

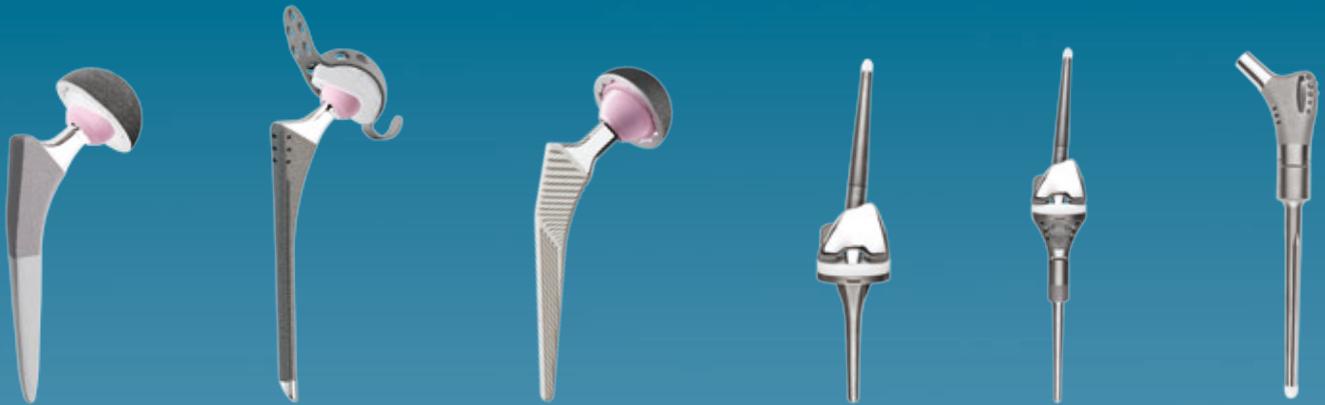


北京市春立正達醫療器械股份有限公司

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



**CHUNLI
MEDICAL**



Annual Report
2015

* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shi Chunbao (*Chairman*)
Ms. Yue Shujun
Mr. Zhang Zhendong
Mr. Ding Gang (resigned on 31 August 2015)

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)
Mr. Ding Gang (resigned on 31 August 2015)

AUTHORISED REPRESENTATIVES

Mr. Yuan Rui
Mr. Ip Pui Sum (CPA (Practising), FCCA,
ACMA, ACIS, ACS)
Mr. Ding Gang (resigned on 31 August 2015)

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

7th Floor, Winbase Centre
208 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

CORPORATE INFORMATION

COMPLIANCE ADVISER

China Everbright Capital Limited

H SHARE REGISTRAR

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

PRINCIPAL BANK

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



FIVE YEAR FINANCIAL SUMMARY

	For the year ended December 31				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000
Total current assets	96,618	120,663	132,704	162,501	379,578
Total non-current assets	62,146	66,847	67,929	77,355	98,463
Total assets	158,764	187,510	200,633	239,856	478,041
Total current liabilities	11,480	14,340	15,071	26,310	37,654
Total non-current liabilities	–	5,946	5,673	7,626	16,831
Total liabilities	11,480	20,286	20,744	33,936	54,485
Total shareholder's equity	147,284	167,224	179,889	205,920	423,556
Net current assets	85,138	106,323	117,633	136,191	341,924
Total assets less current liabilities	147,284	173,170	185,562	213,546	440,388
Revenue	80,260	98,095	110,546	134,534	177,368
Operating profit	34,717	35,968	37,709	42,248	43,496
Profit before tax for the year	35,410	37,203	38,116	42,913	43,494
Net profit for the year	30,405	31,940	32,665	37,031	37,866

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the Board (the "**Board**") of Directors of **Beijing Chunlizhengda Medical Instruments Co., Ltd.** (the "**Company**"), together with its subsidiary (the "**Group**"), I am pleased to propose the annual report of the Company for the year ended 31 December 2015 ("**during the year**").

In recent years, the relevant policies or measures adopted at national level are more favourable for the development of the medical device industry in China. The domestic medical device enterprises will eventually be benefited from measures such as the percentage of claim of medical care insurance and the selection of domestic medical devices led by the National Health and Family Planning Commission ("**NHFPC**") of the PRC.

The orthopedic implant market is a segment of the medical device market that has been developing rapidly in recent years. The inclusion of medical devices in medical care insurance coverage under the PRC healthcare reform has increased the demand and acceptance for orthopedic implants. Various favorable factors such as aging population, continuous growth in healthcare expenditure and improvements in public healthcare infrastructure have also propelled the growth of the orthopedic implant industry in the PRC.

As one of the leading orthopedic medical device company in China, leveraging on the diversified implantable orthopedic medical device products, powerful research and development capability as well as expanding sales network, the Company has captured the opportunities of the industry growth and achieved healthy and stable development during the year. The Company recorded revenue of approximately RMB177.37 million in 2015 which represents a year-on-year increase of 31.9% (2014: RMB134.5 million). The profit attributable to the equity holders of the Company recorded a year-on-year increase of 2.4% to approximately RMB37.9 million (2014: approximately RMB37.0 million). Basic earnings per share amounted to RMB0.59, which represents a year-on-year decrease of 20.3% (2014: RMB0.74). The Company proposed the payment of 2015 Final Dividend to shareholders of RMB0.088 per share.

In April 2015, the Company was the first enterprise in China to obtain a registration certificate for the fourth generation of **BILOX**[®]*delta* ceramic joint prosthesis products covering both half-ceramics and full-ceramics which filled up the vacuum of high-end joint prosthesis products produced by domestic companies. **BILOX**[®]*delta*, being the latest ceramic product of German company CeramTec, has the clinical advantages of lower abrasion rate and better strength and durability, and can be widely used in hip joint replacement surgeries. Meanwhile, the Company has launched two new knee joint prosthesis products between the end of 2015 and early 2016, expanding the knee joint prosthesis product line to cover the high and low-end market of the Company to satisfy different market demand and clinical needs.



CHAIRMAN'S STATEMENT

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.

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

Shi Chunbao
Chairman

30 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

In recent years, the relevant policies or measures adopted at national level are becoming more and more favorable for the development of the medical device industry in China. The domestic medical device enterprises will eventually be benefited from measures such as the medical care insurance reimbursement proportion and the selection of domestic medical devices led by the NHFPC.

The orthopedic implant¹ market, a segment of the medical device market, has experienced rapid growth in recent years. The inclusion of medical devices in medical care insurance coverage under the PRC healthcare reform has increased the demand and acceptance for orthopedic implants. Various favorable factors such as aging population, continuous growth in healthcare expenditure and improvements in public healthcare infrastructure have also propelled the growth of the orthopedic implant industry in the PRC.

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

II. BUSINESS REVIEW

Comprehensive medical device registration certificates

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

As at 31 December 2015, we held 15 medical device registration certificates in China for the production of medical devices which cover joint prosthesis products for the four major joints (knee joints, hip joint, shoulder joints and elbow joints) and spinal products, 10 of which are Class III medical device registration certificates and 5 of which are Class I medical device registration certificates. As China adopts a strict product registration system for medical device manufacturers, competitiveness of product registrations for a wide range of products entails of strong market competitiveness.

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 offers 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.

* For identification purpose

¹ Orthopedic implants refer to medical device products that are used for replacing or as an adjuvant treatment for injured bones and skeleton and implanted into human bodies, including joint implants (such as knee joints, hip joint, shoulder joints and elbow joints), spine implants and trauma implants (such as calcaneal plates and bone pegs), excluding dental fillings.

MANAGEMENT DISCUSSION AND ANALYSIS

Strong research and development capabilities

We are a state-level high and new technology enterprise (國家級高新技術企業) dedicated to the development of innovative products and continuous improvement of its research and development capability. As at 31 December 2015, we possessed a total of 29 registered patents, including 9 invention patents and 20 utility patents.

Currently, our research and development team consist of 40 members, including those with doctoral, master and bachelor degrees and with over 10 years of experience in medical device industry. Meanwhile, our Company attaches great importance to the correlation between production, academic, research and development and clinical trial. During our research and development process and product enhancement, we interact with the experts of relevant fields and absorb their knowledge so as to ensure that newly developed products will meet the market demand and fulfill the requirement of clinical practicality.

Our Company obtained the “Beijing Engineering Laboratory of joint prosthesis” (人工關節北京市工程實驗室) approved by Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會). The laboratory will take up the major research and development projects in Beijing and the PRC, and will actively participate in science popularization campaigns in Beijing and the PRC.

Advanced ceramic joints prosthesis products

In April 2015, the Company was the first enterprise in the PRC to obtain a medical device registration certificate for the fourth generation of BIOLOX®delta ceramic joint covering both half-ceramics and full-ceramics which are both high-end joint prosthesis products. BIOLOX®delta, being the latest ceramic product of German company CeramTec, has the clinical advantages of lower abrasion rate and better strength and durability, and can be widely used in hip joint replacement surgeries.

Our ceramic joint prosthesis products were launched in April 2015. Prior to and after the launch of ceramic joint prosthesis products to the market, we held numerous interactive activities such as academic conferences, doctor training sessions and distributor training sessions across the PRC, so that our clients including doctors and distributors are able to get used to and skillfully apply the ceramic joint prosthesis products at once.

As the tender offering, re-tendering and registration with hospitals for our ceramic joint prosthesis products in various PRC provinces are gradually in progress or completed in 2015, we expect that there will be increasing number of hospitals using the Company’s ceramic joints prosthesis products.

New products and new technologies

The new products that we develop, 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, are all currently at the stage of clinical trials.

DAMIS (Direct Anterior Minimum Invasive Surgery): We are currently introducing and promoting this minimally invasive surgical technology for hip joint in the PRC. Compared to traditional hip joint surgical, this technique has the benefits of smaller incision, less blood loss, reduced damage to muscle tissues, smaller scar, lowered risk of joint dislocation, faster recovery after surgery which allows the patients to shorten their time staying in the hospitals. Our Company also purchased from Europe several surgical traction beds together with its intellectual property right which are especially designed for this technology. We carried out in-depth cooperation with George Macheras, a renowned minimally invasive hip joint surgery expert from Europe, to research, develop and enhance the design of the surgical traction beds and other specialized devices and to provide training activities such as touring academic seminars to various clinical doctors in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, the Company purchased from Arcam, a Swedish company, the most advanced 3D printing equipment of its Q10 series which can meet special clinical needs and be applied to the production of our customized joint prosthesis products in the future. Currently, the 3D printed products are being used in clinical trials in several major hospitals in the PRC.

Extensive distribution and sales network

Currently, we have built an extensive distribution network covering all provinces, municipalities and autonomous regions in China (excluding Hong Kong, Macau and Taiwan), and our sales network has covered numerous hospitals located in these regions through our distributors. Most of our products are sold in China and some are exported to other countries in Asia, South America, Africa, Oceania and Europe under the brand name of “春立Chunli”. We mainly sell our products through distributors, or on ODM and OEM bases. As at 31 December 2015, we had established stable relationship with approximately 500 distributors, and had not placed reliance on any single distributor.

Tongzhou Second Production Base

In September 2015, our Company completed the relocation of its overall production base to our second production site (the “**Tongzhou Second Production Base**”) (relocating since October 2014) which is owned by the Company. The entire factory area has a site area of over 5,000 square meters and a gross floor area of over 6,400 square meters. We believe that the Tongzhou Second Production Base could cater for the needs of our business growth.

Daxing New Production Base

The Phase I of our new production base (the “**Daxing New Production Base**”), where the majority of proceeds raised by our Company’s IPO was mainly invested on, is currently under construction. Currently, the construction of one building has been completed. (For details of the Daxing New Production Base, please refer to our Company’s prospectus.)

III. FINANCIAL REVIEW

Revenue

Our revenue increased by 31.9% from approximately RMB134.5 million in 2014 to approximately RMB177.4 million in 2015. The increase in revenue was mainly attributable to the launch of the ceramic hip joint prosthesis products and the expansion of sales network. The revenue of our major products in 2015 compared to the previous year is as follows:

Product category	Year ended 31 December		Increase over Corresponding period
	2015 (RMB'000)	2014 (RMB'000)	
Standard joint prosthesis products	134,243	91,987	45.90%
Custom joint prosthesis products	30,028	30,096	(0.20%)
Spinal products	13,097	12,451	5.20%
Total	177,368	134,534	31.80%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

Our gross profit increased by 22.6% from approximately RMB99.6 million in 2014 to approximately RMB122.1 million in 2015. Our gross profit margin decreased from 74.0% in 2014 to 68.8% in 2015. The decrease in gross profit margin was due to the launch of ceramic hip joint prosthesis products in 2015. Our ceramic hip joint prosthesis products has a lower gross profit margin than other products since certain components of ceramic hip joint prosthesis products including ceramic femoral head and lining were imported from CeramTec, a globally renowned ceramics manufacturer in Germany.

Selling expenses

Our selling expenses increased by 55.5% from approximately RMB29.2 million in 2014 to approximately RMB45.4 million in 2015. The increase in selling expenses was mainly attributable to the increase in the number of sales personnel, the increase in staff costs and an increase in investment in our market development and our increased products promotion expenses because of business expansion.

Administrative expenses

Our administrative expenses increased by 41.5% from approximately RMB25.8 million in 2014 to approximately RMB36.5 million in 2015, which was mainly attributable to the increase in staff costs, the increase in our investment in research and development and the increase in expenses of listing-related follow-up services.

Impairment loss of assets

Our impairment loss of assets decreased by 75.0% from approximately RMB1.2 million in 2014 to approximately RMB0.3 million in 2015, which was mainly attributable to the decrease in impairment loss of our accounts receivable in accordance with the impairment policy of the Company.

Non-operating income

Our non-operating income increased by 28.6% from approximately RMB0.7 million in 2014 to approximately RMB0.9 million in 2015, which was mainly attributable to the increase in the government grants received by the Company.

Non-operating expenses

Our non-operating expenses significantly increased from approximately RMB0.03 million in 2014 to approximately RMB0.9 million in 2015, which was mainly attributable to the increase in our donation to the Community Chest of Hong Kong.

Income tax expenses

Our income tax expenses decreased by 5.1% from approximately RMB5.9 million in 2014 to approximately RMB5.6 million in 2015 and our effective tax rate decreased from 13.7% for the same period last year to 12.6% in 2015.

Net Profit for the year

Our net profit for the year increased by 2.4% from approximately RMB37.0 million in 2014 to approximately RMB37.9 million in 2015. The increase in net profit was mainly attributable to the increase in our revenue.

Liquidity and capital resources

Our cash and bank balances increased by 276% from approximately RMB63.6 million as of 31 December 2014 to approximately RMB239.1 million as of 31 December 2015.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Inventory

Our inventory increased by 82% from approximately RMB35.5 million as of 31 December 2014 to approximately RMB64.6 million as of 31 December 2015. The increase in inventory was mainly attributable to our business expansion and the growth in market demand in 2015 and the purchase of related raw materials and production of the finished goods caused by the promotion of ceramic hip joint prosthesis products.

Accounts Receivable

Our accounts receivable increased by 28.9% from approximately RMB42.9 million as at 31 December 2014 to approximately RMB55.3 million as at 31 December 2015. Business revenue income increased 31.9% to approximately RMB177.4 million in 2015 from approximately RMB134.5 million in 2014. The increase in accounts receivable was mainly attributable to the growth in business revenue. The debtors' turnover days for the year ended 31 December 2015 was 101 days, slightly improved as compared to 104 days for 2014. The Directors considered that there was no significant change in creditability of the customers and based on past experience the accounts receivables would eventually be settled and hence no provision thereon was required. The Directors considered that the provision on bad and doubtful debts was sufficient. As at the date of this report, 21.8% of the accounts receivable as at 31 December 2015 was subsequently settled.

Fixed Assets and Construction in Progress

Our fixed assets and construction in progress increased by 52.8% from approximately RMB40.5 million as of 31 December 2014 to approximately RMB61.9 million as of 31 December 2015. The increases in fixed assets and construction in progress were mainly attributable to the expansion of the Daxing New Production Base and the acquisition of production facilities in 2015.

Net current assets

Our net current assets increased by 151.0% from approximately RMB136.2 million as of 31 December 2014 to approximately RMB341.9 million as of 31 December 2015. The increase in net current assets was mainly attributable to the increase in inventory and proceeds raised from the issue of H shares.

Intangible assets

Our intangible assets slightly decreased by 2.3% from approximately RMB35.3 million as of 31 December 2014 to approximately RMB34.5 million as of 31 December 2015. The decrease in intangible assets was mainly attributable to the amortization of land use rights and software.

Cash flow analysis

In 2015, our net cash outflows generated from operating activities was RMB0.5 million, which was mainly due to the purchase of products and workers expenses; our net cash outflows generated from investing activities was RMB17.7 million, which was mainly due to the acquisition of fixed assets and construction in progress; our net cash inflows generated from financing activities was RMB187.7 million, which was mainly due to the proceeds raised from the issue of H shares; netting the effect of foreign exchange rate changes on cash and cash equivalents of RMB2.0 million, our cash and cash equivalents increased by RMB171.5 million as compared to the end of last year.

