



北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.*

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

Stock code: 1858

INTERIM REPORT
2016



* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shi Chunbao (*Chairman*)
Ms. Yue Shujun
Mr. Zhang Zhendong (resigned on 27 June 2016)
Mr. Wang Jianliang (appointed on 1 September 2016)

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*) (resigned on 22 July 2016)
Mr. Xie Fengbao (resigned on 22 July 2016)
Ms. Zhang Lanlan
Mr. Zhang Jinyong (appointed on 22 July 2016)
Ms. Pei Xiaohui (appointed on 22 July 2016)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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 ADVISORS AS TO HONG KONG LAW

Zhong Lun Law Firm

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In recent years, the relevant policies or measures adopted at national level are becoming 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 National Health and Family Planning Commission of the People's Republic of China (the "NHFPC").

The orthopedic implant ^(note) 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.

BUSINESS REVIEW

We are a reputable orthopedic medical device company in China which focusing on research and development, production and sales of implantable orthopedic medical devices, including joint prosthesis products and spinal products. Our Group's revenue was mainly derived from our sales to distributors in both China and overseas, whereas remaining revenue was derived from other sales channels including sales to ODM and OEM customers overseas and direct sales to hospitals in China.

For the six months ended 30 June 2016, we recorded a revenue of RMB111.1 million, representing an increase of 18.9% compared with the corresponding period of the previous year (corresponding period of 2015: RMB93.4 million). The gross profit was RMB83.4 million, representing an increase of 21.8% compared with the corresponding period of the previous year (corresponding period of 2015: RMB68.5 million). The profit attributable to equity holders of the Company was RMB36.2 million, representing an increase of 36.1% compared with the corresponding period of the previous year (corresponding period of 2015: RMB26.6 million). Basic earnings per share was RMB0.52, representing a year-on-year increase of 15.6%, (corresponding period of 2015: RMB0.45).

Comprehensive medical device registration certificates

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

As at 30 June 2016, 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 and spinal products, of which 10 are Class III medical device registration certificates and 5 are Class I medical device registration certificates. As China adopts a strict product registration system for medical devices manufacturers, enterprises with complete product registrations are more competitive in the market.

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

New products and new technologies

During the reporting period, the Company launched XN knee joint system (a new knee joint prosthesis products), targeting at high-end knee joint market. With the significant improvement in design philosophy, specifications and mechanical engineering as compared to most of the knee joint prosthesis products in the market, such system has already been applied in more than a hundred of clinical cases. As the commercialization of new prosthesis products may require some time for promotion, training and application, the Company expects XN knee joint will gradually increase the Company's sales in next few years.

The Company's ceramic hip joint prosthesis products generated strong market responses when they were launched last year. In the first half of this year, ceramic products continuously made contribution to the turnover of joint prosthesis products for the Company and have become the major product of the hip joint prosthesis products.

Meanwhile, the Group continuously worked with joint experts from Europe and promoted the minimally invasive direct anterior surgical technology for hip joint in mainland China. As a new surgical technology, minimally invasive hip joint has various benefits such as small incision, reduced damages to muscle tissues, faster recovery and less blood loss and is widely used in Europe and the USA. The Group has manufactured tailored tools and traction bed and has put the technology into clinical application in the market. This technology will continue to provide important driving force for the sales of the Company's products and the promotion of our brand image.

The Group has achieved the target of expanding the model and enhancing the tools of T-free (XM) knee joint, one of the knee joint prosthesis products which has been sold for over 10 years, and the Group has acquired additional purchase orders and such new models have been applied in clinical cases.

Continuous development and introduction of new products to the market enables the Company to respond scuffling, thus enhancing our resistance to risks.

Customized joint prosthesis products offerings

The Group's customized (modular) joint prosthesis products which are provided for patients suffering from bone tumor and comminuted fracture are one of the Group's products with higher competitiveness.

