing activities		**14,780,802.95**	3,748,208.03
	Net cash flow from investing activities		**(3,534,318.76)**	(1,656,534.81)

Item		Notes	Six months ended 30 June 2015 RMB (Unaudited)	2014 RMB (Audited)
III.	**Cash flows from financing activities:**			
	Cash receipts from investments		202,198,658.82	–
	Sub-total of cash inflows from financing activities		202,198,658.82	–
	Cash payments for distribution of dividends or profits		–	11,000,000.00
	Other cash payments relating to other financing activities	G(4)	8,438,345.53	2,075,755.58
	Sub-total of cash outflows from financing activities		8,438,345.53	13,075,755.58
	Net cash flow from financing activities		193,760,313.29	(13,075,755.58)
IV.	**Effect of foreign exchange rate changes on cash and cash equivalents**		2,068,478.74	–
V.	**Net increase in cash and cash equivalents**		158,751,723.61	(7,690,948.11)
	Add: Opening balance of cash and cash equivalents		63,563,110.13	65,856,195.97
VI.	**Closing balance of cash and cash equivalents**	G(5)	222,314,833.74	58,165,247.86

Legal Representative: ______________________ Person in Charge of the Accounting Body: ______________________

Chief Accountant: ______________________

Cash Flow Statement of the Company

Item		Notes	Six months ended 30 June 2015 RMB (Unaudited)	2014 RMB (Audited)
I.	**Cash flows from operating activities:**			
	Cash received from sales of goods and rendering of services		56,345,313.36	57,512,523.40
	Other cash receipts relating to operating activities		422,902.08	355,040.94
	Sub-total of cash inflows from operating activities		56,768,215.44	57,867,564.34
	Cash payments for goods purchased and services received		37,099,567.59	13,204,807.66
	Cash payments to and on behalf of employees		15,095,306.32	11,514,453.88
	Payments of various types of taxes		9,628,791.79	10,606,097.04
	Other cash payments relating to operating activities		28,132,629.96	15,662,791.06
	Sub-total of cash outflows from operating activities		89,956,295.66	50,988,149.64
	Net cash flows from operating activities	*J(1)*	(33,188,080.22)	6,879,414.70
II.	**Cash flows from investing activities:**			
	Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		73,200.00	–
	Other cash receipts relating to investing activities		11,169,141.08	2,087,102.46
	Sub-total of cash inflows from investing activities		11,242,341.08	2,087,102.46
	Cash payments to acquire or construct of fixed assets, intangible assets and other long-term assets		14,780,802.95	3,748,208.03
	Cash payments to acquire investments		–	–
	Sub-total of cash outflows from investing activities		14,780,802.95	3,748,208.03
	Net cash flow from investing activities		(3,538,461.87)	(1,661,105.57)

Item		Notes	Six months ended 30 June 2015 RMB (Unaudited)	2014 RMB (Audited)
III.	**Cash flows from financing activities:**			
	Cash receipts from investments		202,198,658.82	–
	Sub-total of cash inflows from financing activities		202,198,658.82	–
	Cash payments for distribution of dividends or profits		–	11,000,000.00
	Other cash payments relating to other financing activities		8,438,345.53	2,075,755.58
	Sub-total of cash outflows from financing activities		8,438,345.53	13,075,755.58
	Net cash flow from financing activities		193,760,313.29	(13,075,755.58)
IV.	**Effect of foreign exchange rate changes on cash and cash equivalents**		2,068,478.74	–
V.	**Net increase in cash and cash equivalents**		159,102,249.94	(7,857,446.45)
	Add: Opening balance of cash and cash equivalents		61,150,517.26	63,556,852.39
VI.	**Closing balance of cash and cash equivalents**	*J(1)*	220,252,767.20	55,699,405.94

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
Six months ended 30 June 2015 (Unaudited)						
I.	**Closing balance of the preceding period**	50,000,000.00	63,352,595.15	13,570,973.75	78,996,831.62	205,920,400.52
II.	**Opening balance of the current period**	50,000,000.00	63,352,595.15	13,570,973.75	78,996,831.62	205,920,400.52
III.	**Changes for the period**	19,170,400.00	166,686,584.86	–	20,542,323.68	206,399,308.54
(I)	Net profit	–	–	–	26,629,318.88	26,629,318.88
(II)	Other comprehensive income	–	–	–	–	–
	Subtotal of (I) and (II) above	–	–	–	26,629,318.88	26,629,318.88
(III)	Shareholders' contributions and reduction in share capital	19,170,400.00	166,686,584.86	–	–	185,856,984.86
(IV)	Profit distribution	–	–	–	(6,086,995.20)	(6,086,995.20)
1	Transfer to surplus reserve	–	–	–	–	–
2	Distribution to shareholders	–	–	–	(6,086,995.20)	(6,086,995.20)
(V)	Transfers within shareholders' equity	–	–	–	–	–
(VI)	Special reserve	–	–	–	–	–
(VII)	Others	–	–	–	–	–
IV.	**Closing balance of the current period**	69,170,400.00	230,039,180.01	13,570,973.75	99,539,155.30	412,319,709.06
Six months ended 30 June 2014 (Audited)						
I.	**Closing balance of the preceding period**	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 period**	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
III.	**Changes for the period**	–	–	–	8,606,589.14	8,606,589.14
(I)	Net profit	–	–	–	19,606,589.14	19,606,589.14
(II)	Other comprehensive income	–	–	–	–	–
	Subtotal of (I) and (II) above	–	–	–	19,606,589.14	19,606,589.14
(III)	Shareholders' contributions and reduction in share capital	–	–	–	–	–
(IV)	Profit distribution	–	–	–	(11,000,000.00)	(11,000,000.00)
1	Transfer to surplus reserve	–	–	–	–	–
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 period**	50,000,000.00	63,352,595.15	9,851,777.79	65,291,419.65	188,495,792.59

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
Six months ended 30 June 2015 (Unaudited)						
I.	**Closing balance of the preceding period**	50,000,000.00	63,352,595.15	13,570,973.75	77,138,763.63	204,062,332.53
II.	**Opening balance of the current period**	50,000,000.00	63,352,595.15	13,570,973.75	77,138,763.63	204,062,332.53
III.	**Changes for the period**	19,170,400.00	166,686,584.86	–	20,615,882.53	206,472,867.39
(I)	Net profit	–	–	–	26,702,877.73	26,702,877.73
(II)	Other comprehensive income	–	–	–	–	–
	Subtotal of (I) and (II) above	–	–	–	26,702,877.73	26,702,877.73
(III)	Shareholders' contributions and reduction in share capital	19,170,400.00	166,686,584.86	–	–	185,856,984.86
(IV)	Profit distribution	–	–	–	(6,086,995.20)	(6,086,995.20)
1	Transfer to surplus reserve	–	–	–	–	–
2	Distribution to shareholders	–	–	–	(6,086,995.20)	(6,086,995.20)
(V)	Transfers within shareholders' equity	–	–	–	–	–
(VI)	Special reserve	–	–	–	–	–
(VII)	Others	–	–	–	–	–
IV.	**Closing balance of the current period**	69,170,400.00	230,039,180.01	13,570,973.75	97,754,646.16	410,535,199.92
Six months ended 30 June 2014 (Audited)						
I.	**Closing balance of the preceding period**	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 period**	50,000,000.00	63,352,595.15	9,851,777.79	54,666,000.03	177,870,372.97
III.	**Changes for the period**	–	–	–	8,677,212.12	8,677,212.12
(I)	Net profit	–	–	–	19,677,212.12	19,677,212.12
(II)	Other comprehensive income	–	–	–	–	–
	Subtotal of (I) and (II) above	–	–	–	19,677,212.12	19,677,212.12
(III)	Shareholders' contributions and reduction in share capital	–	–	–	–	–
(IV)	Profit distribution	–	–	–	(11,000,000.00)	(11,000,000.00)
1	Transfer to surplus reserve	–	–	–	–	–
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 period**	50,000,000.00	63,352,595.15	9,851,777.79	63,343,212.15	186,547,585.09

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.