Capital expenditure

Our capital expenditure was mainly used in the expansion of Daxing New Production Base and the acquisition of production facilities.

Contingent liabilities and guarantees

As of 31 December 2015, we did not have any significant contingent liabilities or guarantees.

Capital commitment

As of 31 December 2015, our total capital commitment was approximately RMB429.3 million, which mainly comprised the expenses incurred due to the construction of new plants in Daxing New Production Base and the acquisition of equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

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 on 11 March 2015 with net proceeds received by the Company from the global offering in the amount of approximately RMB185.86 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 31 December 2015, approximately RMB24.70 million out of the proceeds from the global offering has been applied.

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.

Tongzhou Second New Factory

Since October 2014, the Company relocated its whole production base to Tongzhou Second New Factory, which completed in September 2015. This factory is owned by the Company. This factory is of a site area of over 5,000 square meters, with a gross floor area of over 6,400 square meters.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 exporting 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 31 December 2015, our Group had a total of approximately 424 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff, general and administration staff. For the year ended 31 December 2015, the total salary and related cost paid to our employees were approximately RMB34.2 million. Our Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labor protection, confidentiality, non-competition and grounds for termination, etc.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FINAL DIVIDEND

The Board proposed the declaration of final dividend of RMB0.088 per share (including tax charge) for the year ended 31 December 2015 (2014: RMB0.088 per share (including tax charge)). The declaration of the final dividend is subject to the shareholders' approval in the forthcoming annual general meeting.

The final dividend payable to the holders of H Shares will be paid in HK\$. The applicable exchange rate would be the average mid-point rate of the relevant foreign currencies as published on the website of the People's Bank of China for the seven business days prior to the declaration of such dividends and other payments.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Shi Chunbao (史春寶), aged 46, is our executive Director, chairman of our Board, general manager and sales and marketing director. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

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

Ms. Yue Shujun (岳術俊), aged 44, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Mr. Zhang Zhendong (張振東), aged 41, is currently the manager of the technology department of the Company. He is responsible for production and trial of new products as well as the management of the production facilities of the Company. Mr. Zhang joined the Company on 17 September 2004 and held the position of worker from September 2004 to November 2008. He became the manager of the manufacturing department of the Company from November 2008 to July 2010 and he worked as the technician of the technology department of the Company from August 2010 to December 2014. He was then appointed as the manager of the technology department of the Company since January 2015. Prior to joining the Company, he worked as a technician of Jilin Longding Dianqi Company Limited, which mainly engaged in manufacturing of high voltage switchgear and low voltage switchgear, from July 1995 to April 2004. He obtained a junior college degree in mechanical design and manufacturing from Beihua University in July 2015.

Mr. Ding Gang (丁罡), aged 36, was our executive Director, deputy general manager and secretary of the Board (resigned on 31 August 2015). He was responsible for the capital management and operations and human resources management of our Group. Mr. Ding was appointed as our Director on 22 December 2010 and has been our executive Director from 16 April 2014 to 31 August 2015. Mr. Ding was the deputy general manager and the secretary of the Board of our Company since April 2011. Prior to joining our Group, Mr. Ding worked as an investment manager, senior investment manager and the head of the investment department of Xin'an Caifu (新安財富) from October 2005 to April 2010 the principal activity of which was investment management. Mr. Ding obtained a degree of bachelor in Safety Engineering (安全工程) from Capital University of Economics and Business, Beijing (首都經濟貿易大學) in January 2004. Mr. Ding is currently studying a master degree in business and administration for senior management personnel at Guanghua School of Management of Peking University, Beijing (北京大學).

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Director

Mr. Lin Yiming (林一鳴), aged 47, is our non-executive Director. He is responsible for providing advice on the management as well as the strategic development of our Group. Mr. Lin became our Director on 17 September 2010 and has been our non-executive Director since 16 April 2014. Prior to joining our Group, Mr. Lin held the position of chairman of Beijing Shidai Kewei Education Consulting Co., Ltd. (北京時代柯維教育諮詢有限公司) from August 2009 to August 2012, the principal activities of which are providing education, consulting and trainings, and was the dean of School of Tourism, the dean of School of Business and an assistant to the principal at Beijing Geely University (北京吉利學院) respectively from January 2010 to June 2014. Mr. Lin has been the executive principle of Beijing Geely University since June 2014. Mr. Lin obtained a degree of master in Business Administration from Concordia University – Wisconsin, USA in September 2011.

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

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

Independent Non-Executive Directors

Ms. Xu Hong (徐泓), aged 61, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Ms. Xu obtained the qualification as a Certified Public Accountant granted by the Chinese Institute of Certified Public Accountants in February 1999 and worked at Zhongsheng Certified Public Accountants Co., Ltd. (中盛會計師事務所有限責任公司) from 1999, the principal business activities of which are the provision of audit and consulting services. In May 2005, she obtained the qualification as a Certified Tax Agent from the Registered Taxation Administration Center of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區註冊稅務管理中心). Ms. Xu has been a teacher at the Department of Accounting at the School of Business at Renmin University of China (中國人民大學) since 1990 and then a professor at that university since 1999.

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

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

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

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tong Xiaobo (佟小波), aged 56, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Mr. Tong worked as a quality supervisor at the Beijing Medical Devices Testing Center (北京醫療器械檢測中心) of CFDA (Center for Quality Supervision and Testing of Medical Devices (醫療器械產品質檢站)) from 1985 to 1991. Mr. Tong then worked as the chief officer of the research center of Beijing Institute of Medical Devices (北京醫療器械研究所研究室), an institute engaging in medical devices testing apparatus and equipment research and development from 1993 to 1998, responsible for the research of the testing technologies of medical devices. Mr. Tong has been the director and chief engineer of Beijing Fuluke Measuring Technology Research Institute (北京福祿克測量技術研究所), an institute engaging in testing medical devices and consulting, since 2000 and is currently its authorised representative, responsible for testing the standards of medical devices and consultations. Mr. Tong has been the chief engineer of Beijing Tefan Medical Devices Laboratory (北京特凡醫療器械實驗室), an institute engaging in medical devices research, development, testing and consulting since 2007 and is currently its authorised representative, responsible for the consultation of medical devices. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience. Mr. Tong has been a shareholder of Beijing Tefan Medical Devices Laboratory since May 2004. Mr. Tong obtained a diploma in Electronics, the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University in August 1985.

Mr. Cheung Ying Kwan (張應坤), aged 55, was appointed as our independent non-executive Director since 11 March 2015. Mr. Cheung has over 21 years of experience in financial management. Mr. Cheung is currently the company secretary of China Metal Resources Utilisation Limited, a listed company on the Main Board of the Hong Kong Stock Exchange (stock code: 1636) mainly engaged in manufacturing and sales of copper and copper products. From March 2006 to August 2013, Mr. Cheung was the financial controller of Gushan Environmental Energy Limited, the American depository shares of which were listed on the New York Stock Exchange from December 2007 to October 2012. From April 2001 to March 2006, Mr. Cheung also served as the qualified accountant and company secretary of Goldigit Atom-tech Holdings Limited, and as the authorised representative of that company from December 2002 to March 2006. The company is now known as Jinchuan Group International Resources Co. Ltd., a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2362) which mainly engaged in the development and production of pesticides in the PRC. From November 2005 to May 2013, Mr. Cheung was an independent non-executive director of Auto Italia Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0720) which mainly engaged in the import, marketing, distribution and after-sales services of high quality, branded products in Asia. Since June 2010, Mr. Cheung has been an independent non-executive director of Tian Shan Development (Holding) Limited, which is listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2118) and mainly engaged in property development. Since 3 February 2016, Mr. Cheung has been an independent non-executive director of Nga Chun Holdings Company Limited (stock code: 1462).

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

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Qi Yi (祁毅), aged 62, is a Supervisor and the chairman of the Board of Supervisors. Mr. Qi was the head of the department of production of Chunli Limited from October 2001 to December 2004, responsible for production management and the head of the department of quality control of Chunli Limited from January 2005 to December 2007, responsible for the management of quality of our products. Mr. Qi has been the chief officer of the corporate management department of Chunli Limited since January 2008 until September 2010, responsible for the management of product standards. Mr. Qi has been a Supervisor of our Company since 17 September 2010, responsible for supervising the operation and management of our Company and the Board and the senior management. Mr. Qi obtained a diploma in Business Administration (企業管理), the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University (北京廣播電視大學) in October 1991.

Mr. Xie Fengbao (解鳳寶), aged 33, is a Supervisor of our Company. Mr. Xie was a designer in the technology department of our Company from March 2001 to March 2008, responsible for the enhancement of product design and blueprint drawings. Since August 2009, Mr. Xie has also been the chief officer of Chunli Limited's technology department, responsible for the overall operation of the Technology Department. Mr. Xie has been a Supervisor of our Company since 17 September 2010, responsible for supervising our Company's operation and management. Mr. Xie obtained a diploma in Machinery Manufacturing and Automation (機械製造與自動化) from a part-time continuing studies program held by Beijing University of Technology (北京工業大學).

Ms. Zhang Lanlan (張蘭蘭), aged 27, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since 17 September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007.

SENIOR MANAGEMENT

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

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

Mr. Zhao Shijie (趙世傑), aged 33, is our deputy general manager and chief financial officer. Mr. Zhao is mainly responsible for the financial management of our Group. Mr. Zhao has been our deputy general manager and chief financial officer since August 2011. Prior to joining the Group, Mr. Zhao was a project assistant and project manager at the Chongqing branch of Pan-China Certified Public Accountants LLP (天健會計師事務所) (previously known as Chongqing Pan-China Certified Public Accountants (重慶天健會計師事務所)), the principal businesses of which are the provision of audit, taxation and consulting services, from July 2006 to August 2011, responsible for the annual audit work of large-scale state-owned enterprises and listed companies. Mr. Zhao obtained a degree of bachelor in accounting from Chongqing University (重慶大學) in June 2006.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Yuan Rui (袁瑞) is the secretary to the Board of the Company, and has become one of our joint company secretaries since 31 August 2015.

Mr. Yuan, aged 33, is currently secretary to the Board and the marketing director of the Company. Apart from the business and duties of the Board, he is also responsible for brand planning and management as well as organizing marketing campaigns of the Company. Mr. Yuan joined the Company on 20 February 2012 and held the position of the sales manager of overseas department from February 2012 to December 2013. He was the marketing director of the Company since 1 January 2014. Prior to joining the Company, Mr. Yuan was the external assistant of the President Office and America regional sales manager of Naton Medical Group, which mainly engaged in production and sales of medical products, from November 2008 to January 2012. Mr. Yuan obtained a bachelor's degree in English Language and Literature from Shandong University in June 2006. He also obtained his master degree in Business Administration from Beijing Institute of Technology in June 2013.

Mr. Ip Pui Sum (葉沛森), aged 56, has become one of our joint company secretaries since 11 March 2015. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statement audit, accounting and company secretary services. Mr. Ip has been appointed as the company secretary of companies listed on the Main Board of the Hong Kong Stock Exchange including Tingyi (Cayman Islands) Holding Corp. (stock code: 0322), Luoyang Glass Company Limited (stock code: 1108), National Agricultural Holdings Limited (stock code: 1236) and Orient Victory China Holdings Limited (stock code: 0265) since 12 January 1996, 6 August 2008, 1 December 2011 and 10 March 2014 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master of Business Administration from Henley Management School and Brunel University in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in China and has its principal place of business in Hong Kong at 7th Floor, Winbase Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong. The Group's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the aggregated sales of the Group to the largest customer and the top five customers amounted to 5.10% (2014: 4.7%) and 17.59% (2014: 20.3%), respectively, of the total income of the Group for the year.

For the year ended 31 December 2015, the aggregated purchases of the Group to the largest supplier and the top five suppliers amounted to 44.03% (2014: 17.7%) and 64.19% (2014: 56.8%), respectively, of the total purchases of the Group.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 4 of the annual report. This summary does not form part of the audited consolidated financial statement.

FINANCIAL STATEMENT

The profit of the Group for the year ended 31 December 2015 and the affairs of the Company and the Group as at that date are set out on page 42 to page 114 in the consolidated financial statement.

ADDITIONAL INFORMATION OF BUSINESS REVIEW

Additional information of business review, discussion and analysis in respect of the Group's performance during the year and the material factors relevant to its results and financial position are set out in the section headed "Management Discussion and Analysis" in this annual report.

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in properties, plants and equipment for the year ended 31 December 2015 are set out in note V.8, 9 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in note V.22 to the financial statements, of which details of reserves distributable to shareholders of the Company are set out in note V.22 to the financial statements.

REPORT OF THE DIRECTORS

DIVIDEND

The Board proposed the payment of final dividend for the year ended 31 December 2015 as to RMB0.088 per share (including tax charge) and RMB6,086,995.2 (including tax charge) in aggregate (“**2015 Final Dividend**”), which is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (“**AGM**”) to be held on 28 June 2016. Dividend on domestic shares will be paid in RMB whereas dividend on H shares will be paid in Hong Kong dollars. Details of the distribution plan will be separately announced in due course.

Under the China Enterprise Income Tax Law and its implementation regulations and other relevant rules, where the Company distributes the proposed 2015 Final Dividend to non-resident enterprise shareholders whose names appear on the register of member for H shares of the Company, it is required to withhold enterprise income tax at the applicable tax rate of 10%. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, or trustees or other groups or organizations, will be treated as shares being held by the non-resident enterprise shareholders, and consequently will be subject to the withholding of the enterprise income tax.

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

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

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

REPORT OF THE DIRECTORS

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

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

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled to attend the 2015 Annual General Meeting, the Company's register of Shareholders of H Shares will be closed from Saturday, 28 May 2016 to Tuesday, 28 June 2016 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified to attend and vote at the 2015 Annual General Meeting, Shareholders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 27 May 2016.

Shareholders whose names appear on the Company's register of members at the close of business on Tuesday, 28 June 2016 are entitled to attend and vote at the Annual General Meeting.

In order to ascertain the Shareholders who are entitled to receive the final dividend for the year ended 31 December 2015, the Register of Members of the Company will be closed from Thursday, 30 June 2016 to Tuesday, 5 July 2016 (both days inclusive), during which period no transfers of shares shall be effected. In order to be qualified for receiving the final dividend of the year 2015, any holders of H Shares whose transfers have not been registered have to lodge all transfers of shares accompanied by the relevant share certificates with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 29 June 2016.

Shareholders whose names appear on the Company's register of members at the close of business on Tuesday, 5 July 2016 are entitled to receive the final dividend for the year ended 31 December 2015.

SUFFICIENCY OF THE PUBLIC FLOAT

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

PURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2015, neither of the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The following table set forth the information relating to the Directors and Supervisors of the Company during the year and up to the date of this report.

Name	Age	Position	Appointment date
Mr. Shi Chunbao (史春寶)	46	Executive Director, chairman of the Board, general manager and sales and marketing director	September 2010
Ms. Yue Shujun (岳術俊)	44	Executive Director and deputy general manager	September 2010
Mr. Zhang Zhendong (張振東)	41	Executive Director	August 2015
Mr. Lin Yiming (林一鳴)	47	Non-executive Director	September 2010
Ms. Xu Hong (徐泓)	61	Independent non-executive Director	September 2010
Mr. Tong Xiaobo (佟小波)	56	Independent non-executive Director	September 2010
Mr. Cheung Ying Kwan (張應坤)	56	Independent non-executive Director	May 2014
Mr. Qi Yi (祁毅)	62	Chairman of the Board of Supervisors	September 2010
Mr. Xie Fengbao (解鳳寶)	33	Supervisor	September 2010
Ms. Zhang Lanlan (張蘭蘭)	27	Employee Supervisor	September 2010
Mr. Ding Gang (丁罡)	36	Executive Director, deputy general manager and secretary of the Board	December 2010 (resigned on 31 August 2015)

Mr. Ding Gang has resigned as an executive Director, deputy general manager and secretary of the Board to devote more time to his other personal commitments.

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the directors, supervisors and senior management of the Company are set out on page 14 to page 18 in this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

REMUNERATION OF DIRECTORS AND SUPERVISORS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2015.

REPORT OF THE DIRECTORS

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

As at 31 December 2015, the interests or short positions of the directors, supervisors and the chief executive officer in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), will be as follows:

INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	24,237,087 (long position)	Beneficial owner	48.47%	35.04%
		18,762,913 (long position)	Interest of Spouse	37.53%	27.13%
Ms. Yue Shujun	Domestic shares	18,762,913 (long position)	Beneficial owner	37.53%	27.13%
		24,237,087 (long position)	Interest of Spouse	48.47%	35.04%
Mr. Lin Yiming	Domestic shares	1,160,000 (long position)	Beneficial owner	2.32%	1.67%

Notes:

1. The calculation is based on the number of 50,000,000 domestic shares of the Company in issue as at 31 December 2015.
2. The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2015.