The Sweden Arcam Q10 equipment purchased by the Group last year has been put into use in the first half of this year. The 3D-printed products produced by the equipment can tailor joint prosthesis products for individual patients, including but not limited to those who suffering from bone defect, bony deformities and who have special needs, and this would further expand the coverage and market of the Group's customized products.

Spinal products

The Group achieved its target of expanding the model and enhancing the tools of special products, for example, “Posterior lamina in cervical vertebra” (頸椎後路板) and “U-type screw 21” (U型釘21) which were applied in clinical cases. The Group also achieved the target of enhancing and upgrading the tools of 3.5 screw fixation system in posterior cervical fixation system and 5.5 screw fixation system in lumbar vertebrae fixation system sold by the Group, and this boosted the Group’s competitiveness and helped provide better services for the clinical applications.

Strong research and development capabilities

We are a state-level high-end enterprise (國家級高新技術企業) and possess the capability of developing innovative products and continuously improving our research and development. As at 30 June 2016, we possessed a total of 29 registered patents, including 9 invention patents and 20 utility patents.

Currently, in the Company, there are 47 research and development personnel, including personnel with doctoral, master and bachelor degrees and professionals with over 10 years of industry technology experience. Meanwhile, the Company attaches great importance to the cooperation between production, academic, research and development and clinical trial when conducting research and development. We incorporate generously the opinions of experts of relevant fields into the process of research and development of new products and product enhancement, and carry out research and development and interaction with the experts, so as to ensure that newly developed products will meet the market demand and fulfil the requirement of clinical practicality.

The 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 undertake the country and Beijing’s major research and development projects, and will actively cooperate with the country and Beijing on science popularization campaigns.

Extensive distribution and sales network

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.

Others

Pursuant to the Notice on Soliciting Letter of Opinions on Corporate Accounting Standard No. 14 – Revenue (amendment) (Opinions Solicitation) (hereinafter referred to as “**Soliciting Letter of Opinions on Revenue**”) promulgated by the Ministry of Finance, it is intended to amend Corporate Accounting Standard No. 14 – Revenue and the amended standard will be effective from 1 January 2018. We anticipate that this rule might have impact on the recognition of the Company’s revenue and changes or adjustments will be made as and when appropriate in accordance with relevant rule.

Save as disclosed in this report, there are no material change affecting the Company’s performance which are required to be disclosed under Appendix 16 of the Listing Rules since the publication of the last annual report.

FINANCIAL REVIEW

Revenue

Our revenue increased by 18.9% from approximately RMB93.4 million for the six months ended 30 June 2015 to approximately RMB111.1 million for the six months ended 30 June 2016. The increase in revenue was mainly attributable to the sales growth of standard joint and ceramic hip joint prosthesis products and the expansion of sales network. The revenue of major products compared to the corresponding period of previous year is as follows:

Product category	For the six months ended 30 June		Increase over Corresponding period
	2016 (RMB'000)	2015 (RMB'000)	
Standard joint prosthesis products	90,869	69,744	30.3%
Custom joint prosthesis products	16,234	18,262	-11.1%
Spinal products	3,967	5,390	-26.4%
Other business	4	5	-20.0%
Total	111,073	93,401	18.9%

Gross profit

Our gross profit increased by 21.8% from approximately RMB68.5 million for the six months ended 30 June 2015 to approximately RMB83.4 million for the six months ended 30 June 2016. Gross profit margin increased from 73.3% for the six months ended 30 June 2015 to 75.1% for the six months ended 30 June 2016. The increase in gross profit margin was mainly attributable to the increase in sales and the transformation of our products gradually from low-mid end segment to mid-high end segment in 2016.

Selling expenses

Our selling expenses increased by 27.5% from approximately RMB20.7 million for the six months ended 30 June 2015 to approximately RMB26.4 million for the six months ended 30 June 2016. The increase in selling expenses was mainly attributable to the increase in sales staff and staff costs and the increase in expenditure in market development and product promotion as a result of business expansion.