* The English name is for identification purpose only

A GENERAL AND BASIC INFORMATION ABOUT THE COMPANY (Continued)

History and development (Continued)

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.

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 and details of the Company's Listing are set out in the Company's prospectus dated 27 February 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 (the "**Offer Shares**") 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.

Pursuant to the Company's announcement dated 1 April 2015, an aggregate of 2,500,400 H shares with a nominal value of RMB1.00 per share (the "**Over-allotment Shares**"), representing approximately 15% of the Offer Shares were allotted and issued by the Company at HK$13.88 per H share, being the offer price per H share under the global offering.

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.

A GENERAL AND BASIC INFORMATION ABOUT THE COMPANY (Continued)

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.

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.

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 six months ended 30 June 2015, 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 2015.

The Interim Financial Statements have been prepared in accordance with the ASBE No. 32 "*Interim Financial Reporting*" issued by the MOF, and do not include all the information and disclosures required in the annual financial statements. Therefore, these interim financial statements should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

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

* The English name is for identification purpose only

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

Statement of compliance with the CASBE

In the opinion of the directors of the Company, the financial statements for the six months ended 30 June 2015 have been prepared in accordance with the CASBE and presents truly and completely the Group's and the Company's financial position as at 30 June 2015 and the Group's and the Company's financial performance and cash flows for the six months ended 30 June 2015.

Accounting period

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December. The accounting period for these interim financial statements is from 1 January 2015 to 30 June 2015.

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.

(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.

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

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.

(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.

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

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.

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

Financial instruments (Continued)

(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.

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.

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

Financial instruments (Continued)

(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.

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.

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

Financial instruments (Continued)

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

(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.

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.

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

Financial instruments (Continued)

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

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.

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 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

(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

(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

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

Receivables (Continued)

(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.

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.

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

Inventories (Continued)

(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.

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.

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

Long-term equity investments (Continued)

(a) Determination of investment cost (Continued)

(ii) (Continued)

(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) 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.

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

(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.

(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.

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)

(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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Fixed assets (Continued)

(b) Depreciation of each category of fixed assets

Item	Depreciation period Years	Residual value rate %	Annual depreciation 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.

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.

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.

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.

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.

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.

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.

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

Critical accounting estimates and judgements (Continued)

(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.

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

In July 2015, the Company applied for the renewal of the Certification of High and New Technology Enterprise to Beijing Municipal Science and Technology Commission. Pursuant to the document《國家稅務總局公告2011年第4號 – 國家稅務總局關於高新技術企業資格複審期間企業所得稅預繳問題的公告》(Announcement No. 4 of 2011 Issued by State Administration of Taxation Regarding to the Issue in respect of the Payment of Corporate Income Tax for the High and New Technology Enterprise during the Process of the Qualification Review*) issued by the 國家稅務總局 (State Administration of Taxation*), the high and new technology enterprises are eligible to pay EIT at the rate 15% during the process of the qualification review. In the opinion of the directors of the Company, the Company has no difficulties in obtaining the renewal of the Certification of High and New Technology Enterprise and thus, the Company's EIT tax rate is 15% for the year ended 31 December 2015.

* The English name is for identification purpose only

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 RMB'000	Legal representative	Business scope	Organisation code	Capital contribution as at 30 June 2015 RMB	Percentage of shareholding/percentage of voting rights as at 31 December 2014 %	30 June 2015 %	Whether financial statements are consolidated	Non-controlling interest
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	–

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

1 Cash and bank deposits

Item	As at 30 June 2015 (unaudited) Foreign currency	Exchange rate	Amount RMB	As at 31 December 2014 (audited) Foreign currency	Exchange rate	Amount RMB
Cash on hand:						
RMB	–	–	90,941.25	–	–	81,720.66
USD	22,285.41	6.1136	136,244.08	44,468.46	6.1190	272,102.51
EUR	547.34	6.8699	3,760.17	1,315.63	7.4556	9,808.81
Subtotal			230,945.50			363,631.98
Bank deposits:						
RMB	–	–	215,196,665.12	–	–	60,329,791.12
USD	385,775.29	6.1136	2,358,475.81	468,979.74	6.1190	2,869,687.03
HKD	5,742,768.59	0.7886	4,528,747.31	–	–	–
Subtotal			222,083,888.24			63,199,478.15
Total			222,314,833.74			63,563,110.13

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.

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

2 Notes receivable

Item	As at 30 June 2015 (unaudited) Cost RMB	As at 30 June 2015 (unaudited) Provision RMB	As at 30 June 2015 (unaudited) Carrying value RMB	As at 31 December 2014 (audited) Cost RMB	As at 31 December 2014 (audited) Provision RMB	As at 31 December 2014 (audited) Carrying value RMB
Bank acceptance notes	10,007,860.78	–	10,007,860.78	6,861,819.00	–	6,861,819.00
Commercial acceptance notes	652,530.00	–	652,530.00	822,830.00	–	822,830.00
Total	10,660,390.78		10,660,390.78	7,684,649.00		7,684,649.00

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.

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
As at 30 June 2015 (unaudited)							
Carrying amount	Amount (RMB)	–	95,647,719.58	95,647,719.58	95,647,719.58	–	95,647,719.58
	Percentage (%)	–	100.00	100.00	100.00	–	100.00
Provision	Amount (RMB)	–	5,682,691.91	5,682,691.91	5,682,691.91	–	5,682,691.91
	Percentage (%)	–	5.94	5.94	5.94	–	5.94
Net amount		–	89,965,027.67	89,965,027.67	89,965,027.67	–	89,965,027.67
As at 31 December 2014 (audited)							
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

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 30 June 2015 (unaudited) Carrying amount			As at 31 December 2014 (audited) Carrying amount		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within 90 days	54,469,246.28	56.95	1,634,077.39	24,781,988.98	52.38	743,459.67
90 to 180 days	18,500,031.45	19.34	555,000.94	8,545,267.62	18.07	256,358.03
180 to 360 days	16,368,334.35	17.11	491,050.03	6,856,990.41	14.50	205,709.71
1 to 2 years	2,517,540.49	2.63	201,403.24	2,385,252.08	5.04	190,820.17
2 to 3 years	503,525.20	0.53	100,705.04	1,105,475.35	2.34	221,095.07
3 to 4 years	514,768.50	0.54	257,384.25	1,091,689.73	2.31	545,844.87
4 to 5 years	1,656,011.45	1.73	1,324,809.16	1,452,243.86	3.07	1,161,795.09
More than 5 years	1,118,261.86	1.17	1,118,261.86	1,083,074.20	2.29	1,083,074.20
Total	95,647,719.58	100.00	5,682,691.91	47,301,982.23	100.00	4,408,156.81

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 30 June 2015 (unaudited)			As at 31 December 2014 (audited)		
	Carrying amount RMB	Provision RMB	Net amount RMB	Carrying amount RMB	Provision RMB	Net amount RMB
Within one year	30,813,863.10	924,415.89	29,889,447.21	10,952,269.03	328,568.06	10,623,700.97
1 to 2 years	2,517,540.49	201,403.24	2,316,137.25	2,385,252.08	190,820.17	2,194,431.91
2 to 3 years	503,525.20	100,705.04	402,820.16	1,105,475.35	221,095.07	884,380.28
More than 3 years	3,289,041.81	2,700,455.27	588,586.54	3,627,007.79	2,790,714.16	836,293.63
Total	37,123,970.60	3,926,979.44	33,196,991.16	18,070,004.25	3,531,197.46	14,538,806.79

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

3 Accounts receivable (Continued)

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.