Saved as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

Interests and Short Positions of Substantial Shareholders

As at 31 December 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 of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	48.47%	35.04%
		(long position) 18,762,913	Interest of Spouse	37.53%	27.13%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	37.53%	27.13%
		(long position) 24,237,087	Interest of Spouse	48.47%	35.04%
Or Ching Han, Helen (Note 3)	H shares	1,350,000	Beneficial owner	7.04%	1.95%
Citigroup Inc.	H shares	1,500,000	Person having a security interest	7.82%	2.17%
Taiping Assets Management (HK) Company Limited	H shares	1,300,600	Investment manager	6.78%	1.88%
Taiping Trustees Limited	H shares	1,300,600	Trustee	6.78%	1.88%
Winning Beauty Limited	H shares	1,127,000	Beneficial owner	5.87%	1.63%
SPQ Asia Capital Limited	H shares	980,800	Investment manager	5.11%	1.42%

Notes:

- The calculation is based on the number of 50,000,000 domestic shares and 19,170,400 H shares of the Company in issue as at 31 December 2015, respectively.
- The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2015.
- Orchid China Master Fund Limited directly holds 1,350,000 H shares of the Company. Orchid China Management (Cayman) Limited holds 100% equity interest of Orchid China Master Fund Limited. Honest City Investments Limited holds 63% equity interest of Orchid China Management (Cayman) Limited. Explorer Associates Limited respectively holds 30% equity interest of Orchid China Management (Cayman) Limited and 100% equity interest of Honest City Investments Limited. Or Ching Han, Helen holds 100% interest of Explorer Associates Limited. Accordingly, Or Ching Han, Helen is deemed to be interested in the 1,350,000 shares held by Orchid China Master Fund Limited.

Save as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Certain of the related party transaction for the year as disclosed in note VIII to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules, which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. On 19 April 2014, our Company and Beijing Gaoyang Materials Center (北京高陽物資中心) (“**Gaoyang Materials**”) entered into a Distribution Framework Contract pursuant to which Gaoyang Materials was authorized to act as a distributor of our Company from 19 April 2014 to 31 December 2016. Gaoyang Materials is a collectively owned enterprise (集體所有制企業) which does not have a board of directors, and Mr. GUO Fuxiang (郭福祥), who is the sole responsible person of Gaoyang Materials, is responsible for the day to day management and decision making on behalf of Gaoyang Materials. As Mr. Guo is the husband of the cousin of Mr. Shi, our Company’s Controlling Shareholder and executive Director, and Mr. Guo is regarded as the only person who can control the daily management of Gaoyang Materials, Gaoyang Materials is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules. In the circumstances, the transactions contemplated under the Distribution Framework Contract constitute non-exempt continuing connected transactions of the Company upon Listing. Details of the abovementioned transaction were disclosed in the prospectus of the Company dated 27 February 2015.

The actual aggregate transaction amount (net of value added tax) of the continuing connected transactions for the year ended 31 December 2015 was RMB9,100,000 (“**Actual 2015 Transaction Amount**”), which exceeded the existing 2015 annual cap of RMB7,200,000 (“**Existing 2015 Annual Cap**”).

As the Actual 2015 Transaction Amount exceeded the Existing 2015 Annual Cap, the highest applicable percentage ratio in respect of the Actual 2015 Transaction Amount exceeded 5% and the annual consideration exceeded HK\$10 million, the transactions under the Distribution Framework Contract with Gaoyang Materials for the year ended 31 December 2015 are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under chapter 14A of the Listing Rules. Therefore, the transactions under the Distribution Framework Contract for the year ended 31 December 2015 are subject to the ratification of the Independent Shareholders at EGM.

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

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

- (1) these transactions were entered into in the ordinary and usual course of business of the Group;
- (2) the transactions were conducted on normal commercial terms;
- (3) these transactions were entered into in accordance with the relevant transaction agreements and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (4) these transactions have exceeded the annual cap of RMB7,200,000 and are subject to the ratification of the Independent Shareholders at the EGM to be held as soon as practicable.

Pan-China Certified Public Accountants LLP, the auditor of the Company, was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The Company has received a letter from Pan-China Certified Public Accountants LLP containing their finding and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

CONTRACTS OF SIGNIFICANCE

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

COMPETING BUSINESS

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

RETIREMENT SCHEMES

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

IN COMPLIANCE WITH THE CORPORATE GOVERNMENT CODE

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

REPORT OF THE DIRECTORS

PROPERTIES

Address	Stage of completion	Expected completion date	Existing use	Site area	Gross floor area	% ownership
1. Tongzhou Second Production Base: No. 10 Xinmi Xi Er Road, Tongzhou District, Beijing, the PRC	Completed in 2015	Completed in 2015	Production plant	Approximately 5,000 sq. m.	Approximately 6,400 sq. m.	100%
2. Daxing New Production Base: Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC	Phase I: construction work in progress Phase II: expected commencement of construction in January 2017	Phase I: December 2016 Phase II: December 2018	Will be used as production plant, headquarter, sales and marketing center and research and development centers	Approximately 45,000 sq. m.	Approximately 48,000 sq. m.	100%

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2015, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

From the end of the reporting period to the date of this report, the Company did not have any other significant event.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, which includes, the review of the Group's consolidated annual results for the year ended 31 December 2015.

AUDITOR

The consolidated financial statements for the year ended 31 December 2015 has been audited by Pan-China Certified Public Accountants LLP, who shall be retired and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Pan-China Certified Public Accountants LLP as the auditor of the Group is to be proposed at the AGM.

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

Beijing, PRC, 30 March 2016

REPORT OF THE BOARD OF SUPERVISORS

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

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

The Board of Supervisors have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2015 AGM. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up till now, none of the directors, chief executive nor senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the shareholders of the Company.

The Board of Supervisors is satisfied with the various tasks carried out by the Company in 2015 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Board of Supervisors
Qi Yi

Beijing, PRC, 30 March 2016

CORPORATE GOVERNANCE REPORT

The Company's Shares have been listed on the Stock Exchange since 11 March 2015. Corporate Governance Code has applied to the Company since the Listing Date. The Company has committed to delivering and maintaining a higher standard of corporate governance to meet business needs and shareholders' expectation. During the period from the Listing Date to the date of this report, saved as disclosed below, the Company has complied with all applicable principles and code provisions of the Corporate Governance Code. Corporate governance practices adopted by the Company are summarized below:

1. BOARD OF DIRECTORS

1.1 Composition of the Board of Directors

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

Name	Position
Mr. Shi Chunbao	Chairman, Executive Director and general manager
Ms. Yue Shujun	Executive Director
Mr. Zhang Zhendong (effective from 31 August 2015)	Executive Director
Mr. Ding Gang (resigned on 31 August 2015)	Executive Director
Mr. Lin Yiming	Non-executive Director
Ms. Xu Hong	Independent non-executive Director
Mr. Tong Xiaobo	Independent non-executive Director
Mr. Cheung Ying Kwan (effective from 11 March 2015)	Independent non-executive Director

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

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

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

CORPORATE GOVERNANCE REPORT

The details of the Directors' resumes are set out on pages 14 to 17 of this report. The relationship of the Chairman and general manager Mr. Shi Chunbao and executive Director Ms. Yue Shujun is husband and wife. Other than that, other Members of the Board of Directors do not have any relations between each other (including financial, business, family or other material or related relations). The Board of Directors is well-balanced in structure and each of its members is knowledgeable, richly experienced and talented in the business operation and development of the Company. All the Directors understand their joint and several responsibilities for Shareholders of the Company.

1.2 Board Meetings

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

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

During the year ended 31 December 2015, the Board of Directors held 6 meetings in total, with details of the attendance of Directors specified as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman, Executive Director and general manager	6/6	100%
Ms. Yue Shujun	Executive Director	6/6	100%
Mr. Zhang Zhendong ⁽¹⁾	Executive Director	1/1	100%
Mr. Ding Gang ⁽²⁾	Executive Director	4/6	66.7%
Mr. Lin Yiming	Non-executive Director	6/6	100%
Ms. Xu Hong	Independent non-executive Director	6/6	100%
Mr. Tong Xiaobo	Independent non-executive Director	6/6	100%
Mr. Cheung Ying Kwan ⁽³⁾	Independent non-executive Director	2/2	100%

Notes:

1. The term of office of Mr. Zhang Zhendong took effect on 31 August 2015.
2. Mr. Ding Gang resigned on 31 August 2015.
3. The term of office of Mr. Cheung Ying Kwan took effect on 11 March 2015.

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

1.4 Chairman and Chief Executive Officer

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

1.5 Directors' Appointment and Re-election

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

1.6 Board Diversity Policy

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

CORPORATE GOVERNANCE REPORT

1.7 Training for Directors

Apart from updates on regulatory changes and governance developments provided by the Company, the Directors are encouraged to participate in professional trainings and seminars to develop and refresh their knowledge and skill. During the year, the Company provided reading materials and other updated information regarding latest development of the Listing Rules and other applicable regulations to Directors for their reference and studying.

1.8 Directors' Insurance

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

2. BOARD COMMITTEES

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

2.1 Audit Committee

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

The principal duties of the Audit Committee are making recommendations on the appointment, re-appointment and removal of the external auditors; reviewing and monitoring the independence and objectiveness of the external auditors and the effectiveness of the audit procedure in accordance with applicable standards; reviewing the preparation and disclosure of financial information of the Company; overseeing the financial reporting system and internal control procedure of the Company; and enhancing the communication between internal auditors and external auditors. During the year ended 31 December 2015, the Audit Committee held two meetings, the details of which are as follows:

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

During the year, the performance of the audit committee is as follows:

1. Considered the reappointment of the external auditors;
2. Reviewed the interim financial result for the six months ended 30 June 2015;
3. Reviewed and confirmed the continuing connected transactions; and
4. Reviewed the consolidated financial statements for the year ended 31 December 2015, including the accounting principles and practices.

CORPORATE GOVERNANCE REPORT

2.2 Nomination Committee

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

The principal duties of the Nomination Committee are reviewing the selection requirements and procedures, structure, number, composition and diversity of the directors and senior management; identifying and selecting qualified candidates to be nominated as directors and senior management or making recommendations to the Board; making recommendations to the Board on the appointment or reappointment of and the succession planning for directors and senior management; reviewing, at its discretion, the board diversity policy; reviewing the independence of independent non-executive directors; and carrying out other duties as authorized by the Board. During the year ended 31 December 2015, the Nomination Committee held one meeting, the details of which are as follows:

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

Note:

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

During the year, the performance of the nomination committee is as follows:

1. Reviewed the Board structure, composition and diversity of members and make recommendations to the Board; and
2. Reviewed and made recommendations to the Board on the newly appointed Director.

2.3 Remuneration Committee

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

The Company has adopted the model recommended by the Remuneration Committee to the Board of Directors to recommend the remuneration packages of executive Directors, Supervisors and senior management. The company has a remuneration and incentive system with reference to employee's positions, the Company's performance and market conditions.

CORPORATE GOVERNANCE REPORT

The principal duties of the Remuneration Committee are evaluating the appointment, remuneration policies and assessment criteria for the directors and senior management, conducting such assessment and providing advice. It shall include setting the overall remuneration policy and structure for the directors and senior management of the Company and to propose to the Board in respect of establishing remuneration policy through a formal and transparent procedure; reviewing and approving the remuneration proposals for the management with reference to the corporate goals and objectives made by the Board; make recommendations to the Board on the remuneration packages of Directors and senior management; and carrying out other duties as authorized by the Board. During the year ended 31 December 2015, the Remuneration Committee held one meeting, the details of which are as follows:

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

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2015 is set out below:

Remuneration bands (RMB)	Number of persons
Nil –1,000,000	3
1,000,001–1,500,000	0

During the year, the performance of the remuneration committee is as follows:

1. Reviewed the current policy and structure of remuneration of the Directors and employees; and
2. Reviewed and recommended the remuneration package of the newly appointed Director for the Board's approval.

3. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing annual financial statements of the Company as of 31 December 2015.

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

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

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

CORPORATE GOVERNANCE REPORT

4. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules). The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code from the Listing Date to the date of this report. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

5. JOINT COMPANY SECRETARIES

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

6. INTERNAL CONTROL

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

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

7. AUDITOR'S REMUNERATION

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

Type of Service	RMB'000
Annual Audit Services	483
Audit Fee Paid in relation to the Listing of the Company	283
Total	766

During the year ended 31 December 2015, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

CORPORATE GOVERNANCE REPORT

8. GENERAL MEETINGS

During the year ended 31 December 2015, the Company convened one general meeting, as detailed below:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman, Executive Director and general manager	1/1	100%
Ms. Yue Shujun	Executive Director	1/1	100%
Mr. Zhang Zhendong ⁽¹⁾	Executive Director	N/A	N/A
Mr. Ding Gang ⁽²⁾	Executive Director	0/1	0%
Mr. Lin Yiming	Non-executive Director	1/1	100%
Ms. Xu Hong	Independent non-executive Director	1/1	100%
Mr. Tong Xiaobo	Independent non-executive Director	1/1	100%
Mr. Cheung Ying Kwan ⁽³⁾	Independent non-executive Director	1/1	100%

Note:

1. The term of office of Mr. Zhang Zhendong took effect on 31 August 2015.
2. Mr Ding Gang resigned on 31 August 2015.
3. The term of office of Mr. Cheung Ying Kwan took effect on 11 March 2015.

9. COMMUNICATIONS WITH SHAREHOLDERS

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

9.1 Shareholders' Rights to Propose Resolutions

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

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

CORPORATE GOVERNANCE REPORT

9.2 Shareholders' Right to Requisite a Meeting

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

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

9.3 Inquiry and Communication of Shareholders

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

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

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

10. ARTICLES OF ASSOCIATION AND AMENDMENTS

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

11. NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

INDEPENDENT AUDITOR'S REPORT



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.:

We have audited the accompanying financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (the "Company"), which comprise the consolidated and parent company balance sheets as at December 31, 2015, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in equity for the year then ended, as well as notes to financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The preparation and fair presentation of these financial statements is the responsibility of the Company's management. This responsibility includes: (1) preparing and presenting fairly the financial statements in accordance with China Accounting Standards for Business Enterprises; and (2) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

II. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

III. AUDIT OPINION

In our opinion, the financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

Pan-China Certified Public Accountants LLP
Hangzhou · China

Chinese Certified Public Accountant: Huang Qiaomei

Chinese Certified Public Accountant: Chen Yingjue

Date of Report: March 30, 2016

The independent auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

CONSOLIDATED BALANCE SHEET

As at December 31, 2015
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances	V(I)1	239,066,355.74	63,563,110.13
Settlement funds			
Loans to other banks			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable	V(I)2	11,596,397.70	7,684,649.00
Accounts receivable	V(I)3	55,288,962.08	42,893,825.42
Prepayment	V(I)4	6,784,304.41	3,669,393.96
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable			
Dividend receivable			
Other receivables	V(I)5	496,339.05	982,276.55
Reverse-REPO financial assets			
Inventories	V(I)6	64,635,690.31	35,472,925.88
Assets classified as held-for-sale			
Non-current assets due within one year			
Other current assets	V(I)7	1,709,648.89	8,234,493.57
Total current assets		379,577,698.18	162,500,674.51
Non-current assets:			
Loans and advances paid			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments			
Investment property			
Fixed assets	V(I)8	50,848,279.82	37,355,999.89
Construction in progress	V(I)9	11,080,164.80	3,128,934.07
Construction materials			
Fixed assets disposal			
Biological assets			
Oil & gas assets			
Intangible assets	V(I)10	34,463,938.52	35,284,936.60
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets	V(I)11	762,120.29	709,789.61
Other non-current assets	V(I)12	1,309,152.10	875,690.60
Total non-current assets		98,463,655.53	77,355,350.77
Total assets		478,041,353.71	239,856,025.28

CONSOLIDATED BALANCE SHEET

As at December 31, 2015
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Central bank loans			
Absorbing deposit and interbank deposit			
Loans from other banks			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable	V(I)13	27,758,856.31	14,860,329.15
Advances received	V(I)14	1,993,646.86	1,045,968.09
Proceeds from sale of repurchase financial assets			
Handling fee and commission payable			
Employee benefits payable	V(I)15	2,682,332.37	2,097,740.19
Taxes and rates payable	V(I)16	171,998.72	4,113,533.57
Interest payable			
Dividend payable			
Other payables	V(I)17	5,046,969.38	4,191,783.01
Reinsurance accounts payable			
Reinsurance reserve			
Deposit for agency security transaction			
Deposit for agency security underwriting			
Liabilities classified as held-for-sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		37,653,803.64	26,309,354.01
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Long-term payables			
Special payables			
Provisions			
Deferred income	V(I)18	16,673,255.31	7,626,270.75
Deferred tax liabilities	V(I)11	158,287.02	
Other non-current liabilities			
Total non-current liabilities		16,831,542.33	7,626,270.75
Total liabilities		54,485,345.97	33,935,624.76
Equity:			
Share capital/Paid-in capital	V(I)19	69,170,400.00	50,000,000.00
Capital reserve	V(I)20	230,039,180.01	63,352,595.15
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	V(I)21	17,376,350.74	13,570,973.75
General risk reserve			
Undistributed profit	V(I)22	106,970,076.99	78,996,831.62
Total equity attributable to the parent company		423,556,007.74	205,920,400.52
Non-controlling interest			
Total equity		423,556,007.74	205,920,400.52
Total liabilities & equity		478,041,353.71	239,856,025.28

PARENT COMPANY BALANCE SHEET

As at December 31, 2015
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances		239,039,458.70	61,150,517.26
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		11,596,397.70	7,684,649.00
Accounts receivable	XII(I)1	55,288,962.08	42,893,825.42
Prepayment		6,784,304.41	3,669,393.96
Interest receivable			
Dividend receivable			
Other receivables	XII(I)2	479,858.60	1,128,341.25
Inventories		64,635,690.31	35,472,925.88
Assets classified as held-for-sale			
Non-current assets due within one year			
Other current assets		1,484,836.44	8,234,493.57
Total current assets		379,309,508.24	160,234,146.34
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	XII(I)3	665,263.00	665,263.00
Investment property			
Fixed assets		50,846,304.82	37,354,024.89
Construction in progress		11,080,164.80	3,128,934.07
Construction materials			
Fixed assets disposal			
Biological assets			
Oil & gas assets			
Intangible assets		34,463,938.52	35,284,936.60
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets		745,639.84	699,489.33
Other non-current assets		1,309,152.10	875,690.60
Total non-current assets		99,110,463.08	78,008,338.49
Total assets		478,419,971.32	238,242,484.83

PARENT COMPANY BALANCE SHEET

As at December 31, 2015
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable		27,758,856.31	14,860,329.15
Advances received		1,993,646.86	1,045,968.09
Employee benefits payable		2,671,634.25	2,088,579.37
Taxes and rates payable		171,917.12	4,377,221.93
Interest payable			
Dividend payable			
Other payables		7,106,282.41	4,181,783.01
Liabilities classified as held-for-sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		39,702,336.95	26,553,881.55
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Long-term payables			
Special payables			
Provisions			
Deferred income		16,673,255.31	7,626,270.75
Deferred tax liabilities		158,287.02	
Other non-current liabilities			
Total non-current liabilities		16,831,542.33	7,626,270.75
Total liabilities		56,533,879.28	34,180,152.30
Equity:			
Share capital/Paid-in capital		69,170,400.00	50,000,000.00
Capital reserve		230,039,180.01	63,352,595.15
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		17,376,350.74	13,570,973.75
General risk reserve			
Undistributed profit		105,300,161.29	77,138,763.63
Total equity		421,886,092.04	204,062,332.53
Total liabilities & equity		478,419,971.32	238,242,484.83

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2015
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
VI. Other comprehensive income after tax			
(I) Not reclassified subsequently to profit or loss Including: Changes in remeasurement on the net defined benefit liability/asset Items attributable to investees under equity method that will not reclassified to profit or loss			
(II) To be reclassified subsequently to profit or loss Including: Items attributable to investees under equity method that may be reclassified to profit or loss Profit or loss from changes in fair value of available-for-sale financial assets Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets Profit or loss on cash flow hedging Translation difference of financial statements in foreign currencies			
VII. Total comprehensive income		37,865,617.56	37,031,197.07
Including: Items attributable to owners of parent company		37,865,617.56	37,031,197.07
Items attributable to non-controlling interest			
VIII. Earnings per share:			
(I) Basic EPS	XIII(II)	0.59	0.74
(II) Diluted EPS	XIII(II)	0.59	0.74

PARENT COMPANY INCOME STATEMENT

For the year ended December 31, 2015
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Operating revenue	XII(II)1	177,368,809.71	135,218,206.72
Less: Operating cost	XII(II)1	55,279,800.95	35,640,590.01
Taxes & surcharge for operations		1,496,735.64	1,308,772.95
Selling expenses		45,381,087.56	29,159,266.36
Administrative expenses	XII(II)2	36,344,913.99	25,685,851.97
Financial expense		(5,131,482.18)	(129,760.84)
Assets impairment loss		307,670.01	1,199,693.75
Add: Gain on changes of fair value (or less: losses)			
Investment income (or less: losses)	XII(II)3		61,643.84
Including: investment income from associates and joint ventures			
II. Operating profit(or less: losses)		43,690,083.74	42,415,436.36
Add: Non-operating revenue		853,353.20	692,127.25
Including: Gains on disposal of non-current assets		8,087.38	
Less: Non-operating expenditures		854,912.04	27,683.51
Including: losses on disposal of non-current assets		55,779.22	
III. Profit before tax (or less: total loss)		43,688,524.90	43,079,880.10
Less: income tax		5,634,755.05	5,887,920.54
IV. Net profit (or less: net loss)		38,053,769.85	37,191,959.56
V. Other comprehensive income after tax			
(I) Not reclassified subsequently to profit or loss			
Including: Changes in remeasurement on the net defined benefit liability/asset			
Items attributable to investees under equity method that will not reclassified to profit or loss			
(II) To be reclassified subsequently to profit or loss			
Including: Items attributable to investees under equity method that may be reclassified to profit or loss			
Profit or loss from changes in fair value of available-for-sale financial assets			
Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets			
Profit or loss on cash flow hedging			
Translation difference of financial statements in foreign currencies			
VI. Total comprehensive income		38,053,769.85	37,191,959.56
VII. Earnings per share:			
(I) Basic EPS			
(II) Diluted EPS			

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2015
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash receipts from sale of goods or rendering of services		185,268,967.83	142,862,347.35
Net increase of client deposit and interbank deposit			
Net increase of central bank loans			
Net increase of loans from other financial institutions			
Cash receipts of original insurance contract premium			
Net cash receipts from reinsurance			
Net increase of policy-holder deposit and investment			
Net increase of trading financial assets disposal			
Cash receipts from interest, handling charges and commission			
Net increase of loans from others			
Net increase of repurchase			
Receipts of tax refund			
Other cash receipts related to operating activities	V(III)1	379,413.00	645,918.00
Subtotal of cash inflows from operating activities		185,648,380.83	143,508,265.35
Cash payments for goods purchased and services received		65,075,410.67	37,327,824.17
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payment of insurance indemnities of original insurance contracts			
Cash payment of interest, handling charges and commission			
Cash payment of policy bonus			
Cash paid to and on behalf of employees		33,590,826.74	25,026,205.57
Cash payments of taxes and rates		31,628,257.43	21,645,878.69
Other cash payments related to operating activities	V(III)2	55,864,486.04	35,233,771.62
Subtotal cash outflows from operating activities		186,158,980.88	119,233,680.05
Net cash flows from operating activities		(510,600.05)	24,274,585.30
II. Cash flows from investing activities:			
Cash received from return of investments			10,000,000.00
Cash received from return on investments			61,643.84
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		73,200.00	
Net cash received from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities	V(III)3	12,867,871.26	2,169,062.90
Subtotal of cash inflows from investing activities		12,941,071.26	12,230,706.74
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		26,583,250.02	11,770,172.87
Cash paid for acquiring investments			10,000,000.00
Net increase of pledged loans			
Net cash paid for acquiring subsidiaries & other business units			
Other cash payments related to investing activities	V(III)4	4,026,863.96	
Subtotal of cash outflows from investing activities		30,610,113.98	21,770,172.87
Net cash flows from investing activities		(17,669,042.72)	(9,539,466.13)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2015

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
III. Cash flows from financing activities:			
Cash received from investment by others		202,198,658.82	
Including: cash received by subsidiaries from non-controlling owners			
Cash received from borrowings			
Cash received from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities		202,198,658.82	
Cash repayments of borrowings			
Cash paid for distribution of dividends or profits and for interest expenses		6,086,995.20	11,000,000.00
Including: cash paid for distribution of dividends or profits by subsidiaries to minority owners			
Other cash payments related to financing activities		8,438,345.53	6,028,205.01
Subtotal of cash outflows from financing activities		14,525,340.73	17,028,205.01
Net cash flows from financing activities		187,673,318.09	(17,028,205.01)
IV. Effect of foreign exchange rate changes on cash & cash equivalents		1,982,706.33	
V. Net increase in cash and cash equivalents		171,476,381.65	(2,293,085.84)
Add: Opening balance of cash and cash equivalents		63,563,110.13	65,856,195.97
VI. Closing balance of cash and cash equivalents		235,039,491.78	63,563,110.13

PARENT COMPANY CASH FLOW STATEMENT

For the year ended December 31, 2015
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		185,268,967.83	142,862,347.35
Receipts of tax refund			
Other cash receipts related to operating activities		2,514,623.42	645,918.00
Subtotal of cash inflow from operating activities		187,783,591.25	143,508,265.35
Cash payments for goods purchased and services received		64,846,532.17	37,327,824.17
Cash payments to and on behalf of employees		33,585,245.02	24,898,253.92
Cash payments of taxes and rates		31,628,257.43	21,645,878.69
Other cash payments related to operating activities		55,843,198.02	35,465,646.08
Subtotal of cash outflows from operating activities		185,903,232.64	119,337,602.86
Net cash flows from operating activities		1,880,358.61	24,170,662.49
II. Cash flows from investing activities:			
Cash received from return of investments			10,000,000.00
Cash received from investments gains			61,643.84
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		73,200.00	
Net cash receipts from disposals of subsidiaries and other business units			
Other cash receipts related to investing activities		12,862,608.43	2,159,736.42
Subtotal of cash inflow from investing activities		12,935,808.43	12,221,380.26
Cash payments to acquire fixed assets, intangible assets and other long-term assets		26,583,250.02	11,770,172.87
Cash payments to acquire investments			10,000,000.00
Net cash payments for acquisitions of subsidiaries and other business units			
Other cash payments related to investing activities		4,026,863.96	
Subtotal of cash outflows from investing activities		30,610,113.98	21,770,172.87
Net cash flows from investing activities		(17,674,305.55)	(9,548,792.61)
III. Cash flows from financing activities:			
Cash receipts from investment by others		202,198,658.82	
Cash receipts from borrowings			
Cash received from issuing bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities		202,198,658.82	
Cash repayments of borrowings			
Cash payments for distribution of dividends or profit or interest expenses		6,086,995.20	11,000,000.00
Other cash payments related to financing activities		8,438,345.53	6,028,205.01
Subtotal of cash outflows from financing activities		14,525,340.73	17,028,205.01
Net cash flows from financing activities		187,673,318.09	(17,028,205.01)
IV. Effect of foreign exchange rate changes on cash and cash equivalents		1,982,706.33	
V. Net increase in cash and cash equivalents		173,862,077.48	(2,406,335.13)
Add: Opening balance of cash and cash equivalents		61,150,517.26	63,556,852.39
VI. Closing balance of cash and cash equivalents		235,012,594.74	61,150,517.26

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015
(Expressed in Renminbi Yuan)

Items	Current period cumulative										
	Equity attributable to parent company										
	Share capital/ Paid-in capital	Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	Special reserve	Non-controlling Others	Non-controlling interest	Total equity
I. Balance at the end of prior year	50,000,000.00	63,352,595.15			13,570,973.75		78,996,831.62				205,920,400.52
Add: cumulative changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	50,000,000.00	63,352,595.15			13,570,973.75		78,996,831.62				205,920,400.52
III. Current period increase (or less: decrease)	19,170,400.00	166,686,584.86			3,805,376.99		27,973,245.37				217,635,607.22
(I) Other comprehensive income							37,865,617.56				37,865,617.56
(II) Capital contributed or withdrew by owners	19,170,400.00	166,686,584.86									185,856,984.86
1. Capital contributed by owners	19,170,400.00	166,686,584.86									185,856,984.86
2. Amount of share-based payment included in equity											
3. Others											
(III) Profit distribution					3,805,376.99		(9,892,372.19)				(6,086,995.20)
1. Appropriation of surplus reserve					3,805,376.99		(3,805,376.99)				
2. Appropriation of general risk reserve											
3. Appropriation of profit to owners							(6,086,995.20)				(6,086,995.20)
4. Others											
(IV) Internal carry-over within equity											
1. Transfer of capital reserve to capital											
2. Transfer of surplus reserve to capital											
3. Surplus reserve to cover losses											
4. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
IV. Balance at the end of current period	69,170,400.00	230,039,180.01			17,376,350.74		106,970,076.99				423,556,007.74

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

(Expressed in Renminbi Yuan)

Items	Preceding period comparative										
	Equity attributable to parent company										
	Share capital/ Paid-in capital	Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	Special reserve	Others	Non-controlling interest	Total equity
I. Balance at the end of prior year	50,000,000.00	63,352,595.15			9,851,777.79		56,684,830.51				179,889,203.45
Add: cumulative changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	50,000,000.00	63,352,595.15			9,851,777.79		56,684,830.51				179,889,203.45
III. Current period increase (or less: decrease)					3,719,195.96		22,312,001.11				26,031,197.07
(I) Other comprehensive income							37,031,197.07				37,031,197.07
(II) Capital contributed or withdrew by owners											
1. Capital contributed by owners											
2. Amount of share-based payment included in equity											
3. Others											
(III) Profit distribution					3,719,195.96		(14,719,195.96)				(11,000,000.00)
1. Appropriation of surplus reserve					3,719,195.96		(3,719,195.96)				
2. Appropriation of general risk reserve											
3. Appropriation of profit to owners											(11,000,000.00)
4. Others											
(IV) Internal carry-over within equity											
1. Transfer of capital reserve to capital											
2. Transfer of surplus reserve to capital											
3. Surplus reserve to cover losses											
4. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
IV. Balance at the end of current period	50,000,000.00	63,352,595.15			13,570,973.75		78,996,831.62				206,920,400.52

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015
(Expressed in Renminbi Yuan)

Items	Current period cumulative								Total equity
	Share capital/ Paid-in capital	Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	Special reserve	
I. Balance at the end of prior year	50,000,000.00	63,352,595.15			13,570,973.75		77,138,763.63		204,062,332.53
Add: cumulative changes of accounting policies									
Error correction of prior period									
Others									
II. Balance at the beginning of current year	50,000,000.00	63,352,595.15			13,570,973.75		77,138,763.63		204,062,332.53
III. Current period increase (or less: decrease)	19,170,400.00	166,686,584.86			3,805,376.99		28,161,397.66		217,823,759.51
(I) Other comprehensive income							38,053,769.85		38,053,769.85
(II) Capital contributed or withdrew by owners	19,170,400.00	166,686,584.86							185,856,984.86
1. Capital contributed by owners	19,170,400.00	166,686,584.86							185,856,984.86
2. Amount of share-based payment included in equity									
3. Others									
(III) Profit distribution					3,805,376.99		(9,892,372.19)		(6,086,995.20)
1. Appropriation of surplus reserve					3,805,376.99		(3,805,376.99)		
2. Appropriation of general risk reserve									
3. Appropriation of profit to owners							(6,086,995.20)		(6,086,995.20)
4. Others									
(IV) Internal carry-over within equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve to cover losses									
4. Others									
(V) Special reserve									
1. Appropriation of current period									
2. Application of current period									
(VI) Others									
IV. Balance at the end of current period	69,170,400.00	230,039,180.01			17,376,350.74		105,300,161.29		421,886,092.04

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

(Expressed in Renminbi Yuan)

Items	Preceding period comparative								Total equity
	Share capital/ Paid-in capital	Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	Special reserve	
I. Balance at the end of prior year	50,000,000.00	63,352,595.15			9,851,777.79		54,666,000.03		177,870,372.97
Add: cumulative changes of accounting policies									
Error correction of prior period									
Others									
II. Balance at the beginning of current year	50,000,000.00	63,352,595.15			9,851,777.79		54,666,000.03		177,870,372.97
III. Current period increase (or less: decrease)					3,719,195.96		22,472,763.60		26,191,959.56
(I) Other comprehensive income							37,191,959.56		37,191,959.56
(II) Capital contributed or withdrew by owners									
1. Capital contributed by owners									
2. Amount of share-based payment included in equity									
3. Others									
(III) Profit distribution					3,719,195.96		(14,719,195.96)		(11,000,000.00)
1. Appropriation of surplus reserve					3,719,195.96		(3,719,195.96)		
2. Appropriation of general risk reserve							(11,000,000.00)		(11,000,000.00)
3. Appropriation of profit to owners									
4. Others									
(IV) Internal carry-over within equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve to cover losses									
4. Others									
(V) Special reserve									
1. Appropriation of current period									
2. Application of current period									
(VI) Others									
IV. Balance at the end of current period	50,000,000.00	63,352,595.15			13,570,973.75		77,138,763.63		204,062,332.53

Shi Chunbao _____
Legal Representative
(Signature and stamp)

Xu Yanping _____
Officer in charge of accounting
(Signature and stamp)

Xu Yanping _____
Head of accounting department
(Signature and stamp)

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

I. COMPANY PROFILE

Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”) is established by 史春寶先生 (Mr. Shi Chunbao) and 岳術俊女士 (Ms. Yue Shujun) under the approval of Beijing Administration for Industry and Commerce. The Company registered at Beijing Administration for Industry and Commerce, Tongzhou Sub-bureau on February 12, 1998 and acquired a business license with unified social credit code of 91110000633737758W. The Company is headquartered in Beijing. Its current registered capital is 69.1704 million yuan, and total shares are 69.1704 million shares (each with par value of one yuan), of which, 50 million shares are restricted shares, and 19.1704 million shares are outstanding shares. The Company’s shares were listed at the Stock Exchange of Hong Kong Ltd. on March 11, 2015.