Top five parties with the largest balances of accounts receivable

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total accounts receivable %
As at 30 June 2015 (unaudited)			
北京高陽物資中心 (Beijing Gaoyang Materials Centre*, "**Gaoyang Materials**")	Related party	7,839,129.08	8.20
Party A	Third party	5,413,172.70	5.66
Party B	Third party	4,157,512.90	4.35
Party C	Third party	3,956,679.60	4.14
Party D	Third party	3,671,624.50	3.84
Total		25,038,118.78	26.19
As at 31 December 2014 (audited)			
Party A	Third party	4,199,087.40	8.88
Gaoyang Materials	Related party	3,831,703.98	8.10
Party E	Third party	3,396,170.00	7.18
Party C	Third party	2,936,699.60	6.21
Party F	Third party	2,801,300.00	5.92
Total		17,164,960.98	36.29

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.

* The English name is for identification purpose only

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

3 Accounts receivable (Continued)

Receivables due from related parties

Name	As at 30 June 2015 (unaudited) Carrying amount RMB	Provision RMB	As at 31 December 2014 (audited) Carrying amount RMB	Provision RMB
Gaoyang Materials	7,839,129.08	235,173.87	3,831,703.98	114,951.12

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.

4 Prepayments

Aging analysis of prepayments is as follows:

Aging	As at 30 June 2015 (unaudited) Carrying amount RMB	Percentage %	Provision RMB	As at 31 December 2014 (audited) Carrying amount RMB	Percentage %	Provision RMB
Within one year	12,317,028.35	94.64	–	2,970,845.42	80.96	–
1 to 2 years	476,978.54	3.66	–	476,978.54	13.00	–
2 to 3 years	189,090.00	1.45	–	189,090.00	5.15	–
More than 3 years	32,480.00	0.25	–	32,480.00	0.89	–
Total	13,015,576.89	100.00	–	3,669,393.96	100.00	–

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

4 Prepayments (Continued)

Top five parties with the significant balances of prepayments

Name	Relationship with the Group	Amount RMB
As at 30 June 2015 (unaudited)		
Party G	Third party	**6,084,735.04**
Party H	Third party	**2,575,000.10**
Party I	Third party	**963,184.64**
Party J	Third party	**535,031.00**
Party K	Third party	**336,672.00**
Total		**10,494,622.78**
As at 31 December 2014 (audited)		
Party G	Third party	1,892,163.53
Party L	Third party	300,000.00
Party J	Third party	281,301.50
Party M	Third party	113,250.00
Party N	Third party	101,075.72
Total		2,687,790.75

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.

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
As at 30 June 2015 (unaudited)							
Carrying amount	Amount (RMB)	–	1,651,452.29	1,651,452.29	1,651,452.29	–	1,651,452.29
	Percentage (%)	–	100.00	100.00	100.00	–	100.00
Provision	Amount (RMB)	–	307,492.62	307,492.62	307,492.62	–	307,492.62
	Percentage (%)	–	18.62	18.62	18.62	–	18.62
Net amount		–	1,343,959.67	1,343,959.67	1,343,959.67	–	1,343,959.67
As at 31 December 2014 (audited)							
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

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 30 June 2015 (unaudited) Carrying amount			As at 31 December 2014 (audited) Carrying amount		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within one year	**1,087,439.96**	**65.85**	**32,623.20**	714,570.76	55.89	21,437.12
1 to 2 years	**143,950.00**	**8.72**	**11,516.00**	143,950.00	11.26	11,516.00
2 to 3 years	**99,785.00**	**6.04**	**19,957.00**	99,785.00	7.80	19,957.00
3 to 4 years	**141,178.99**	**8.55**	**70,589.50**	141,178.99	11.04	70,589.50
4 to 5 years	**31,457.09**	**1.90**	**25,165.67**	31,457.09	2.46	25,165.67
More than 5 years	**147,641.25**	**8.94**	**147,641.25**	147,641.25	11.55	147,641.25
Total	**1,651,452.29**	**100.00**	**307,492.62**	1,278,583.09	100.00	296,306.54

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 %
As at 30 June 2015 (unaudited)			
Party O	Third party	**128,828.00**	**7.80**
Party P	Third party	**125,600.00**	**7.61**
Party Q	Third party	**100,000.00**	**6.06**
Party R	Third party	**88,500.00**	**5.36**
Party S	Third party	**82,402.24**	**4.99**
Total		**525,330.24**	**31.82**
As at 31 December 2014 (audited)			
Party O	Third party	128,828.00	10.08
Party S	Third party	82,402.24	6.44
Party T	Third party	73,470.40	5.75
Party U	Third party	62,045.00	4.85
Party V	Third party	50,000.00	3.91
Total		396,745.64	31.03

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 30 June 2015 (unaudited)			As at 31 December 2014 (audited)		
	Cost RMB	Provision for decline in value RMB	Net amount RMB	Cost RMB	Provision for decline in value RMB	Net amount RMB
Raw materials	16,662,195.30	–	16,662,195.30	14,367,829.62	–	14,367,829.62
Work in progress	10,816,004.20	–	10,816,004.20	7,149,783.89	–	7,149,783.89
Finished goods	15,857,974.88	–	15,857,974.88	13,955,312.37	–	13,955,312.37
Total	43,336,174.38	–	43,336,174.38	35,472,925.88	–	35,472,925.88

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 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Payments regarding the Listing	–	8,234,493.57

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
Cost					
As at 1 January 2014	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 (audited)	17,138,398.78	32,028,780.10	1,550,631.00	2,173,189.05	52,890,998.93
Additions	753,703.50	2,490,835.31	567,567.53	–	3,812,106.34
Disposals	–	604,312.00	–	40,170.94	644,482.94
As at 30 June 2015 (unaudited)	17,892,102.28	33,915,303.41	2,118,198.53	2,133,018.11	56,058,622.33
Accumulated depreciation					
As at 1 January 2014	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 (audited)	1,271,545.75	11,143,248.82	1,317,265.75	1,802,938.72	15,534,999.04
Provided for the period	248,654.82	1,465,575.36	62,805.95	69,564.29	1,846,600.42
Eliminated on disposals	–	502,240.71	–	37,523.89	539,764.60
As at 30 June 2015 (unaudited)	1,520,200.57	12,106,583.47	1,380,071.70	1,834,979.12	16,841,834.86
Carrying amounts					
As at 30 June 2015 (unaudited)	16,371,901.71	21,808,719.94	738,126.83	298,038.99	39,216,787.47
As at 31 December 2014 (audited)	15,866,853.03	20,885,531.28	233,365.25	370,250.33	37,355,999.89

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	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Administrative expenses	466,736.75	704,203.49
Cost of sales	1,240,681.96	2,269,757.71
General and administrative expenses		
– Research and development expenses	139,181.71	265,634.58
Total	1,846,600.42	3,239,595.78

During the six months ended 30 June 2015, the Company had construction in progress amounting to RMB1,405,590.07 (Year ended 31 December 2014: 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.

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

9 Construction in progress

Item	As at 30 June 2015 (unaudited) Cost RMB	Provision for impairment RMB	Net amount RMB	As at 31 December 2014 (audited) Cost RMB	Provision for impairment RMB	Net amount RMB
Construction of Tongzhou factory plant	1,294,978.90	–	1,294,978.90	–	–	–
Expansion of new production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park ("**Daxing New Production Base**")						
– First stage construction work	7,465,783.46	–	7,465,783.46	2,373,344.00	–	2,373,344.00
Construction of factory plant	–	–	–	755,590.07	–	755,590.07
Total	8,760,762.36	–	8,760,762.36	3,128,934.07	–	3,128,934.07

The movements of construction in progress are as follows:

Item	Budget amount RMB	At beginning of the period RMB	Addition for the period RMB	Transfer to fixed assets for the period RMB	Other deduction RMB	At end of the period RMB	Percentage of cost incurred over budget amount %
Six months ended 30 June 2015 (unaudited)							
Construction of Tongzhou factory plant	(note below)	–	1,944,978.90	(650,000.00)	–	1,294,978.90	–
Daxing New Production Base							
– First stage construction work	218,402,800.00	2,373,344.00	5,092,439.46	–	–	7,465,783.46	3.42
Construction of factory plant	(note below)	755,590.07	–	(755,590.07)	–	–	–
Total		3,128,934.07	7,037,418.36	(1,405,590.07)	–	8,760,762.36	
Year ended 31 December 2014 (audited)							
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	–
Total		5,976,309.58	6,404,558.83	(9,251,934.34)	–	3,128,934.07	

Note: There was no budget for this construction project.

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
Cost			
As at 1 January 2014	37,052,810.33	200,000.00	37,252,810.33
Additions	–	48,200.00	48,200.00
As at 31 December 2014 (audited) and 30 June 2015 (unaudited)	37,052,810.33	248,200.00	37,301,010.33
Accumulated amortisation			
As at 1 January 2014	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 (audited)	1,899,083.87	116,989.86	2,016,073.73
Provided for the period	385,678.58	24,819.96	410,498.54
As at 30 June 2015 (unaudited)	2,284,762.45	141,809.82	2,426,572.27
Carrying amounts			
As at 30 June 2015 (unaudited)	34,768,047.88	106,390.18	34,874,438.06
As at 31 December 2014 (audited)	35,153,726.46	131,210.14	35,284,936.60

Allocation of amortisation charge for each of the accounting period

Item	Six months ended 30 June 2015 RMB (unaudited)	Year ended 31 December 2014 RMB (audited)
Administrative expenses	410,498.54	820,999.08

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.

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

11 Deferred tax assets

(a) Recognised deferred tax assets

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Deferred tax assets:		
Provision for impairment losses of assets	902,647.79	709,789.61

(b) Details of deductible differences

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Deferred tax assets:		
Provision for impairment losses of assets	5,990,184.53	4,704,463.35

12 Other non-current assets

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Construction project prepayments	426,000.00	369,000.00
Machinery equipment prepayments	6,433,960.60	506,690.60
Total	6,859,960.60	875,690.60

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/ period RMB	Recognised for the year/ period RMB	Decrease for the year/period Reversals RMB	Decrease for the year/period Written-off RMB	At end of the year/ period RMB
Impairment on accounts receivable:					
Six months ended 30 June 2015 (unaudited)	4,408,156.81	1,274,535.10	–	–	5,682,691.91
Year ended 31 December 2014 (audited)	3,266,593.09	1,141,563.72	–	–	4,408,156.81
Impairment on others receivable:					
Six months ended 30 June 2015 (unaudited)	296,306.54	11,186.08	–	–	307,492.62
Year ended 31 December 2014 (audited)	213,455.84	82,850.70	–	–	296,306.54
Total impairments:					
Six months ended 30 June 2015 (unaudited)	4,704,463.35	1,285,721.18	–	–	5,990,184.53
Year ended 31 December 2014 (audited)	3,480,048.93	1,224,414.42	–	–	4,704,463.35

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

14 Accounts payable

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Purchasing of materials	15,088,622.86	13,242,775.57
Purchasing of machinery and equipment	3,076,677.02	1,617,553.58
Total	18,165,299.88	14,860,329.15

Aging analysis of accounts payable is as follows:

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Within 1 year	17,890,954.39	14,585,983.66
1 to 2 years	232,869.29	232,869.29
2 to 3 years	–	–
3 years or above	41,476.20	41,476.20
Total	18,165,299.88	14,860,329.15

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

14 Accounts payable (Continued)

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 %
As at 30 June 2015 (unaudited)			
Party W	Third party	**1,623,810.00**	**8.94**
Party X	Third party	**1,182,537.18**	**6.51**
Party Y	Third party	**973,403.80**	**5.36**
Party Z	Third party	**540,878.71**	**2.98**
Party AA	Third party	**340,170.00**	**1.87**
Total		**4,660,799.69**	**25.66**
As at 31 December 2014 (audited)			
Party AB	Third party	889,200.00	5.98
Party AC	Third party	657,016.00	4.42
Party W	Third party	526,780.00	3.54
Party AD	Third party	522,442.00	3.52
Party AA	Third party	448,120.00	3.02
Total		3,043,558.00	20.48

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 30 June 2015 RMB (unaudited)**	As at 31 December 2014 RMB (audited)
Payment of goods	**1,055,354.09**	1,045,968.09

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.

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 RMB	Staff welfares RMB	Social security contributions and related costs RMB	Housing funds RMB	Labour union RMB	Total RMB
As at 1 January 2014	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 (audited)	1,585,801.58	–	312,460.48	94,968.00	104,510.13	2,097,740.19
Increase	12,114,189.02	753,361.72	1,938,637.54	482,022.00	219,936.26	15,508,146.54
Decrease	(11,773,782.10)	(753,361.72)	(1,938,637.54)	(482,022.00)	(214,478.26)	(15,162,281.62)
As at 30 June 2015 (unaudited)	1,926,208.50	–	312,460.48	94,968.00	109,968.13	2,443,605.11

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

As at 31 December 2014 and 30 June 2015, the wages or salaries, bonuses, allowances and subsidies were paid in January 2015 and July 2015.

17 Taxes payable

Item	**As at 30 June 2015 RMB (unaudited)**	As at 31 December 2014 RMB (audited)
VAT payable	**6,647,333.21**	2,156,892.80
EIT payable	**2,954,387.63**	1,685,512.24
Withholding Individual Income Tax payable	**78,792.75**	68,143.59
City Construction and Maintenance Tax payable	**377,408.59**	104,393.35
Education Fee Surcharge payable	**226,445.16**	59,928.52
Local Education Fee Surcharge payable	**150,963.44**	38,663.07
Total	**10,435,330.78**	4,113,533.57

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/ period RMB	Recognised for the year/ period RMB	Decrease for the year/ period RMB	At end of the year/ period RMB
Six months ended 30 June 2015 (unaudited)	**1,685,512.24**	**4,380,404.21**	**(3,111,528.82)**	**2,954,387.63**
Year ended 31 December 2014 (audited)	1,410,590.01	6,067,874.60	(5,792,952.37)	1,685,512.24

18 Dividends payables

Item	**As at 30 June 2015 RMB (unaudited)**	As at 31 December 2014 RMB (audited)
Annual dividends	**6,086,995.20**	–

19 Other payables

Item	**As at 30 June 2015 RMB (unaudited)**	As at 31 December 2014 RMB (audited)
Provision for sales rebate	**3,583,592.04**	3,164,858.75
Accrual for Listing expenses	**24,244.44**	838,219.07
Others	**231,665.78**	188,705.19
Total	**3,839,502.26**	4,191,783.01

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.

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

19 Other payables (Continued)

Details of significant other payables are as below:

Item	Details	Amount RMB
As at 30 June 2015 (unaudited)	Provision for sales rebate	**3,583,592.04**
	Accrual for Listing expenses	**24,244.44**
		3,607,836.48
As at 31 December 2014 (audited)	Provision for sales rebate	3,164,858.75
	Accrual for Listing expenses	838,219.07
		4,003,077.82

20 Deferred Income

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Fund on Industrialisation of Ceramic Femoral Head on Ceramic Hip Joint Prostheses *(note (a))*	**5,398,263.03**	5,629,770.75
Fund on Clinical study of PEEK interbody fusion cage *(note (b))*	**1,996,500.00**	1,996,500.00
Fund of Innovation ability development of joint prosthesis of Beijing Engineering Laboratory *(note (c))*	**9,510,000.00**	–
Total	**16,904,763.03**	7,626,270.75

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

20 Deferred Income (Continued)

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 six months ended 30 June 2015, an amount of RMB231,507.72 was credited to the consolidated income statement (during the year ended 31 December 2014: RMB43,729.25).