The Company belongs to medical device industry and is mainly engaged in 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 businesses and operations which can only be operated under government permissions, the Company conduct such businesses and operations with government permission). The Company’s main products and services are joint prosthesis products and spinal products.

The financial statements were approved and authorized for issue by the Fifteenth Meeting of the Second Session of the Board of Directors dated 30 March 2016.

The Company has brought the subsidiary 北京兆億特醫療器械有限公司 (Beijing Zhao Yi Te Medical Devices Co., Ltd.*) into the consolidation scope. Please refer to notes to changes in the consolidated scope and interest in other entities for details.

II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

Important note:

The Company has set up accounting policies and estimates on transactions or events such as provision for bad debts of receivables, depreciation of fixed assets, amortization of intangible assets, and revenue recognition, etc. based on the Company’s actual production and operation features.

(I) Preparation basis

The financial statements have been prepared on the basis of going concern.

(II) Assessment of the ability to continue as a going concern

The Company has no events or conditions that may cast significant doubts upon the Company’s ability to continue as a going concern within the 12 months after the balance sheet date.

* The English name is for identification propose only.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(I) Statement of compliance

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (CASBEs), and present truly and completely the financial position, results of operations and cash flows of the Company.

(II) Accounting period

The accounting year of the Company runs from January 1 to December 31 under the Gregorian calendar.

(III) Operating cycle

The Company has a relatively short operating cycle for its business, an asset or a liability is classified as current if it is expected to be realized or due within 12 months.

(IV) Functional currency

The Company's functional currency is Renminbi (RMB) Yuan.

(V) Accounting treatments of business combination under and not under common control

1. Accounting treatment of business combination under common control

Assets and liabilities arising from business combination are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

2. Accounting treatment of business combination not under common control

When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

(VI) Compilation method of consolidated financial statements

The parent company brings all its controlled subsidiaries into its consolidation scope. The consolidated financial statements are compiled by the parent company according to "CASBE 33 – Consolidated Financial Statements", based on relevant information and the financial statements of the parent company and its subsidiaries.

(VII) Recognition criteria of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and deposit on demand for payment. Cash equivalents refer to short-term, highly liquid investments that can be readily converted to cash and that are subject to an insignificant risk of changes in value.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(VIII) Foreign currency translation

1. Translation of transactions denominated in foreign currency

Transactions denominated in foreign currency are translated into RMB yuan at the spot exchange rate at the transaction date at initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in profit or loss; non-cash items carried at historical costs are translated at the spot exchange rate at the transaction date, with its RMB amount unchanged; non-cash items carried at fair value in foreign currency are translated at the spot exchange rate at the date when the fair value was determined, with difference included in profit or loss or other comprehensive income.

2. Translation of financial statements measured in foreign currency

The assets and liabilities in the balance sheet are translated into RMB at the spot rate at the balance sheet date; the equity items, other than undistributed profit, are translated at the spot rate at the transaction date; the revenues and expenses in the income statement are translated into RMB at the approximate exchange rate similar to the systematically and rationally determined spot exchange rate at the transaction date. The difference arising from foreign currency translation is included in other comprehensive income.

(IX) Financial instruments

1. Classification of financial assets and financial liabilities

Financial assets are classified into the following four categories when initially recognized: financial assets at fair value through profit or loss (including held-for-trading financial assets and financial assets designated at initial recognition as at fair value through profit or loss), held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

Financial liabilities are classified into the following two categories when initially recognized: financial liabilities at fair value through profit or loss (including held-for-trading financial liabilities and financial liabilities designated at initial recognition as at fair value through profit or loss), and other financial liabilities.

2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities

When the Company becomes a party to a financial instrument, it is recognized as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount.

The Company measures its financial assets at fair value subsequent to initial recognition, and does not deduct the transaction expenses that may occur when it disposes of the said financial asset in the future. However, those under the following circumstances are excluded: (1) the held-to-maturity investments, loans and receivables are measured at amortized costs using effective interest method; (2) the equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by the delivery of the said equity instrument are measured at their costs.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities (Continued)

The Company measures its financial liabilities at the amortized costs using effective interest method, with the exception of those under the following circumstances: (1) for the financial liabilities at fair value through profit or loss, they are measured at fair value, and none of the transaction expenses may be deducted, which may occur when the financial liabilities are settled in the future; (2) for the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by the delivery of the equity instrument, they are measured at their costs; (3) for the financial guarantee contracts which are not designated as a financial liability at fair value through profit or loss, and for the commitments to grant loans which are not designated as at fair value through profit or loss and which will enjoy an interest rate lower than that of the market, they are measured subsequent to initial recognition at the higher of the following two items 1) The amount as determined according to “CASBE13 – Contingencies”; 2) the surplus after accumulative amortization as determined according to “CASBE14 – Revenues”.

The gains or losses arising from changes in fair value of financial assets or financial liabilities, if not related to hedging, are measured with the following methods: (1) Gains or losses, arising from the changes in fair value of financial asset or liability at its fair value through profit or loss, is included in gains or losses on changes in fair value; interests or cash dividends gained during the asset-holding period are recognized as investment income; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the initial recorded amount, at the same time, gains or losses on changes in fair value are adjusted accordingly. (2) For available-for-sale financial asset, changes in fair value are recorded as other comprehensive income during the holding period, interests measured at effective interest method are recorded as investment income; cash dividends from available-for-sale equity instrument investment are recognized as investment income at the date of dividend declaration; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the book value deducting the accumulative amount of changes in fair value originally included in other comprehensive.

Financial assets are derecognized when the contractual rights for collecting the cash flow of the said financial assets expire or substantially all risks and rewards related to the said financial assets have been transferred. Only when the underlying present obligations of a financial liability are relieved totally or partly may the financial liability be derecognized accordingly.

3. Recognition criteria and measurement method of financial assets transfer

Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset to the transferee, it derecognizes the financial asset. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset, and the consideration received is recognized as a financial liability. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the Company gives up its control over the financial asset, it derecognizes the financial asset; (2) if the Company does not give up its control over the financial asset, according to the extent of its continuing involvement in the transferred financial asset, it recognizes the related financial asset and recognizes the relevant liability accordingly.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

3. Recognition criteria and measurement method of financial assets transfer (Continued)

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following two items are included in profit or loss: (1) the book value of the transferred financial asset; (2) the sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally included in equity. If the transfer of financial asset partially satisfies the conditions to derecognition, the entire book value of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the amounts of the following two items are included into profit or loss: (1) the book value of the portion which is derecognized; (2) the sum of consideration of the portion which is derecognized, and the portion of the accumulative amount of the changes in the fair value originally included in equity which is corresponding to the portion which is derecognized.

4. Fair value determination method of financial assets and liabilities

The Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The inputs to valuation techniques used to measure fair value are arranged in the following hierarchy and used accordingly:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- (2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, for example, interest rates and yield curves observable at commonly quoted intervals; market-corroborated inputs.
- (3) Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company's own data, etc.

5. Impairment test and provision for impairment loss of financial assets

- (1) An impairment test is carried out at the balance sheet date on the financial assets other than those at fair value through profit or loss, and provisions for impairment loss should be made if there is objective evidence indicating impairment loss.
- (2) For held-to-maturity investments, borrowings, and receivables, an impairment test is made on an individual basis on financial assets of individually significant amount; with regard to the financial assets of individually insignificant amount, they may be included in a portfolio of financial assets with similar credit risk features so as to carry out an impairment-related test; where, upon the impairment test on an individual basis, the financial asset (including those financial assets of individually significant amount and of individually insignificant amount) is not impaired, it is included in a portfolio of financial assets with similar credit risk features so as to conduct further impairment test. Where a financial asset is impaired, the carrying amount of the said financial asset is written down to the present value of the predicted future cash flow.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

5. Impairment test and provision for impairment loss of financial assets (Continued)

- (3) Available-for-sale financial assets
- 1) Objective evidence indicating that available-for-sale debt instrument investments may be impaired includes:
 - a. significant financial difficulties in the debtor;
 - b. breach of contract by the debtor, such as principal or interest past due or default;
 - c. concessions made to debtors with financial difficulties considering economic and legal factors;
 - d. it is highly probable that the debtor is going to dissolve or going through other terms of financial restructuring;
 - e. owing to significant financial difficulties occurred to the debtor, the debt instrument is discontinued to trade in active market; or
 - f. Other circumstances indicating that available-for-sale debt instrument may be impaired.
 - 2) Evidence indicating that available-for-sale equity instrument investment may be impaired includes the fair value of equity instrument investment is suffered from significant or non-temporary decline and the technical, market, economic, or legal environment in which the investee operates has significant adverse changes under which the Company may not be able to recover its investment cost.

The Company performs review on available-for-sale equity instrument investment on an individual basis at the balance sheet date. For equity instrument investment at fair value, if the balance sheet date fair value is 50% or above lower than the cost, or the balance sheet date fair value has been lower than the cost for a consecutive of 12 months or longer, it is determined that such equity instrument investment is impaired; if the balance sheet date fair value is 20% or above but not exceeding 50% lower than the cost, or the balance sheet date fair value has been lower than the cost for a consecutive of 6 months or longer but not exceeding 12 months, the Company may take other factors such as price volatility into consideration in determining whether such equity instrument investment is impaired. For equity instrument investment at cost, the Company considers whether the technical, market, economic, or legal environment in which the investee operates has significant adverse changes to determine whether such equity instrument is impaired.

When an available-for-sale financial asset at fair value is impaired, the cumulative loss arising from decline in fair value that has been recognized directly in other comprehensive income is reclassified to impairment loss. If, after an impairment loss has been recognized on available-for-sale debt instrument investment, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. Subsequent fair value increase in available-for-sale debt instrument investment whose impairment loss has been recognized is directly recognized in other comprehensive income.

When an available-for-sale equity instrument at cost is impaired, impairment loss on such equity instrument investment is recognized at any excess of its carrying amount over the present value of future cash flows, and such impairment loss is not reversed upon recognition.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(X) Receivables

1. Receivables of individually significant amount and with provision made on an individual basis

Judgement basis or amount criteria of individually significant amount	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
Provision method for receivables of individually significant amount and with provision made on an individual basis	Provisions are made on the difference between the lower of present value of future cash flow and their carrying amount based on impairment testing on an individual basis.

2. Receivables with provision made on a collective basis using portfolios with similar credit risk features

(1) Specific portfolios and provision method

Provision method of provision being made on collective basis using portfolios with similar credit risk features:

Portfolio grouped with age	Age analysis method
Portfolio grouped with balance due from related parties	No provision for bad debts is made
Portfolio grouped with age analysis method	Age analysis method

(2) Age analysis method

Ages	Proportion of provision for accounts receivable (%)	Proportion of provision for other receivables (%)
Within 1 year (inclusive, the same hereinafter)	3.00	3.00
1-2 years	8.00	8.00
2-3 years	20.00	20.00
3-4 years	50.00	50.00
4-5 years	80.00	80.00
Over 5 years	100.00	100.00

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(X) Receivables (Continued)

3. Receivables of individually insignificant amount but with provision made on an individual basis

Reasons for provision made on an individual basis	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
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Provision method	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
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For other receivables such as notes receivable, interest receivable and long-term receivable, etc., provision for bad debts is made at the excess of the carrying amount of the receivables over the present value of the estimated future cash flows.

(XI) Inventories

1. Classification of inventories

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or suppliers etc. to be consumed in the production process or in the rendering of services.

2. Accounting method for dispatching inventories:

Inventories are recognized at the actual cost, and raw materials and goods on hand dispatched from storage are accounted for with weighted average method on a monthly basis.

3. Basis for determining net realizable value

At the balance sheet date, inventories are measured at the lower of cost or net realizable value; provisions for inventory write-down are made on the excess of its cost over the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. Inventory system

Perpetual inventory method is adopted.

5. Amortization method of low-value consumables and packages

(1) Low-value consumables
Low-value consumables are amortized with one-off method.

(2) Packages
Packages are amortized with one-off method.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XII) Long-term equity investments

1. Judgment of joint control and significant influence

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

2. Determination of investment cost

- (1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investment and the carrying value of the combination consideration paid or the par value of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, investment cost is initially recognized at the share of the carrying amount of net assets of the combined party included the consolidated financial statements of the ultimate controlling party. The difference between the acquisition-date investment cost of long-term equity investments and the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

- (2) For business combination not under common control, investment cost is initially recognized at the acquisition-date fair value of considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages, the Company determined whether they are stand-alone financial statements or consolidated financial statements in accounting treatment:

- 1) In the case of stand-alone financial statements, investment cost is initially recognized at the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity.
- 2) In the case of consolidated financial statements, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, the carrying value of the acquirer’s previously held equity interest in the acquire is re-measured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognized in investment income; when the acquirer’s previously held equity interest in the acquire involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from re-measurement of defined benefit plan of the acquiree.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. Determination of investment cost (Continued)

(3) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to "CASBE12 – Debt Restructuring"; and that obtained through non-cash assets exchange is determined according to "CASBE7 – Non-cash Assets Exchange".

3. Subsequent measurement and recognition method of gain or loss

For long-term equity investment with control relationship, it is accounted for with cost method; for long-term equity investment with joint control or significant influence relationship, it is accounted for with equity method.

4. Disposal of a subsidiary in stages resulting in the Company's loss of control

(1) Stand-alone financial statements

The difference between the carrying amount of the disposed equity and the consideration obtained thereof is recognized in profit or loss. If the disposal does not result in the Company's loss of significant influence or joint control, the remained equity is accounted for with equity method; however, if the disposal results in the Company's loss of control, joint control, or significant influence, the remained equity is reclassified as available-for-sale financial assets, and accounted for according to CASBE 22 – Financial Instruments: Recognition and Measurement.

(2) Consolidated financial statements

1) Disposal of a subsidiary in stages not qualified as "bundled transaction" resulting in the Company's loss of control

Before the Company's loss of control, the difference between the disposal consideration and the proportionate share of net assets in the disposed subsidiary from acquisition date or combination date to the disposal date is adjusted to capital reserve (capital premium), if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When the Company loses control, the remained equity is re-measured at the loss-of-control-date fair value. The aggregated value of disposal consideration and the fair value of the remained equity, less the share of net assets in the disposed subsidiary held before the disposal from the acquisition date or combination date to the disposal date is recognized in investment income in the period when the Company loses control over such subsidiary, and meanwhile goodwill is offset correspondingly. Other comprehensive income related to equity investments in former subsidiary is reclassified as investment income upon the Company's loss of control.

2) Disposal of a subsidiary in stages qualified as "bundled transaction" resulting in the Company's loss of control

In case of "bundled transaction", stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. Before the Company loses control, the difference between the disposal consideration at each stage and the proportionate share of net assets in the disposed subsidiary is recognized as other comprehensive income at the consolidated financial statements and reclassified as profit or loss in the period when the Company loses control over such subsidiary.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XIII) Fixed assets

1. Recognition principles of fixed assets

Fixed assets are tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year. Fixed assets are recognized if, and only if, it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the assets can be measured reliably.

2. Depreciation method of different categories of fixed assets

Categories	Depreciation method	Useful life (years)	Estimated residual value proportion (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line method	30	5	3.17
mechanical equipment	Straight-line method	10	5	9.50
Transport facilities	Straight-line method	5	5	19.00
Other equipment	Straight-line method	5	5	19.00

(XIV) Construction in progress

1. Construction in progress is recognized if, and only if, it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designed usable conditions.
2. Construction in progress is transferred into fixed assets at its actual cost when it reaches its designed usable conditions. When the construction completion cost reaches final estimating and auditing of the construction in progress was not finished while it reaching the designed usable conditions, it is transferred to fixed assets using estimated value first, and then adjusted accordingly when the actual cost is settled, but the accumulated depreciation is not to be adjusted retrospectively.

(XV) Borrowing costs

1. Recognition principle of borrowing costs capitalization

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it is capitalized and included in the costs of relevant assets; other borrowing costs are recognized as expenses on the basis of the actual amount incurred, and are included in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XV) Borrowing costs (Continued)

2. Borrowing costs capitalization period

- (1) The borrowing costs are not capitalized unless they following requirements are all met: 1) the asset disbursements have already incurred; 2) the borrowing costs have already incurred; and 3) the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.
- (2) Suspension of capitalization: where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended; the borrowing costs incurred during such period are recognized as expenses, and are included in profit or loss, till the acquisition and construction or production of the asset restarts.
- (3) Ceasing of capitalization: when the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs is ceased.

3. Capitalization rate and capitalized amount of borrowing costs

For borrowings exclusively for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests is determined in light of the actual interest expenses incurred (including amortization of premium or discount based on effective interest method) of the special borrowings at the present period minus the income of interests earned on the unused borrowings as a deposit in the bank or as a temporary investment; where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the Company calculates and determines the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

(XVI) Intangible assets

1. Intangible asset includes land use right and software, etc. The initial measurement of intangible asset is based its cost.
2. For intangible assets with finite useful lives, its amortization amount is amortized within its useful lives systematically and reasonably, if it is unable to determine the expected realization pattern reliably, intangible assets are amortized by the straight-line method with details as follows:

Items	Amortization period (years)
Land use rights	37.50; 49.00
Software	5.00

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XVII) Impairment of part of long-term assets

For long-term assets such as long-term equity investments, fixed assets, construction in progress, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of groups of assets.