(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.

(c) Pursuant to document《北京市通州區財政局經建科關於下達「通財經指[2015]0005號人工關節北京市工程實驗室創新能力建設」經費的通知》(Tongcaijingzhi [2015] No. 0005 – Notice regarding Fund on Innovation ability development of joint prosthesis of Beijing Engineering Laboratory*) issued by the 北京市通州區財政局 (Beijing Tongzhou Finance Bureau*) on 20 April 2015, the Group obtained research and development equipment grant of RMB9,510,000.00. 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

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

21 Share capital

Name	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
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
Overseas listed foreign shares	19,170,400.00	–
Total	69,170,400.00	50,000,000.00

At the end of reporting period, the share capital of the Company is RMB69,170,400.00, representing 50,000,000 domestic shares and 19,170,400 H 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 2014:

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

(b) Six months ended 30 June 2015:

On 11 March 2015, the Company's H shares were listed on the Main Board of the Stock Exchange following the completion of the Listing 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. The aggregate capital raised is HK$231,379,600.00 which is equivalent to RMB174,748,996.58 yuan, after deducting the cost of issue of RMB16,341,673.96 yuan, the net proceeds is RMB158,407,322.62 yuan. The new share capital registered is RMB16,670,000.00 yuan and the capital premium is RMB141,737,322.62 yuan upon the listing of the Company's H shares on the Stock Exchange.

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

21 Share capital (Continued)

(b) Six months ended 30 June 2015: (Continued)

On 1 April 2015, an aggregate of 2,500,400 Over-allotment Shares were allotted and issued by the Company at HK$13.88 per H shares, being the offer price per H share under the global offering.

The aggregate capital raised is HK$34,705,552.00 which is equivalent to RMB27,449,662.24 yuan. The new share capital registered is RMB2,500,400.00 yuan, and the capital premium is RMB24,949,262.24 yuan.

22 Capital reserve

Item	Capital premium RMB	Other capital reserve RMB	Total RMB
As at 1 January 2014 and 31 December 2014 (audited)	61,552,595.15	1,800,000.00	63,352,595.15
Issue of 19,170,400 new H shares during the period *(Note E(21))*	166,686,584.86	–	166,686,584.86
As at 30 June 2015 (unaudited)	228,239,180.01	1,800,000.00	230,039,180.01

23 Surplus reserve

Item	Statutory surplus reserve RMB
As at 1 January 2014	9,851,777.79
Transfer from retained earnings	3,719,195.96
As at and 31 December 2014 (audited) 30 June 2015 (unaudited)	13,570,973.75

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.

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

24 Retained earnings

Item	Six months ended 30 June 2015 RMB (unaudited)	Six months ended 30 June 2014 RMB (audited)
Closing balance of the preceding period/year	78,996,831.62	56,684,830.51
Opening balances of the current period/year	78,996,831.62	56,684,830.51
Add: Net profit attributable to equity holders of the Company during the period/year	26,629,318.88	19,606,589.14
Less: Transfer to statutory reserve fund	–	–
Dividend declared	(6,086,995.20)	(11,000,000.00)
Closing balances of the current period/year	99,539,155.30	65,291,419.65

Details of the Company's final dividends are as follows:

(a) 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 and paid 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.

(b) 2014 final dividend

Pursuant to the resolution of the meeting of the Board of Directors on 30 March 2015 and the resolution of the general meeting of the shareholders for the year ended 31 December 2014 on 16 June 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), amounting to RMB6,086,995.20.

F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP

1 Revenue and cost of sales

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Revenue from principal operation	93,395,808.37	65,008,048.83
Revenue from other operations	4,839.32	–
Cost of sales	24,947,461.55	17,211,577.66

Revenue and cost of sales (classified by products)

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Revenue		
Revenue from principal operation:		
– Medical Surgical Implants	93,395,808.37	65,008,048.83
Cost of sales		
Cost of sales for principal operation:		
– Medical Surgical Implants	24,947,461.55	17,211,577.66

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

1 Revenue and cost of sales (Continued)

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	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
The PRC		
North	25,790,487.81	17,255,211.95
West	9,862,380.58	7,657,937.59
Central	28,539,829.44	14,564,779.57
East	12,495,188.12	9,404,573.12
South	7,456,991.64	8,438,877.49
	84,144,877.59	57,321,379.72
Other than the PRC	9,255,770.10	7,686,669.11
Total	93,400,647.69	65,008,048.83

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 %
Six months ended 30 June 2015 (unaudited)		
Gaoyang Materials	**4,395,198.80**	**4.71**
Party D	**3,777,884.19**	**4.04**
Party B	**2,990,247.95**	**3.20**
Party AE	**2,941,545.90**	**3.15**
Party AF	**2,548,390.09**	**2.73**
Total	**16,653,266.93**	**17.83**
Six months ended 30 June 2014 (audited)		
Party AE	4,392,051.88	6.76
Party AG	3,807,073.68	5.86
Gaoyang Materials	3,152,292.31	4.85
Party B	2,847,623.42	4.38
Party AF	2,529,450.48	3.89
Total	16,728,491.77	25.74

2 Business taxes and levies

Item	Six months ended 30 June **2015** **RMB** **(unaudited)**	 2014 RMB (audited)
City Construction and Maintenance Tax	**534,987.23**	260,695.91
Education Fee Surcharge	**320,992.33**	214,581.35
Local Education Fee Surcharge	**213,994.90**	104,278.35
Total	**1,069,974.46**	579,555.61

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

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

3 Selling expenses

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Staff salaries and related costs	**3,172,364.28**	2,403,475.18
Travelling expenses	**5,721,893.55**	2,174,599.17
Office expenses	**995,789.85**	796,716.18
Advertising expenses	**7,344,496.08**	3,109,940.19
Transportation expenses	**479,704.70**	240,132.98
Rentals	**70,773.00**	25,595.11
Sale rebates	**2,301,339.61**	1,696,731.09
Others	**647,450.77**	332,336.49
Total	**20,733,811.84**	10,779,526.39

4 Administrative expenses

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Staff salaries and related – costs	**4,505,846.67**	3,570,925.87
Travelling expenses	**349,971.90**	404,447.86
Motor vehicle expenses	**166,590.23**	213,287.64
Rentals	**632,367.00**	534,924.05
Depreciation	**466,736.75**	365,812.80
Office expenses	**145,122.21**	466,806.22
Other tax charges	**195,850.82**	184,932.15
Professional and other fees relating to Listing	**3,080,148.21**	1,720,900.95
Other professional fees	**1,368,289.99**	116,926.82
Auditor's remuneration	**483,018.87**	141,509.43
Research and development expenses	**5,414,366.28**	4,530,388.74
Amortisation of intangible assets	**410,498.54**	410,499.54
Entertainments	**61,224.34**	60,141.10
Others	**486,503.27**	345,097.30
Total	**17,766,535.08**	13,066,600.47

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

5 Finance expenses

Item	Six months ended 30 June 2015 RMB (unaudited)	 2014 RMB (audited)
Interest expenses	–	–
Less: Interest income	(1,663,284.19)	(95,173.22)
Add: Foreign exchange losses	20,046.25	–
Less: Foreign exchange gains	(2,088,524.99)	(16,692.10)
Add: Bank charges	33,705.42	21,500.51
Total	(3,698,057.51)	(90,364.81)

6 Impairment losses on assets

Item	Six months ended 30 June 2015 RMB (unaudited)	 2014 RMB (audited)
Impairment loss recognised on accounts receivable	1,274,535.10	1,097,958.77
Impairment loss recognised (reversal) on other receivables	11,186.08	4,640.35
Total	1,285,721.18	1,102,599.12