When the recoverable amount of such long-term assets is lower than their carrying amount, the difference is recognized as assets impairment loss through profit or loss.

(XVIII) Long-term prepayments

Long-term prepayments are expenses that have been recognized but with amortization period over one year (excluding one year). They are recorded with actual cost, and evenly amortized within its beneficiary period or stipulated period. If items of long-term prepayments fail to be beneficial to the following accounting periods, residual values of such items are included in profit or loss.

(XIX) Employee benefits

1. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.
2. **Short-term employee benefits**
The Company recognizes, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XIX) Employee benefits (Continued)

3. Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans.

- (1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined contribution plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.
- (2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:
 - 1) In accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. The Company discounts obligations under the defined benefit plan using the discount rate to determine the present value of the defined benefit plan obligations and the current service cost;
 - 2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;
 - 3) At the end of reporting period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. Changes as a result of re-measurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XIX) Employee benefits (Continued)

4. Termination benefits

Termination benefits provided to employees are recognized as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates:

a. when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or b. when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

5. Other long-term employee benefits

When other long-term employee benefits provided by the Company to the employees satisfied the conditions for classifying as a defined contribution plan, those benefits are accounted for in accordance with the requirements relating to defined contribution plan. The Company recognizes and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to defined benefit plan. At the end of the reporting period, the Company recognizes the components of cost of employee benefits arising from other long-term employee benefits as the followings: a. service cost; b. net interest on the net liability or net assets of other long-term employee benefits; and c. changes as a result of re-measurement of the net liability or net assets of other long-term employee benefits. As a practical expedient, the net total of the aforesaid amounts are recognized in profit or loss or included in the cost of a relevant asset.

(XX) Provisions

1. Provisions are recognized when fulfilling the present obligations arising from contingencies such as providing guarantee for other parties, litigation, products quality guarantee, onerous contract, etc., may cause the outflow of the economic benefit and such obligations can be reliably measured.
2. The initial measurement of provisions is based on the best estimated expenditures required in fulfilling the present obligations, and its carrying amount is reviewed at the balance sheet date.

(XXI) Revenue

1. Revenue recognition principles

(1) Sale of goods

Revenue from sale of goods is recognized if, and only if, the following conditions are all satisfied: a) significant risks and rewards of ownership of the goods is transferred to the buyer; b) the Company retains neither continuing managerial involvement of ownership nor effective control over the goods sold; c) the amount of revenue can be measured reliably; d) it is probable that the economic benefits of the transaction will flow to the Company; and e) the costs of the transaction incurred and to be incurred can be measured reliably.

(2) Rendering of services

When the outcome of the transaction can be estimated reliably (the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the Company, the percentage of completion of the transaction can be determined reliably, and the costs of the transaction incurred and to be incurred can be measured reliably), revenue from rendering of services is recognized using the percentage of completion method, and the stage of completion is determined at the proportion of costs incurred to the estimated total costs. When the outcome of the transaction cannot be estimated reliably at the balance sheet date, revenue is recognized based on the amount of the costs incurred and the costs incurred are charged off at the same amount when the costs incurred are expected to be recoverable; and no revenue is recognized and the costs incurred are charged off as an expense of the period when the costs incurred are not expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXI) Revenue (Continued)

1. Revenue recognition principles (Continued)

(3) Revenue arising from use by others of assets

Revenue arising from use by others of assets is recognized if, and only if, it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Interest income is recognized based on the length of time for which the Company's cash is used by others and the effective interest rate; and royalties are recognized according to the period and method of charging as specified in relevant contract or agreement.

2. Revenue recognition method adopted by the Company

The Company's main product(s) standard Joint prosthesis products, spinal products, custom joint prosthesis products and custom (modular) joint prosthesis products.

Revenue from domestic sales is recognized if, and only if, the following conditions are all met: the Company has delivered goods to the purchaser based on contractual agreements; sales revenue is determined; goods payment has been collected or the Company has obtained receipts invoices and it is probable that economic benefits associated with the transaction will flow to the Company; and the costs of the transaction incurred and to be incurred can be measured reliably.

Revenue from overseas sales is recognized if, and only if, the Company has declared goods to the customs and the goods have departed from the port to the purchaser based on contractual agreements; the Company has obtained a bill of lading; sales revenue is determined; goods payment has been collected or the Company has obtained receipts invoices and it is probable that economic benefits associated with the transaction will flow to the Company; and the costs of the transaction incurred and to be incurred can be measured reliably.

(XXII) Government grants

1. Government grants related to assets

Government grants related to assets are government grants, with which the Company purchase, construct or otherwise acquire non-current assets. They are recognized as deferred income, and amortized on a straight-line method over the useful lives of the relevant assets, and included in profit or loss. However, those measured at notional amount is directly included into profit or loss.

2. Government grants related to income

Government grants related to income are government grants other than those related to assets. Government grants related to income if used for compensating the related future expenses or losses of the Company are recognized as deferred income and are included in profit or loss during the period when the relevant expenses are recognized; if used for compensating the related expenses or losses incurred to the Company are directly included in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXIII) Deferred tax assets/Deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.
2. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference. At the balance sheet date, if there is any exact evidence that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized.
3. At the balance sheet date, the carrying amount of deferred tax assets is reviewed. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable income will be available.
4. The income tax and deferred tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (a) business combination; and (b) the transactions or items directly recognized in equity.

(XXIV) Operating leases

When the Company is the lessee, lease payments are recognized as cost or profit or loss with straight-line method over the lease term. Initial expenses are recognized directly into profit or loss. Contingent rents are charged as profit or loss in the periods in which they are incurred.

When the Company is the lessor, lease income is recognized as profit or loss with straight-line method over the lease term. Initial expenses, other than those with material amount and eligible for capitalization which are recognized as profit or loss by installments, are recognized directly as profit or loss. Contingent rents are charged into profit or loss in the periods in which they are incurred.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXV) Critical accounting judgements and estimates

In the course of preparing financial statements, the Company has used estimates and assumptions, which may have effects on the application of accounting policies and amount of assets, liabilities, revenue and expenses. Concerning the discrepancy in practice, the Company performs ongoing assessment on key assumptions and key sources of estimation uncertainty. Effects arising from changes in accounting estimates are recognized at the period when such change occurs and subsequent period onwards.

Key sources of estimation uncertainty are:

1. Recognition of deferred tax assets

As stated in deferred tax assets/liabilities under Note III, deferred tax assets are recognized based on the deductible temporary difference (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) between the carrying amount and the tax base of assets or liabilities and the applicable tax rate at the time when such asset is collected or such liability is liquidated. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference.

2. Provision for bad debts

As stated in receivables under Note III, the Company performs individual impairment test on receivables of individually significant amount and with provision made on an individual basis, and provision for bad debts is made on the difference between the present value of future cash flow and the carrying amount. For receivable portfolios of individually insignificant amount but with critical credit risk, provision for bad debt is made based on the portfolio structure and similar credit risk features (debtor's ability to pay debt based on contractual terms) and estimated loss by considering historic losses and debtor's economic conditions at the difference between the present value of future cash flow and the carrying amount. For receivables of individually insignificant amount but with provision made on an individual basis, individual impairment test is performed and provision for bad debts is made at the difference between the present value of future cash flow and the carrying amount.

3. Provision for inventory write-down

As stated in inventories under Note III, at the balance sheet date, inventories are measured at the lower of cost or net realizable value; provision for inventory write-down is made on the difference between the cost and the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. Impairment of non-current assets

As stated in impairment of part of non-current assets under Note III, for non-current assets such as long-term equity investments, investment property at cost model, fixed assets, construction in progress, productive biological assets at cost model, oil and gas assets, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of group of assets. When the measurement result indicates that the recoverable amount of such non-current assets is lower than their carrying amount, the carrying amount is reduced to the recoverable amount, and the difference is recognized as assets impairment loss through profit or loss, and provision for impairment loss of assets is made accordingly.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

IV. TAXES

(I) Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax (VAT)	The taxable revenue from sales of goods or rendering of services	17%
Urban maintenance and construction tax	Turnover tax payable	5%
Education surcharge	Turnover tax payable	3%
Local education surcharge	Turnover tax payable	2%
Enterprise income tax	Taxable income	The Company: 15%; Zhao Yi Te: 25%

(II) Tax preferential policies

1. VAT

The Company's export goods are entitled to enjoy the "exemption, credit and refund" policy, to be specific, 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.

2. Enterprise income tax

The Company passed the certification of high and new technology enterprise review on November 24, 2015 and obtained The High and New Technology Enterprise Certificate (Certificate No.: GR201511003197; Expiration Date: November 24, 2018) co-issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office, SAT, and Beijing Municipal Local Tax Bureau. Pursuant to the Administrative Measures for the Determination of High and New Technology Enterprises and The Enterprise Income Tax Law of the People's Republic of China and other relevant regulations and rules, the Company is entitled to enjoy the preferential enterprise income tax rate of 15% for the following three years (2015 to 2017) since the date of certificate.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes to items of the consolidated balance sheet

1. Cash and bank balances

Items	Closing balance	Opening balance
Cash on hand	662,644.94	363,631.98
Cash in bank	234,376,846.84	63,199,478.15
Other cash and bank balances	4,026,863.96	–
Total	239,066,355.74	63,563,110.13

2. Notes receivable

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance	10,314,167.70	–	10,314,167.70	6,861,819.00	–	6,861,819.00
Trade acceptance	1,282,230.00	–	1,282,230.00	822,830.00	–	822,830.00
Total	11,596,397.70	–	11,596,397.70	7,684,649.00	–	7,684,649.00

(2) Endorsed or discounted but undue notes at the balance sheet date

Items	Closing balance derecognized	Closing balance not yet derecognized
Bank acceptance	2,571,010.00	–
Subtotal	2,571,010.00	–

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

3. Accounts receivable

(1) Details

1) Details of different categories of accounts receivable

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	60,073,165.14	100.00	4,784,203.06	7.96	55,288,962.08
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	60,073,165.14	100.00	4,784,203.06	7.96	55,288,962.08

Categories	Book balance		Opening balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	47,301,982.23	100.00	4,408,156.81	9.32	42,893,825.42
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	47,301,982.23	100.00	4,408,156.81	9.32	42,893,825.42

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

3. Accounts receivable (Continued)

(1) Details (Continued)

2) In portfolios, accounts receivable with provision made on a collective basis with age analysis method

Ages	Book balance	Closing balance	
		Provision for bad debts	Provision proportion (%)
Within 1 year	54,135,054.53	1,624,051.64	3.00
1-2 years	2,260,705.05	180,856.40	8.00
2-3 years	394,620.55	78,924.11	20.00
3-4 years	530,320.70	265,160.35	50.00
4-5 years	586,268.75	469,015.00	80.00
Over 5 years	2,166,195.56	2,166,195.56	100.00
Subtotal	60,073,165.14	4,784,203.06	7.96

(2) Age analysis

Ages	Book balance	Closing balance	
		Provision for bad debts	Provision proportion (%)
Within 3 months	19,484,909.39	584,547.28	3.00
3-6 months	21,729,020.54	651,870.62	3.00
6-12 months	12,921,124.60	387,633.74	3.00
Over 1 year	5,938,110.61	3,160,151.42	53.22
Total	60,073,165.14	4,784,203.06	7.96

The credit terms granted to customers are generally 30 to 210 days. Accounts receivable that past due are reviewed by Management on a regular basis. The Company allows different credit periods for certain customers if they have long term credit quality history or they are significant customers to the Company, or the Company decides to develop a long term business relationship with such customers.

(3) Provisions made, collected or reversed in current period

Provision for bad debts made in current period totaled 376,046.25 yuan, and no provision for bad debts were collected or reversed in the current period.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

3. Accounts receivable (Continued)

(4) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang Materials Centre, "Gaoyang Materials"	5,684,286.08	9.46	170,528.58
Party A	4,547,125.30	7.57	136,413.76
Party B	3,726,600.00	6.20	111,798.00
Party C	2,184,771.00	3.64	65,543.13
Party D	1,670,505.60	2.78	50,115.17
Subtotal	17,813,287.98	29.65	534,398.64

4. Prepayment

(1) Age analysis

Ages	Closing balance			Opening balance		
	Book balance	Proportion (%)	Carrying amount	Book balance	Proportion (%)	Carrying amount
Within 1 year	6,486,388.63	95.60	6,486,388.63	2,970,845.42	80.96	2,970,845.42
1-2 years	222,915.78	3.29	222,915.78	476,978.54	13.00	476,978.54
2-3 years				189,090.00	5.15	189,090.00
Over 3 years	75,000.00	1.11	75,000.00	32,480.00	0.89	32,480.00
Total	6,784,304.41	100.00	6,784,304.41	3,669,393.96	100.00	3,669,393.96

(2) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of prepayment (%)
Party E	1,375,000.10	20.27
Party F	943,308.63	13.90
Party G	885,597.97	13.05
Party H	446,617.86	6.58
Party I	425,145.31	6.27
Subtotal	4,075,669.87	60.07

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

5. Other receivables

(1) Details

1) Details on categories

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	748,990.02	100.00	252,650.97	33.73	496,339.05
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	748,990.02	100.00	252,650.97	33.73	496,339.05

Categories	Book balance		Opening balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	1,278,583.09	100.00	296,306.54	23.17	982,276.55
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	1,278,583.09	100.00	296,306.54	23.17	982,276.55

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

5. Other receivables (Continued)

(1) Details (Continued)

2) In portfolios, other receivables with provision made on a collective basis with age analysis method

Ages	Book balance	Closing balance	
		Provision for bad debts	Provision proportion (%)
Within 1 year	273,201.13	8,196.03	3.00
1-2 years	173,671.90	13,893.75	8.00
2-3 years	67,100.00	13,420.00	20.00
4-5 years	89,378.99	71,503.19	80.00
Over 5 years	145,638.00	145,638.00	100.00
Subtotal	748,990.02	252,650.97	33.73

(2) Provisions made, collected or reversed in current period

Provisions for bad debts made in current period totaled (43,655.57) yuan, and no provision for bad debts were collected or reversed in the current period.

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	330,837.03	506,620.76
Bid security	11,200.00	415,821.34
Guarantee deposit	225,642.84	220,257.84
Other	181,310.15	135,883.15
Total	748,990.02	1,278,583.09

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

5. Other receivables (Continued)

(4) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Age	Proportion to the total balance of other receivables (%)	Provision for bad debts
Party J	Guarantee deposit	128,828.00	Over 5 years	17.20	128,828.00
Party K	Petty cash	103,000.00	Within 1 year	13.75	3,090.00
Party L	Other	82,402.24	4-5 years	11.00	65,921.79
Party M	Petty cash	52,113.00	Within 1 year	6.96	1,563.39
Party N	Guarantee deposit	50,000.00	1-2 years	6.68	4,000.00
Subtotal		416,343.24		55.59	203,403.18

6. Inventories

Items	Book balance	Closing balance		Book balance	Opening balance	
		Provision for write-down	Carrying amount		Provision for write-down	Carrying amount
Raw materials	19,667,281.66		19,667,281.66	14,367,829.62		14,367,829.62
Finished goods	10,003,472.92		10,003,472.92	7,149,783.89		7,149,783.89
Developed products	34,964,935.73		34,964,935.73	13,955,312.37		13,955,312.37
Total	64,635,690.31		64,635,690.31	35,472,925.88		35,472,925.88

7. Other current assets

Items	Closing balance	Opening balance
Payments regarding the Listing		8,234,493.57
Pending deduct VAT on purchase	537,941.36	
Prepaid income taxes expense	1,171,707.53	
Total	1,709,648.89	8,234,493.57

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

8. Fixed assets

Items	Buildings and structures	mechanical equipment	Transport facilities	Other equipment	Total
Cost					
Opening balance	17,138,398.78	32,028,780.10	1,550,631.00	2,173,189.05	52,890,998.93
Increase	3,104,006.07	13,798,587.43	567,567.53	179,914.67	17,650,075.70
1) Acquisition		13,091,213.68	567,567.53	179,914.67	13,838,695.88
2) Transferred in from construction in progress	3,104,006.07	707,373.75			3,811,379.82
Decrease	-	604,312.00	323,470.00	40,170.94	967,952.94
1) Disposal/scrap		604,312.00	323,470.00	40,170.94	967,952.94
Closing balance	20,242,404.85	45,223,055.53	1,794,728.53	2,312,932.78	69,573,121.69
Accumulated depreciation					
Opening balance	1,271,545.75	11,143,248.82	1,317,265.75	1,802,938.72	15,534,999.04
Increase	564,114.67	3,190,515.33	156,972.74	125,301.19	4,036,903.93
1) Accrual	564,114.67	3,190,515.33	156,972.74	125,301.19	4,036,903.93
Decrease	-	502,240.71	307,296.50	37,523.89	847,061.10
1) Disposal/scrap		502,240.71	307,296.50	37,523.89	847,061.10
Closing balance	1,835,660.42	13,831,523.44	1,166,941.99	1,890,716.02	18,724,841.87
Carrying amount					
Closing balance	18,406,744.43	31,391,532.09	627,786.54	422,216.76	50,848,279.82
Opening balance	15,866,853.03	20,885,531.28	233,365.25	370,250.33	37,355,999.89