7 Non-operating income

Item	Six months ended 30 June 2015 RMB (unaudited)	 2014 RMB (audited)
Gains from disposals of fixed assets	24,260.88	–
Government grants	349,977.72	336,008.00
Others	2,337.26	1,780.00
Total	376,575.86	337,788.00

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

7 Non-operating income (Continued)

Details of breakdown of government grants are as follows:

Nature	Amount RMB	Source from	Supporting documents
Six months ended 30 June 2015 (unaudited)			
Advanced Enterprise Tax Incentives	100,000.00	Beijing Jin San Jiao Investment Management Co., Ltd.	Huofa [2014] No. 43
Grant for Small and Medium Enterprise In Developing International Market	11,470.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Grant for Industralisation of Ceramic Femoral head on Ceramic hip prostheses	231,507.72	Beijing Municipal Science and Technology Commission	Zhongshiquzufa [2010] No. 16
Grant for Application on Patent	7,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Total	349,977.72		
Six months ended 30 June 2014 (audited)			
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	236,008.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Total	336,008.00		

* The English name is for identification purpose only

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

8 Non-operating expenses

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Loss from disposals of fixed assets	**55,779.22**	–
Donations	**790,060.00**	2,476.13
Others	**9,072.82**	2,113.37
Total	**854,912.04**	4,589.50

9 Income tax expense

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Current income tax calculated in accordance with relevant tax laws and regulations	**4,380,404.21**	3,250,553.62
Deferred income tax	**(192,858.18)**	(165,389.87)
Total	**4,187,546.03**	3,085,163.75

Applicable tax rate

Item	Six months ended 30 June 2015	2014
Standard tax rates:		
The Company	**25%**	25%
Zhao Yi Te	**25%**	25%
Applicable tax rates:		
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.

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

9 Income tax expense (Continued)

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

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Profit before tax	**30,816,864.91**	22,691,752.89
Applicable standard tax rates	**15% & 25%**	15% & 25%
Current income tax expenses calculated at standard tax rates	**4,633,563.56**	3,408,156.76
Tax effect on non-deductible expenses	**35,245.17**	185,955.64
Others, such as tax effects on deductible research and development costs	**(481,262.70)**	(508,948.65)
Income tax expenses	**4,187,546.03**	3,085,163.75

10 Calculation process of basic earnings per share and diluted earnings per share

Calculation result

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Earnings per share		
Net profit attributable to equity holders of the Company	**0.45**	0.39
Diluted earnings per share		
Net profit attributable to equity holders of the Company	**0.45**	0.39

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

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

Calculation process of basic earnings per share:

Item		Six months ended 30 June 2015 (unaudited)	2014 (audited)
Net profit attributable to equity holders of the Company (RMB)	A	**26,629,318.88**	19,606,589.14
Number of shares at beginning of the period	B	**50,000,000**	50,000,000
Number of shares issued – Offer Shares	C1	**16,670,000**	–
Number of shares issued – Over-allotment Shares	C2	**2,500,400**	–
Number of shares at closing of the period	C3	**69,170,400**	50,000,000
Cumulated months after the increase of shares – Offer Shares	D1	**3**	–
Cumulated months after the increase of shares – Over-allotment Shares	D2	**2**	–
Number of months	D3	**6**	6
Weighted average number of ordinary shares outstanding	E=B+C1*D1/D3+C2*D2/D3	**59,168,466.67**	50,000,000
Basic earnings per share (RMB)	F=A/E	**0.45**	0.39

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

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

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.

11 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 six months ended 30 June are set out in Note F(1).

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

1 Other cash receipts relating to operating activities

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Government grants	**118,470.00**	336,008.00
Deposit receipts	**–**	–
Others	**–**	18,674.08
Total	**118,470.00**	354,682.08

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

2 Other cash payments relating to operating activities

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Advertising expenses	7,344,496.08	3,109,940.19
Travelling expenses	6,071,865.45	2,579,047.03
Office expenses	1,140,912.06	1,263,522.40
Research and development expenses	4,062,571.39	3,276,049.68
Professional fees	5,899,273.45	1,979,337.20
Others	3,596,773.59	3,387,466.15
Total	28,115,892.02	15,595,362.65

3 Other cash receipts relating to investing activities

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Interest income	1,663,284.19	95,173.22
Government grants	9,510,000.00	1,996,500.00
Total	11,173,284.19	2,091,673.22

4 Other cash payments relating to financing activities

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Deposit paid regarding the Listing	8,438,345.53	2,075,755.58

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

5 Supplementary information to the consolidated cash flow statements

Item		Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
1	Reconciliation of net profit to cash flow from operating activities:		
	Net profit	**26,629,318.88**	19,606,589.14
	Add: Impairment losses on assets	**1,285,721.18**	1,102,599.12
	Depreciation	**1,846,600.42**	1,542,678.62
	Amortisation of intangible assets	**410,498.54**	410,499.54
	Loss on disposals of fixed assets	**31,518.34**	–
	Finance expenses	**(3,698,057.51)**	(90,364.81)
	Income from bank structured products	**–**	–
	Decrease in deferred income tax assets	**(192,858.18)**	(165,389.87)
	Decrease in inventories	**(7,863,248.50)**	(3,829,996.93)
	Decrease accounts receivable	**(60,933,881.26)**	(18,536,979.63)
	Increase in accounts payable	**8,941,638.43**	7,001,707.10
	Net cash flows from operating activities	**(33,542,749.66)**	7,041,342.28
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 period	**222,314,833.74**	58,165,247.86
	Less: Cash balances at beginning of the period	**(63,563,110.13)**	(65,856,195.97)
	Add: Balances of cash and cash equivalent at end of the period	**–**	–
	Balances of cash and cash equivalent at beginning of the period	**–**	–
	Changes in cash and cash equivalent	**158,751,723.61**	(7,690,948.11)

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

6 Composition of cash and cash equivalents

Item		Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
1	Cash	222,314,833.74	58,165,247.86
	Including:		
	– Cash on hand	230,945.50	203,333.90
	– Bank balances that can be readily withdrawn on demand	222,083,888.24	57,961,913.96
	– Other cash that can be readily drawn on demand	–	–
2	Cash equivalents	–	–
3	Closing balance of cash and cash equivalents	222,314,833.74	58,165,247.86

H NOTES TO ITEMS IN THE BALANCE SHEET OF THE COMPANY

1 Cash and bank deposits

Item	As at 30 June 2015 (unaudited) Foreign currency	Exchange rate	Amount RMB	As at 31 December 2014 (audited) Foreign currency	Exchange rate	Amount RMB
Cash on hand:						
RMB	–	–	90,941.25	–	–	81,720.66
USD	22,285.41	6.1136	136,244.08	44,468.46	6.1190	272,102.51
EUR	547.34	6.8699	3,760.17	1,315.63	7.4556	9,808.81
Subtotal			230,945.50			363,631.98
Bank deposits:						
RMB	–	–	213,134,598.58	–	–	57,917,198.25
USD	385,775.29	6.1136	2,358,475.81	468,979.74	6.1190	2,869,687.03
HKD	5,742,768.59	0.7886	4,528,747.31	–	–	–
Subtotal			220,021,821.70			60,786,885.28
Total			220,252,767.20			61,150,517.26

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 RMB	Sub-total	Not individually significant but for which provision is individually assessed	Total RMB
As at 30 June 2015 (unaudited)							
Carrying amount	Amount (RMB)	–	–	1,569,050.05	1,569,050.05	–	1,569,050.05
	Percentage (%)	–	–	100.00	100.00	–	100.00
Provision	Amount (RMB)	–	–	266,291.50	266,291.50	–	266,291.50
	Percentage (%)	–	–	16.97	16.97	–	16.97
Net amount		–	–	1,302,758.55	1,302,758.55	–	1,302,758.55
As at 31 December 2014 (audited)							
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