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

9. Construction in progress

(1) Details

Projects	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Expansion of new production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park ("Daxing New Production Base") – First stage construction work	11,080,164.80		11,080,164.80	2,373,344.00		2,373,344.00
Construction of factory plant				755,590.07		755,590.07
Total	11,080,164.80		11,080,164.80	3,128,934.07		3,128,934.07

(2) Changes in significant projects

Projects	Budgets (RMB'0,000)	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
Construction of Tongzhou factory plant			3,055,789.75	3,055,789.75		
Daxing New Production Base – First stage construction work	21,840.28	2,373,344.00	8,706,820.80			11,080,164.80
Construction of factory plant		755,590.07		755,590.07		
Subtotal	21,840.28	3,128,934.07	11,762,610.55	3,811,379.82		11,080,164.80

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

9. Construction in progress (Continued)

(2) Changes in significant projects (Continued)

Projects	Accumulated investment to budget	Completion percentage (%)	Accumulated amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Annual capitalization rate (%)	Fund source
Construction of Tongzhou factory plant						self-raised funds
Daxing New Production Base – First stage construction work Construction of factory plant	5.07	5.07				self-raised funds, fund-raising self-raised funds
Subtotal	5.07	5.07				

10. Intangible assets

(1) Details

Items	Land use right	Software	Total
Cost			
Opening balance	37,052,810.33	248,200.00	37,301,010.33
Increase			
Decrease			
Closing balance	37,052,810.33	248,200.00	37,301,010.33
Accumulated amortization			
Opening balance	1,899,083.87	116,989.86	2,016,073.73
Increase	771,358.16	49,639.92	820,998.08
Decrease			
Closing balance	2,670,442.03	166,629.78	2,837,071.81
Carrying amount			
Closing balance	34,382,368.30	81,570.22	34,463,938.52
Opening balance	35,153,726.46	131,210.14	35,284,936.60

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

10. Intangible assets (Continued)

(2) Analysis of carrying amount of land use right

Items	Closing balance	Opening balance
Outside Hong Kong		
Including: Long-term lease	34,382,368.30	35,153,726.46
Subtotal	34,382,368.30	35,153,726.46

11. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets before offset

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for impairment of assets	5,036,854.03	762,120.29	4,704,463.35	709,789.61
Total	5,036,854.03	762,120.29	4,704,463.35	709,789.61

(2) Deferred tax liabilities before offset

Items	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Weighted deduction of fixed assets	1,055,246.84	158,287.02		
Total	1,055,246.84	158,287.02		

12. Other non-current assets

Items	Closing balance	Opening balance
Construction project prepayments		369,000.00
Machinery equipment prepayments	1,309,152.10	506,690.60
Total	1,309,152.10	875,690.60

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

13. Accounts payable

(1) Details

Items	Closing balance	Opening balance
Purchasing of materials	26,689,784.82	13,242,775.57
Purchasing of machinery and equipment	1,069,071.49	1,617,553.58
Total	27,758,856.31	14,860,329.15

(2) Age analysis

Ages	Closing balance	Opening balance
Within 1 year	27,385,278.32	14,585,983.66
1-2 years	99,232.50	232,869.29
2-3 years	232,869.29	
Over 3 year	41,476.20	41,476.20
Total	27,758,856.31	14,860,329.15

14. Advances received

Items	Closing balance	Opening balance
Payments of goods	1,993,646.86	1,045,968.09
Total	1,993,646.86	1,045,968.09

15. Employee benefits payable

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	1,914,753.13	31,727,140.59	31,142,548.41	2,499,345.31
Post-employment benefits – defined benefit plan	182,987.06	2,448,278.33	2,448,278.33	182,987.06
Total	2,097,740.19	34,175,418.92	33,590,826.74	2,682,332.37

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

15. Employee benefits payable (Continued)

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wage, bonus, allowance and subsidy	1,585,801.58	26,544,539.27	25,996,462.09	2,133,878.76
Employee welfare fund	–	1,442,645.08	1,442,645.08	–
Social insurance premium	129,473.42	1,998,370.41	1,998,370.41	129,473.42
Including: Medicare premium	108,559.32	1,722,877.75	1,722,877.75	108,559.32
Occupational injuries premium	10,457.05	137,730.83	137,730.83	10,457.05
Maternity premium	10,457.05	137,761.83	137,761.83	10,457.05
Housing accumulation funds	94,968.00	1,213,111.04	1,213,111.04	94,968.00
Trade union fund and employee education fund	104,510.13	528,474.79	491,959.79	141,025.13
Subtotal	1,914,753.13	31,727,140.59	31,142,548.41	2,499,345.31

(3) Details of defined benefit plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment insurance premium	174,273.38	2,331,760.46	2,331,760.46	174,273.38
Unemployment insurance premium	8,713.68	116,517.87	116,517.87	8,713.68
Subtotal	182,987.06	2,448,278.33	2,448,278.33	182,987.06

Pursuant to the Labor Law of the People's Republic of China and relevant laws and regulations, the Company and its subsidiaries in the People's Republic of China participated in defined contribution retirement schemes for its employees. The local government authorities are responsible for the entire pension obligations payable to retired employees who reach retirement age pursuant to relevant regulations or quit the work force due to other reasons. The Company and its subsidiaries have no other obligation to make payment in respect of pension benefits.

16. Taxes and rates payable

Items	Closing balance	Opening balance
VAT		2,156,892.80
Enterprise income tax		1,685,512.24
Individual income tax withheld for tax authorities	123,872.62	68,143.59
City maintenance and construction tax	24,063.05	104,393.35
Education surcharge	14,437.83	59,928.52
Local education surcharge	9,625.22	38,663.07
Total	171,998.72	4,113,533.57

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

17. Other payables

Items	Closing balance	Opening balance
Provision for sales rebate	4,801,339.59	3,164,858.75
Accrual for Listing expenses		838,219.07
Others	245,629.79	188,705.19
Total	5,046,969.38	4,191,783.01

18. Deferred income

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons for balance
Government grants	7,626,270.75	9,510,000.00	463,015.44	16,673,255.31	Government grants related to assets
Total	7,626,270.75	9,510,000.00	463,015.44	16,673,255.31	

(2) Details of government grants

Items	Opening balance	Increase	Included in non-operating revenue in current period	Other movements	Closing balance	Related to assets/income
Fund on Industrialisation of Ceramic Femoral Head on Ceramic Hip Joint Prostheses	5,629,770.75		463,015.44		5,166,755.31	Related to assets
Fund on Clinical study of PEEK interbody fusion cage	1,996,500.00				1,996,500.00	Related to assets
Fund of Innovation ability development of joint prosthesis of Beijing Engineering Laboratory		9,510,000.00			9,510,000.00	Related to assets
Subtotal	7,626,270.75	9,510,000.00	463,015.44		16,673,255.31	

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

19. Share capital

(1) Details

Items	Opening balance	Issue of new shares	Bonus shares	Movements		Subtotal	Closing balance
				Reserve transferred to shares	Others		
Restricted shares	50,000,000.00						50,000,000.00
Held by domestic natural persons	50,000,000.00						50,000,000.00
Unrestricted shares		19,170,400.00				19,170,400.00	19,170,400.00
H shares		19,170,400.00				19,170,400.00	19,170,400.00
Total	50,000,000.00	19,170,400.00				19,170,400.00	69,170,400.00

(2) Other remarks

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 net proceeds is RMB158,407,322.62 yuan after deducting the cost of issue. 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.

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.

20. Capital reserve

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Share premium	61,552,595.15	166,686,584.86		228,239,180.01
Other capital reserve	1,800,000.00			1,800,000.00
Total	63,352,595.15	166,686,584.86		230,039,180.01

(2) Other remarks

The capital reserve has increased 166,686,584.86 yuan in current period, details refer to Note V(I)19.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to items of the consolidated balance sheet (Continued)

21. Surplus reserve

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	13,570,973.75	3,805,376.99	-	17,376,350.74
Total	13,570,973.75	3,805,376.99	-	17,376,350.74

(2) Other remarks

The increase is due to the appropriation of statutory surplus reserve at 10% of the net profit generated in the current period pursuant to the Articles of Association of the Company.

22. Undistributed profit

(1) Details

Items	Current period cumulative	Preceding period comparative
Balance before adjustment at the end of preceding period	78,996,831.62	56,684,830.51
Opening balance after adjustment	78,996,831.62	56,684,830.51
Add: Net profit attributable to owners of the parent company	37,865,617.56	37,031,197.07
Less: Appropriation of statutory surplus reserve	3,805,376.99	3,719,195.96
Dividend payable on ordinary shares	6,086,995.20	11,000,000.00
Closing balance	106,970,076.99	78,996,831.62

(2) Other remarks

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 and paid 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 yuan.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to items of the consolidated income statement

1. Operating revenue/cost

(1) Details

Items	Current period cumulative		Preceding period comparative	
	Income	Cost	Income	Cost
Revenue from main operation	177,368,809.71	55,279,800.95	134,534,445.96	34,956,829.21
Total	177,368,809.71	55,279,800.95	134,534,445.96	34,956,829.21

2. Taxes and surcharge for operations

Items	Current period cumulative	Preceding period comparative
City maintenance and construction tax	748,367.82	625,304.54
Education surcharge	563,883.76	375,182.73
Local education surcharge	184,484.06	308,285.68
Total	1,496,735.64	1,308,772.95

3. Selling expenses

Items	Current period cumulative	Preceding period comparative
Staff salaries and related costs	7,007,199.20	5,045,912.15
Travelling expenses	10,890,259.08	8,381,715.89
Office expenses	1,953,489.05	1,834,254.29
Advertising expenses	18,057,801.95	9,044,008.53
Transportation expenses	764,530.83	725,436.62
Rentals	123,965.77	81,616.90
Sale rebates	4,801,339.61	3,164,858.75
Others	1,798,558.07	896,181.23
Total	45,397,143.56	29,173,984.36

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to items of the consolidated income statement (Continued)

4. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Staff salaries and related – costs	10,173,278.28	7,798,621.40
Travelling expenses	1,124,974.94	938,302.04
Motor vehicle expenses	351,781.87	455,735.02
Rentals	1,260,415.61	782,713.38
Depreciation	963,743.55	704,203.49
Office expenses	485,309.50	767,981.36
Other tax charges	272,490.21	272,007.45
Professional and other fees relating to Listing	3,080,148.21	3,438,344.35
Other professional fees	2,646,361.01	561,770.87
Auditor's remuneration	483,018.87	141,509.43
Research and development expenses	13,317,513.43	8,001,956.92
Amortisation of intangible assets	820,998.08	820,999.08
Entertainments	143,616.43	141,446.41
Others	1,380,047.62	996,691.25
Total	36,503,697.61	25,822,282.45

5. Financial expenses

Items	Current period cumulative	Preceding period comparative
Interest expenditures		
Less: Interest income	3,357,871.26	172,562.90
Less: Foreign exchange gains	1,874,054.94	33,853.69
Add: Bank charges	95,216.19	67,729.27
Total	(5,136,710.01)	(138,687.32)

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to items of the consolidated income statement (Continued)

6. Assets impairment loss

Items	Current period cumulative	Preceding period comparative
Bad debts	332,390.68	1,224,414.42
Total	332,390.68	1,224,414.42

7. Investment income

Items	Current period cumulative	Preceding period comparative
Bank finance products	-	61,643.84
Total	-	61,643.84

8. Non-operating revenue

(1) Details

Items	Current period cumulative	Preceding period comparative
Gains on disposal of non-current assets	8,087.38	
Including: Gains on disposal of fixed assets	8,087.38	
Government grants	842,428.44	689,647.25
Other	2,837.38	2,480.00
Total	853,353.20	692,127.25

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to items of the consolidated income statement (Continued)

8. Non-operating revenue (Continued)

(2) Details of government grants

Items	Current period cumulative	Preceding period comparative	Related to assets/income
Grant for small and medium enterprise In developing international market	113,259.00	519,918.00	Related to income
Advanced enterprise tax Incentives	100,000.00	100,000.00	Related to income
Grant for application on patent	150,000.00	26,000.00	Related to income
Grant for industrialisation of ceramic femoral head on ceramic hip prostheses	463,015.44	43,729.25	Related to assets
Fund of Beijing's economic development of foreign trade	2,154.00		Related to income
Fund of Innovation ability development	14,000.00		Related to income
Subtotal	842,428.44	689,647.25	

9. Non-operating expenditures

Items	Current period cumulative	Preceding period comparative
Losses on disposal of non-current assets	55,779.22	
Including: Losses on disposal of fixed assets	55,779.22	
Donation expenditures	790,060.00	14,982.14
Other	9,072.82	12,701.40
Total	854,912.04	27,683.54

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to items of the consolidated income statement (Continued)

10. Income tax expenses

(1) Details

Items	Current period cumulative	Preceding period comparative
Current period income tax expenses	5,522,618.54	6,067,874.60
Deferred income tax expenses	105,956.34	(186,134.23)
Total	5,628,574.88	5,881,740.37

(2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative	Preceding period comparative
Profit before tax	43,494,192.44	42,912,937.44
Income tax expenses based on statutory/applicable tax rate	6,524,128.87	6,436,940.62
Effect of different tax rate applicable to subsidiaries	(19,433.25)	(16,694.27)
Effect of prior income tax reconciliation	6,407.51	(6,199.62)
Effect of non-deductible costs, expenses and losses	84,233.32	54,845.37
Others, such as tax effects on deductible research and development costs	(1,009,164.52)	(622,707.23)
Effect of deductible temporary differences or deductible losses not recognized	42,402.95	35,555.50
Income tax expenses	5,628,574.88	5,881,740.37

(III) Notes to items of the consolidated cash flow statement

1. Other cash receipts related to operating activities

Items	Current period cumulative	Preceding period comparative
Government grants	379,413.00	645,918.00
Total	379,413.00	645,918.00

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of the consolidated cash flow statement (Continued)

2. Other cash payments related to operating activities

Items	Current period cumulative	Preceding period comparative
Advertising expenses	18,057,801.95	9,044,008.53
Travelling expenses	12,015,234.02	9,320,017.93
Office expenses	2,438,798.55	2,602,235.65
Research and development expenses	10,093,216.88	5,407,449.56
Professional fees	7,177,344.47	3,846,250.78
Others	6,082,090.17	5,013,809.17
Total	55,864,486.04	35,233,771.62

3. Other cash receipts related to investing activities

Items	Current period cumulative	Preceding period comparative
Interest proceeds	3,357,871.26	172,562.90
Fund on clinical study of PEEK interbody fusion cage		1,996,500.00
Fund of Innovation ability development of joint prosthesis of Beijing Engineering Laboratory	9,510,000.00	
Total	12,867,871.26	2,169,062.90

4. Other cash payments related to investing activities

Items	Current period cumulative	Preceding period comparative
Deposit for L/C	4,026,863.96	
Total	4,026,863.96	

5. Other cash payments related to financing activities

Items	Current period cumulative	Preceding period comparative
Deposit paid regarding the Listing	8,438,345.53	6,028,205.01
Total	8,438,345.53	6,028,205.01

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of the consolidated cash flow statement (Continued)

6. Supplement information to the cash flow statement

(1) Supplement information to the cash flow statement

Supplement information	Current period cumulative	Preceding period comparative
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	37,865,617.56	37,031,197.07
Add: Provision for assets impairment loss	332,390.68	1,224,414.42
Depreciation of fixed assets, oil and gas assets, productive biological assets	4,036,903.93	3,239,595.78
Amortization of intangible assets	820,998.08	820,999.08
Amortization of long-term prepayments		
Loss on disposal of fixed assets, intangible assets and other non-current assets (Less: gains)	47,691.84	-
Fixed assets retirement loss (Less: gains)	-	-
Losses on changes in fair value (Less: gains)	-	-
Financial expenses (Less: gains)	(5,136,710.01)	(138,687.32)
Investments losses (Less: gains)	-	(61,643.84)
Decrease of deferred tax assets (Less: increase)	(52,330.68)	(186,134.23)
Increase of deferred tax liabilities (Less: decrease)	158,287.02	-
Decrease in inventories (Less: increase)	(29,162,764.43)	(12,392,128.44)
Decrease in operating receivables (Less: increase)	(19,268,248.99)	(14,869,189.46)
Increase of operating payables (Less: decrease)	9,847,564.95	9,606,162.24
Others	-	-
Net cash flow from operating activities	(510,600.05)	24,274,585.30
(2) Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into share capital	-	-
Convertible bonds due within one year	-	-
Fixed assets rented in under finance leases	-	-
(3) Net changes in cash and cash equivalents:		
Cash at the end of the period	235,039,491.78	63,563,110.13
Less: Cash at the beginning of the period	63,563,110.73	65,856,195.97
Add: Cash equivalents at the end of the period	-	-
Less: Cash equivalents at the beginning of the period	-	-
Net increase of cash and cash equivalents	171,476,381.65	(2,293,085.84)

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

V NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of the consolidated cash flow statement (Continued)

6. Supplement information to the cash flow statement (Continued)

(2) Cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	235,039,491.78	63,563,110.13
Including: Cash on hand	662,644.94	363,631.98
Cash in bank on demand for payment	234,376,846.84	63,199,478.15
2) Cash equivalents	–	–
Including: Bond investments maturing within three months	–	–
3) Cash and cash equivalents at the end of the period	235,039,491.78	63,563,110.13

(3) Amount of endorsement of commercial bills not involved in cash inflow or outflow

Items	Current period cumulative	Preceding period comparative
Commercial bills amount transferable by endorsement	3,451,010.00	366,968.00
Including: payment	3,451,010.00	366,968.00

(IV) Others

1. Assets with restrictions on ownership or use right

Items	Closing carrying amount	Reasons for restriction
Cash and bank balances	4,026,863.96	Deposit for L/C
Total	4,026,863.96	

2. Monetary items in foreign currencies

Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent
Cash and bank balances			
Including: USD	345,508.34	6.4936	2,243,592.96
EUR	290.50	7.0952	2,061.16
HKD	22,483,043.20	0.8378	18,836,293.59
Accounts receivable			
Including: USD	448,034.74	6.4936	2,909,358.39

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

VI. INTEREST IN OTHER ENTITIES

(I) Interest in significant subsidiaries

Subsidiaries	Main operating place	Place of registration	Kind of legal entity	Issued share capital	Business nature	Holding proportion (%)		Acquisition method
						Direct	Indirect	
Beijing Zhao Yi Te Medical Devices Co. Ltd	Tongzhou Beijing	Tongzhou Beijing	Limited Company	RMB660,000	Selling of medical devices	100		Establishment of capital contribution

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Company's financial performance. Based on such objectives, the Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Company has exposure to the following risks from its use of financial instruments, which mainly include: credit risk, liquidity risk, and market risk. Management have deliberated and approved policies concerning such risks, and details are:

(I) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's credit risk is primarily attributable to bank balances and receivables. In order to control such risks, the Company has taken the following measures:

1. Bank balances

The Company deposits its bank balances in financial institutions with relatively high credit levels, hence, its credit risk is relatively low.