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 30 June 2015 (unaudited) Carrying amount Amount RMB	Percentage %	Provision RMB	As at 31 December 2014 (audited) Carrying amount Amount RMB	Percentage %	Provision RMB
Within one year	1,087,439.96	69.31	32,623.20	714,570.76	59.75	21,437.12
1 to 2 years	143,950.00	9.17	11,516.00	143,950.00	12.03	11,516.00
2 to 3 years	99,785.00	6.36	19,957.00	99,785.00	8.34	19,957.00
3 to 4 years	58,776.75	3.75	29,388.38	58,776.75	4.91	29,388.38
4 to 5 years	31,457.09	2.00	25,165.67	31,457.09	2.63	25,165.67
More than 5 years	147,641.25	9.41	147,641.25	147,641.25	12.34	147,641.25
Total	1,569,050.05	100.00	266,291.50	1,196,180.85	100.00	255,105.42

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

Item	At beginning of the year/ period RMB	Recognised for the year/ period RMB	Decrease for the year/period Reversals RMB	Written off RMB	At end of the year/ period RMB
Impairment on others receivable:					
Six months ended 30 June 2015 (unaudited)	255,105.42	11,186.08	–	–	266,291.50
Year ended 31 December 2014 (audited)	196,975.39	58,130.03	–	–	255,105.42

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 %
As at 30 June 2015 (unaudited)			
Party O	Third party	128,828.00	8.21
Party P	Third party	125,600.00	8.00
Party Q	Third party	100,000.00	6.37
Party R	Third party	88,500.00	5.64
Party U	Third party	62,045.00	3.95
Total		504,973.00	32.17
As at 31 December 2014 (audited)			
Zhao Yi Te	Subsidiary	187,265.82	13.54
Party O	Third party	128,828.00	9.31
Party T	Third party	73,470.40	5.31
Party U	Third party	62,045.00	4.48
Party V	Third party	50,000.00	3.61
Total		501,609.22	36.25

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.

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/ period RMB	Movements RMB	At end of the year/ period RMB	Percentage of shareholding %	Percentage of voting rights %	Provision for impairment RMB	Impairment recognised for the year/period RMB	Dividend paid for the year/period RMB
As at 30 June 2015 (unaudited)										
Zhao Yi Te	Cost	665,263.00	665,263.00	–	665,263.00	100	100	–	–	–
As at 31 December 2014 (audited)										
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
Cost					
As at 1 January 2014	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 (audited)	17,138,398.78	32,028,780.10	1,550,631.00	2,133,689.05	52,851,498.93
Additions	753,703.50	2,490,835.31	567,567.53	–	3,812,106.34
Disposals	–	604,312.00	–	40,170.94	644,482.94
As at 30 June 2015 (unaudited)	17,892,102.28	33,915,303.41	2,118,198.53	2,093,518.11	56,019,122.33
Accumulated depreciation					
As at 1 January 2014	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 (audited)	1,271,545.75	11,143,248.82	1,317,265.75	1,765,413.72	15,497,474.04
Provided for the period	248,654.82	1,465,575.36	62,805.95	69,564.29	1,846,600.42
Eliminated on disposals	–	502,240.71	–	37,523.89	539,764.60
As at 30 June 2015 (unaudited)	1,520,200.57	12,106,583.47	1,380,071.70	1,797,454.12	16,804,309.86
Carrying amounts					
As at 30 June 2015 (unaudited)	16,371,901.71	21,808,719.94	738,126.83	296,063.99	39,214,812.47
As at 31 December 2014 (audited)	15,866,853.03	20,885,531.28	233,365.25	368,275.33	37,354,024.89

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	Six months ended 30 June 2015 RMB (unaudited)	Year ended 31 December 2014 RMB (audited)
Administrative expenses	466,736.75	704,203.49
Cost of sales	1,240,681.96	2,269,757.71
General and administrative expenses		
– Research and development expenses	139,181.71	265,634.58
Total	1,846,600.42	3,239,595.78

During the six months ended 30 June 2015, the Company had construction in progress amounting to RMB1,405,590.07 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 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Deferred tax assets:		
Provision for impairment losses of assets	892,347.51	699,489.33

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

5 Deferred tax assets (Continued)

Details of deductible differences

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Deductible temporary differences:		
Provision for impairment losses of assets	5,948,983.41	4,663,262.23

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 2014	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 (audited)	1,576,640.76	–	312,460.48	94,968.00	104,510.13	2,088,579.37
Increase	12,056,374.54	753,361.72	1,938,637.54	482,022.00	219,936.26	15,450,332.06
Decrease	(11,706,806.80)	(753,361.72)	(1,938,637.54)	(482,022.00)	(214,478.26)	(15,095,306.32)
As at 30 June 2015 (unaudited)	1,926,208.50	–	312,460.48	94,968.00	109,968.13	2,443,605.11

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

As at 30 June 2015, the wages or salaries, bonuses, allowances and subsidies were paid in July 2015.

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

7 Tax payable

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
VAT payable	6,911,021.57	2,420,581.16
EIT payable	2,954,387.63	1,685,512.24
Withholding Individual Income Tax payable	78,717.77	68,143.59
City Construction and Maintenance Tax payable	377,408.59	104,393.35
Education Fee Surcharge payable	226,445.16	59,928.52
Local Education Fee Surcharge payable	150,963.44	38,663.07
Total	10,698,944.16	4,377,221.93

Details of movements of EIT payable are as follows:

Item	At beginning of the year/period RMB	Recognised for the year/period RMB	Decrease for the year/period RMB	At end of the year/period RMB
Six months ended 30 June 2015 (unaudited)	1,685,512.24	4,380,404.21	(3,111,528.82)	2,954,387.63
Year ended 31 December 2014 (audited)	1,410,590.01	6,067,874.60	(5,792,952.37)	1,685,512.24

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

8 Other payables

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Provision for sales rebate	3,583,592.04	3,164,858.75
Accrual for Listing expenses	24,244.44	838,219.07
Others	302,281.60	178,705.19
Total	3,910,118.08	4,181,783.01

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 30 June 2015 (unaudited)	Provision for sales rebate	3,583,592.04
	Accrual for Listing expenses	24,244.44
		3,607,836.48
As at 31 December 2014 (audited)	Provision for sales rebate	3,164,858.75
	Accrual for Listing expenses	838,219.07
		4,003,077.82

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

9 Retained earnings

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Closing balance of the preceding period/year	**77,138,763.63**	54,666,000.03
Opening balances of the current period/year	**77,138,763.63**	54,666,000.03
Add: Net profit attributable to equity holders of the Company during the period/year	**26,702,877.73**	19,677,212.12
Less: Transfer to statutory reserve fund	**–**	–
Dividend declared	**(6,086,995.20)**	(11,000,000.00)
Closing balances of the current period/year	**97,754,646.16**	63,343,212.15

As at 30 June 2015, the aggregate amount of reserves available for distribution amounted to RMB97,754,646.16.

Details of the Company's dividend declared during the six months ended 30 June 2014 and 30 June 2015 are set out in Note E(24).