2. Receivables

The Company performs credit assessment on customers who uses credit settlement on a regular basis. The Company selects credible and well-reputed customers based on credit assessment result, and conducts ongoing monitoring on receivables, to avoid significant risks in bad debts.

As the Company's credit risks fall into several business partners and customers, as of December 31 2015, 29.65% (2014: 36.29%) of the total accounts receivable was due from the five largest customers of the Company. The Company has no significant central credit risk.

(II) Liquidity risk

Liquidity risk is the risk that the Company may encounter deficiency of funds in meeting obligations associated with cash or other financial assets settlement, which is possibly attributable to failure in selling financial assets at fair value on a timely basis, or failure in collecting liabilities from counterparts of contracts, or early redemption of debts, or failure in achieving estimated cash flows.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(II) Liquidity risk (Continued)

In order to control such risk, the Company utilized financing tools such as notes settlement, bank borrowings, etc. and adopts long and short financing methods to optimizing financing structures, and finally maintains a balance between financing sustainability and flexibility.

Financial instruments classified based on remaining time period till maturity

Items	Closing balance				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Accounts payable	27,758,856.31	27,758,856.31	27,758,856.31		
Other payables	5,046,969.38	5,046,969.38	5,046,969.38		
Subtotal	32,805,825.69	32,805,825.69	32,805,825.69		
Items	Opening balance				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Accounts payable	14,860,329.15	14,860,329.15	14,860,329.15		
Other payables	4,191,783.01	4,191,783.01	4,191,783.01		
Subtotal	19,052,112.16	19,052,112.16	19,052,112.16		

(III) Market risk

Market risk is the risk that the Company may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market price.

1. Interest risk

Interest risk is the risk that an enterprise may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market interest. The Company's interest risk relates mainly to borrowings with floating interest rate.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(III) Market risk (Continued)

1. Interest risk (Continued)

The Group and the Company have limited exposure to interest rate risk because the Group has no significant interest bearing financial assets and liabilities as at 31 December 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 years ended 31 December 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. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's gross profit and equity will not be significantly affected.

2. Foreign currency risk

Foreign currency risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Company's foreign currency risk relates mainly to foreign currency monetary assets and liabilities. When short-term imbalance occurred to foreign currency assets and liabilities, the Company may trade foreign currency at market exchange rate when necessary, in order to maintain the net risk exposure within an acceptable level. The Company is mainly operated in mainland China, whose main activities are denominated in RMB, hence, the Company bears insignificant market risk arising from foreign exchange changes.

Please refer to notes to foreign currency monetary items for details in foreign currency financial assets and liabilities at the end of the period.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(I) Related party relationships

1. The actual controllers

Name	Nationality	Position in the Group	Holding proportion over the Company (%)	Voting right proportion over the Company (%)
Mr. Shi Chunbao	PRC	Chairman, Executive Director and General Manager	35.04	35.04
Ms. Yue Shujun	PRC	Executive Director and Deputy General Manager	27.13	27.13

Note: Mr. Shi Chunbao and Ms. Yue Shujun are spouses.

2. Please refer notes to interest in other entities for details on the Company's subsidiary.

3. Other related parties of the Company

Related parties	Relationships with the Company
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

(II) Related party transactions

1. Sale of goods and rendering of services

Related parties	Content of transaction	Current period cumulative	Preceding period comparative
Gaoyang Materials	Sales of products	9,051,287.69	6,300,152.99

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors

Items	Fees	Current period cumulative		Total
		Wage, bonus, allowance, and subsidy	Social insurance premium	
Executive directors:				
Mr. Shi Chunbao	–	600,336.00	18,528.00	618,864.00
Ms. Yue Shujun	–	226,056.00	18,528.00	244,584.00
Mr. Ding Gang	–	151,335.00	24,084.00	175,419.00
Mr. Zhang Zhendong	–	116,653.00	14,030.89	130,683.89
Non-executive directors:				
Mr. Lin Yiming	–	–	–	–
Independent non-executive directors				
Ms. Xu Hong	100,000.00	–	–	100,000.00
Mr. Tong Xiaobo	100,000.00	–	–	100,000.00
Mr. Cheung Ying Kwan	75,000.00	–	–	75,000.00
Supervisors:				
Mr. Qi Yi	–	98,816.00	–	98,816.00
Mr. Xie Fengbao	–	118,745.00	14,030.89	132,775.89
Ms. Zhang Lanlan	–	49,210.10	14,030.89	63,240.99
Total	275,000.00	1,361,151.10	103,232.67	1,739,383.77

Items	Fees	Preceding period comparative		Total
		Wage, bonus, allowance, and subsidy	Social insurance premium	
Executive directors:				
Mr. Shi Chunbao	–	287,664.00	18,528.00	306,192.00
Ms. Yue Shujun	–	211,144.00	18,528.00	229,672.00
Mr. Ding Gang	–	299,944.00	32,112.00	332,056.00
Non-executive directors:				
Mr. Lin Yiming	–	–	–	–
Independent non-executive directors				
Ms. Xu Hong	100,000.00	–	–	100,000.00
Mr. Tong Xiaobo	100,000.00	–	–	100,000.00
Supervisors:				
Mr. Qi Yi	–	93,504.00	–	93,504.00
Mr. Xie Fengbao	–	104,444.20	12,744.12	117,188.32
Ms. Zhang Lanlan	–	44,144.39	12,600.12	56,744.51
Total	200,000.00	1,040,844.59	94,512.24	1,335,356.83

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors (Continued)

Five highest paid individuals

Number of five highest paid individuals involved directors or supervisors and other employee are set out as follows:

Items	Current period cumulative	Preceding period comparative
Directors or supervisors	1	3
Other than directors or supervisor	4	2

The emoluments of the remaining highest paid individuals are as follows:

Items	Current period cumulative	Preceding period comparative
Salary and allowances	997,029.59	359,190.36
Social insurance housing funds and related pension costs	95,417.78	67,356.00
Performance related bonus	285,500.00	180,000.00
Subtotal	1,377,947.37	606,546.36

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

Items	Current period cumulative	Preceding period comparative
Nil to HK\$1,000,000	4	2

(III) Balance due to or from related parties

1. Balance due from related parties

Items	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Beijing Gaoyang Materials Centre	5,684,286.08	170,528.58	3,831,703.98	114,951.12
Subtotal		5,684,286.08	170,528.58	3,831,703.98	114,951.12

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

IX. COMMITMENTS AND CONTINGENCIES

(I) Operating lease

As at December 31, 2015, the total minimum payments under irrevocable operating lease contracts are as follows:

Items	Amounts	Preceding period comparative
Within one year	726,916.00	1,661,764.00
Second to fifth years, inclusive	553,733.33	1,280,649.33
Total	1,280,649.33	2,942,413.33

(II) Capital commitments

Items	Program	Current period cumulative	Preceding period comparative
Contracted for but not yet recognised		22,851,346.66	17,693,115.44
Authorised but not yet contracted for	Daxing New Production Base-First stage construction work	146,305,344.38	164,360,891.87
	Daxing New Production Base-Second stage construction work	260,112,700.00	260,112,700.00
Total		429,269,391.04	442,166,707.31

(III) As at December 31, 2015, the details of letter of credit issued by the company are as follow

Items	Transaction amount	Balance of guarantee deposit
The irrevocable letter of credit	4,026,863.96	4,026,863.96

(IV) Contingencies

As at December 31, 2015, the Company has no significant contingencies to be disclosed.

X. EVENTS AFTER THE BALANCE SHEET DATE

(I) Profit distribution after the balance sheet date

Profit or dividend planned to be distributed	6,086,995.20
Profit or dividend approved to be distributed	6,086,995.20

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XI. OTHER SIGNIFICANT EVENTS

(I) 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.

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

(I) Notes to items of parent company balance sheet

1. Accounts receivable

(1) Details

1) Details on categories

Categories	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	60,073,165.14	100	4,784,203.06	7.96	55,288,962.08
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	60,073,165.14	100	4,784,203.06	7.96	55,288,962.08

Categories	Book balance		Opening balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	47,301,982.23	100.00	4,408,156.81	9.32	42,893,825.42
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	47,301,982.23	100.00	4,408,156.81	9.32	42,893,825.42

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(I) Notes to items of parent company balance sheet (Continued)

1. **Accounts receivable (Continued)**

(1) Details (Continued)

2) In portfolios, accounts receivable with provision made on a collective basis with age analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	54,135,054.53	1,624,051.64	3.00
1-2 years	2,260,705.05	180,856.40	8.00
2-3 years	394,620.55	78,924.11	20.00
3-4 years	530,320.70	265,160.35	50.00
4-5 years	586,268.75	469,015.00	80.00
Over 5 years	2,166,195.56	2,166,195.56	100.00
Subtotal	60,073,165.14	4,784,203.06	7.96

(2) Age analysis

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 3 months	19,484,909.39	584,547.28	3.00
3-6 months	21,729,020.54	651,870.62	3.00
6-12 months	12,921,124.60	387,633.74	3.00
Over 1 year	5,938,110.61	3,160,151.42	53.22
Total	60,073,165.14	4,784,203.06	7.96

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(I) Notes to items of parent company balance sheet (Continued)

1. Accounts receivable (Continued)

(3) Provisions made, collected or reversed in current period
Provision for bad debts made in current period totaled 376,046.25 yuan, and no provision for bad debts were collected or reversed in the current period.

(4) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Gaoyang Materials	5,684,286.08	9.46	170,528.58
Party A	4,547,125.30	7.57	136,413.76
Party B	3,726,600.00	6.2	111,798.00
Party C	2,184,771.00	3.64	65,543.13
Party D	1,670,505.60	2.78	50,115.17
Subtotal	17,813,287.98	29.65	534,398.64

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(I) Notes to items of parent company balance sheet (Continued)

2. Other receivables

(1) Details

1) Details on categories of other receivables

Categories	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	666,587.78	100.00	186,729.18	28.01	479,858.6
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	666,587.78	100.00	186,729.18	28.01	479,858.6

Categories	Book balance		Opening balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	1,383,446.67	100.00	255,105.42	18.44	1,128,341.25
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	1,383,446.67	100.00	255,105.42	18.44	1,128,341.25

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(I) Notes to items of parent company balance sheet (Continued)

2. Other receivables (Continued)

(1) Details (Continued)

2) In portfolios, other receivables with provision made on a collective basis with age analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	273,201.13	8,196.03	3.00
1-2 years	173,671.90	13,893.75	8.00
2-3 years	67,100.00	13,420.00	20.00
4-5 years	6,976.75	5,581.40	80.00
Over 5 years	145,638.00	145,638.00	100.00
Subtotal	666,587.78	186,729.18	28.01

(2) Provisions made, collected or reversed in current period
Provisions for bad debts made in current period totaled -68,376.24 yuan, and no provision for bad debts were collected or reversed in the current period.

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Amounts due from subsidiary		187,220.82
Petty cash	330,837.03	506,620.76
Bid security	11,200.00	415,821.34
Guarantee deposit	225,642.84	220,257.84
Other	98,907.91	53,525.91
Total	666,587.78	1,383,446.67

(4) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Age	Proportion to the total balance of other receivables (%)	Provision for bad debts
Party J	Guarantee deposit	128,828.00	Over 5 years	19.33	128,828.00
Party K	Cash in advance	103,000.00	Within 1 year	15.45	3,090.00
Party M	Cash in advance	52,113.00	Within 1 year	7.82	1,563.39
Party N	Guarantee deposit	50,000.00	1-2 years	7.50	4,000.00
Party O	Bid security	40,000.00	2-3 years	6.00	8,000.00
Subtotal		373,941.00		56.10	145,481.39

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(I) Notes to items of parent company balance sheet (Continued)

3. Long-term equity investments

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	665,263.00		665,263.00	665,263.00		665,263.00
Total	665,263.00		665,263.00	665,263.00		665,263.00

(2) Investments in subsidiaries

Investees	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
Subtotal	665,263.00			665,263.00		

(II) Notes to items of the parent company income statement

1. Operating revenue/cost

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Revenue from main operations	177,368,809.71	55,279,800.95	135,218,206.72	35,640,590.01
Total	177,368,809.71	55,279,800.95	135,218,206.72	35,640,590.01

2. Investment income

Items	Current period cumulative	Preceding period comparative
Bank finance products		61,643.84
Total		61,643.84

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XIII. OTHER SUPPLEMENTARY INFORMATION

(I) RONA and EPS

1. Details

Profit of the reporting period	Weighted average RONA(%)	EPS (yuan/share)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of ordinary shares	10.55	0.59	0.59

2. Calculation process of weighted average RONA

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	37,865,617.56
Opening balance of net assets attributable to shareholders of ordinary shares	B	205,920,400.52
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	C1	158,407,322.62
Number of months counting from the next month when the net assets were increased to the end of the reporting period	D1	9
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	C2	27,449,662.24
Number of months counting from the next month when the net assets were increased to the end of the reporting period	D2	8
Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation	E	6,086,995.20
Number of months counting from the next month when the net assets were decreased to the end of the reporting period	F	6
Number of months in the reporting period	G	12
Weighted average net assets	$H = \frac{B + A \times 1/2 + C1 \times D1}{G + C2 \times D2/G} - E \times F/G$	358,914,978.49
Weighted average RONA	I=A/H	10.55

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XIII. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(I) RONA and EPS (Continued)

3. Calculation process of basic EPS and diluted EPS

(1) Calculation process of basic EPS

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	37,865,617.56
Opening balance of total shares	B	50,000,000.00
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	C	
Number of shares increased due to offering of new shares or conversion of debts into shares	D1	16,670,000.00
Number of months counting from the next month when the share was increased to the end of the reporting period	E1	9
Number of shares increased due to offering of new shares or conversion of debts into shares	D2	2,500,400.00
Number of months counting from the next month when the share was increased to the end of the reporting period	E2	8
Number of shares decreased due to share repurchase	F	
Number of months counting from the next month when the share was decreased to the end of the reporting period	G	
Number of shares decreased in the reporting period	H	
Number of months in the reporting period	I	12
Weighted average of outstanding ordinary shares	$J=B+C+D1 \times E1/I + D2 \times E2/I - F \times G/I - H$	64,169,433.33
Basic EPS	$K=A/J$	0.59

(2) Calculation process of diluted EPS

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2015

Monetary unit: RMB Yuan

XIII. OTHER SUPPLEMENTARY INFORMATION (Continued)

- (II) Remarks on variance between financial reporting prepared under domestic and abroad accounting standards

The Company has prepared its financial reporting under CASBES. Pursuant to the “Consultation Conclusions on Acceptance of Mainland Accounting and Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” issued by Hong Kong Exchanges and Clearing Limited (HKEX) in December 2015, the Company has decided to prepare information under CASBES for disclosure in HKEX in 2015.

Beijing Chunlizhengda Medical Instruments Co., Ltd.

March 30, 2016