I NOTES TO ITEMS IN THE INCOME STATEMENTS OF THE COMPANY

1 Revenue and cost of sales

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Revenue from principal operation		
– External sales	**93,395,808.37**	65,008,048.83
– Internal sales	**–**	170,940.18
	93,395,808.37	65,178,989.01
Revenue from other operations – External sales	**4,839.32**	–
	93,400,647.69	65,178,989.01
Cost of sales	**24,947,461.55**	17,382,517.86

J NOTES TO ITEMS IN THE CASH FLOW STATEMENTS OF THE COMPANY

1 Supplementary information to cash flow statements of the Company

Item	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
1 Reconciliation of net profit to cash flow from operating activities:		
Net profit	26,702,877.73	19,677,212.12
Add: Impairment losses on assets	1,285,721.18	1,102,599.12
Depreciation	1,846,600.42	1,542,678.62
Amortisation of intangible assets	410,498.54	410,499.54
Loss on disposals of fixed assets	31,518.34	–
Finance expenses	(3,693,914.40)	(86,194.05)
Decrease in deferred income tax assets	(192,858.18)	(165,389.87)
Decrease in inventories	(7,863,248.50)	(3,829,996.93)
Decrease accounts receivable	(60,853,265.44)	(18,643,408.65)
Increase in accounts payable	9,137,990.09	6,871,414.80
Net cash flows from operating activities	(33,188,080.22)	6,879,414.70
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 period	220,252,767.20	55,699,405.94
Less: Cash balances at beginning of the period	(61,150,517.26)	(63,556,852.39)
Add: Balances of cash and cash equivalent at end of the period	–	–
Balances of cash and cash equivalent at beginning of the period	–	–
Changes in cash and cash equivalent	159,102,249.94	(7,857,446.45)

K RELATED PARTIES AND RELATED 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	35.0397%	35.0397%
Ms. Yue Shujun	PRC	Executive Director and Deputy General Manager	27.1256%	27.1256%

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	Six months ended 30 June 2015 (unaudited) Amount, excluding VAT RMB	Six months ended 30 June 2015 (unaudited) Proportion to that of similar transactions %	Six months ended 30 June 2014 (audited) Amount, excluding VAT RMB	Six months ended 30 June 2014 (audited) Proportion to that of similar transactions %
Gaoyang Materials	Sales of products	Based on contract	4,395,198.80	4.71	3,152,292.31	4.85

K RELATED PARTIES AND RELATED 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
Six months ended 30 June 2015 (unaudited)					
Executive directors:					
Mr. Shi Chunbao	–	300,000.00	9,264.00	–	309,264.00
Ms. Yue Shujun	–	105,600.00	9,264.00	–	114,864.00
Mr. Ding Gang	–	120,000.00	16,056.00	–	136,056.00
Supervisors:					
Mr. Qi Yi	–	48,120.00	–	–	48,120.00
Mr. Xie Fengbao	–	56,987.00	6,634.74	–	63,621.74
Ms. Zhang Lanlan	–	23,437.00	6,634.74	–	30,071.74
Non-executive director:					
Mr. Lin Yiming	–	–	–	–	–
Independent non-executive directors:					
Ms. Xu Hong	50,000.00	–	–	–	50,000.00
Mr. Tong Xiaobo	50,000.00	–	–	–	50,000.00
Mr. Zhang Yingkun	25,000.00	–	–	–	25,000.00
	125,000.00	654,144.00	47,853.48	–	826,997.48
Six months ended 30 June 2014 (audited)					
Executive directors:					
Mr. Shi Chunbao	–	143,664.00	9,264.00	–	152,928.00
Ms. Yue Shujun	–	105,544.00	9,264.00	–	114,808.00
Mr. Ding Gang	–	149,944.00	16,056.00	–	166,000.00
Supervisors:					
Mr. Qi Yi	–	45,524.00	–	–	45,524.00
Mr. Xie Fengbao	–	47,462.20	6,109.38	–	53,571.58
Ms. Zhang Lanlan	–	22,218.03	5,965.38	–	28,183.41
Non-executive director:					
Mr. Lin Yiming	–	–	–	–	–
Independent non-executive directors:					
Ms. Xu Hong	50,000.00	–	–	–	50,000.00
Mr. Tong Xiaobo	50,000.00	–	–	–	50,000.00
	100,000.00	514,356.23	46,658.76	–	661,014.99

K RELATED PARTIES AND RELATED 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	Six months ended 30 June 2015 (unaudited) Number of person	2014 (audited)
Directors or supervisors	2	3
Other than directors or supervisor	3	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	Six months ended 30 June 2015 RMB (unaudited)	2014 RMB (audited)
Salary and allowances	424,538.91	179,944.00
Social insurance housing funds and related pension costs	30,891.48	33,678.00
Performance related bonus	90,188.21	29,944.00
Total	545,618.60	243,566.00

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

Item	Six months ended 30 June 2015 (unaudited) Number of person	2014 (audited)
Nil to HK$1,000,000	3	2

K RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

2 Related parties transactions (Continued)

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

(iii) None of the directors has waived or agreed to waive any emoluments during the six months ended 30 June 2015 (2014: 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 six months ended 30 June 2015 (2014: Nil).

3 Receivables from and payable to related parties

Receivables from related parties

Item	As at 30 June 2015 (unaudited) Amount RMB	Provision RMB	As at 31 December 2014 (audited) Amount RMB	Provision RMB
Receivable from:				
Gaoyang Materials	**7,839,129.08**	**235,173.87**	3,831,703.98	114,951.12

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 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Within one year	**1,661,764.00**	1,661,764.00
Second to fifth years, inclusive	**615,844.51**	1,280,649.33
Total	**2,277,608.51**	2,942,413.33

M COMMITMENTS (Continued)

2 Capital commitments

Item	As at 30 June 2015 RMB (unaudited)	As at 31 December 2014 RMB (audited)
Contracted for but not yet recognised	14,993,184.98	17,693,115.44
Authorised but not yet contracted for		
– *Daxing New Production Base*		
– First stage construction work	152,956,421.23	164,360,891.87
– Second stage construction work	260,112,700.00	260,112,700.00
	413,069,121.23	424,473,591.87
Total	428,062,306.21	442,166,707.31

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

N OTHERS

1 Business combination

There is no business combination during the six months ended 30 June 2014 and 30 June 2015.

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 six months ended 30 June 2014 and 30 June 2015.

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.

N OTHERS (Continued)

3 Financial risk management

(a) Financial risk management objectives and polices

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 six months ended 30 June 2014 and 30 June 2015.

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 30 June 2015, 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 six months ended 30 June 2014 and 30 June 2015. 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.

(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 reach 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 ended of the reporting period and accordingly, no sensitivity analysis of foreign currencies against RMB has been presented.

N OTHERS (Continued)

3 Financial risk management (Continued)

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

(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, 17.83%of the Group's revenue came from the top 5 customers as of 30 June 2015, 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.

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.

N OTHERS (Continued)

3 Financial risk management (Continued)

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

(iv) Liquidity risk (Continued)

Item	Less than 3 months RMB	3 months to 1 year RMB	Total undiscounted cash flows RMB	Carrying amount RMB
The Group				
As at 30 June 2015 (unaudited)				
Accounts payable	**18,165,299.88**	**–**	**18,165,299.88**	**18,165,299.88**
Employee benefits payable	**2,443,605.11**	**–**	**2,443,605.11**	**2,443,605.11**
Other payables	**3,839,502.26**	**–**	**3,839,502.26**	**3,839,502.26**
	24,448,407.25	**–**	**24,448,407.25**	**24,448,407.25**
As at 31 December 2014 (audited)				
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
	21,149,852.35	–	21,149,852.35	21,149,852.35
The Company				
As at 30 June 2015 (unaudited)				
Accounts payable	**18,165,299.88**	**–**	**18,165,299.88**	**18,165,299.88**
Employee benefits payable	**2,443,605.11**	**–**	**2,443,605.11**	**2,443,605.11**
Other payables	**3,910,118.08**	**–**	**3,910,118.08**	**3,910,118.08**
	24,519,023.07	**–**	**24,519,023.07**	**24,519,023.07**
As at 31 December 2014 (audited)				
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
	21,130,691.53	–	21,130,691.53	21,130,691.53

N OTHERS (Continued)

3 Financial risk management (Continued)

(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.

O EVENTS AFTER THE END OF REPORTING PERIOD

The Group did not have any other dissclosable events occurring after the balance sheet date and up to the date of this report.