Administrative expenses

Our administrative expenses decreased by 14.0% from approximately RMB17.8 million for the six months ended 30 June 2015 to approximately RMB15.3 million for the six months ended 30 June 2016, which was mainly attributable to the decrease in administrative staff costs, the increase in our expenditure in research and development and the decrease of expenses for listing related subsequent services.

Impairment loss of assets

Our impairment loss of assets increased by 53.8% from approximately RMB1.3 million for the six months ended 30 June 2015 to approximately RMB2.0 million for the six months ended 30 June 2016. As there was an increase in trade receivables, according to the impairment policy of the Company, the impairment also increased when calculating the impairment loss of trade receivables.

Non-operating income

Our non-operating income increased by 125% from approximately RMB0.4 million for the six months ended 30 June 2015 to approximately RMB0.9 million for the six months ended 30 June 2016, which was mainly attributable to the increase in the government grants received by us.

Non-operating expenses

The significant decrease in our non-operating expenses from approximately RMB0.9 million for the six months ended 30 June 2015 to approximately RMB6,000 for the six months ended 30 June 2016 was mainly attributable to the decrease in our donation to the Community Chest of Hong Kong.

Income tax expenses

Our income tax expenses increased by 42.9% from approximately RMB4.2 million for the six months ended 30 June 2015 to approximately RMB6 million for the six months ended 30 June 2016, and the effective tax rate increased from 13.6% for the six months ended 30 June 2015 to 14.2% for the six months ended 30 June 2016.

Net profit for the period

Our net profit for the period increased by 36.1% from approximately RMB26.6 million for the six months ended 30 June 2015 to approximately RMB36.2 million for the six months ended 30 June 2016. The increase in net profit was mainly attributable to the increase in our revenue.

Liquidity and capital resources

Our liquidity decreased by 2.4% from approximately RMB239.1 million as of 31 December 2015 to approximately RMB233.4 million as of 30 June 2016.

Our sources of fund mainly consisted of the cash generated from our operations and the proceeds from 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.

Inventory

Our inventory decreased by 1.4% from approximately RMB64.6 million as of 31 December 2015 to approximately RMB63.7 million as of 30 June 2016. The slight decrease in inventory was mainly attributable to the production enhancement plan and the scheduled purchase arrangement of the Company.

Fixed assets and construction in progress

Our fixed assets and construction in progress increased by 3.9% from approximately RMB61.9 million as of 31 December 2015 to approximately RMB64.3 million as of 30 June 2016. The increase in fixed assets and construction in progress was mainly attributable to the increase of our investment for expansion of Daxing New Production Base and acquisition of production facilities in connection therewith in 2016.

Net current assets

Our net current assets increased by 9% from approximately RMB341.9 million as of 31 December 2015 to approximately RMB372.7 million as of 30 June 2016. The increase in net current assets was mainly attributable to increase of trade receivables.

Intangible assets

Our intangible assets slightly decreased by 0.6% from approximately RMB34.5 million as of 31 December 2015 to approximately RMB34.3 million as of 30 June 2016. The decrease in intangible assets was mainly attributable to the amortization of land use rights and software.

Working capital and financial resources

Cash flow analysis

For the six months ended 30 June 2016, our net cash outflow in operating activities was RMB62.6 million, which was mainly attributable to payment for acquiring commodities and accepting services; our net cash inflows from investing activities was RMB4.2 million, which was mainly due to the government grants received and the interest income; our net cash inflow from financing activities was nil; and our cash and cash equivalents decreased by RMB1.6 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 30 June 2016, we did not have any significant contingent liabilities and guarantees.

Capital commitment

As of 30 June 2016, our total capital commitment was approximately RMB412 million, which mainly comprised the expenses incurred for construction of new plants in Daxing New Production Base and the acquisition of relevant equipments.

SUBSEQUENT EVENTS

From the end of the reporting period to the date of this report, 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 by the Company in such manner as consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 27 February 2015.

As of 30 June 2016, approximately RMB27 million out of the proceeds from the global offering has been used by the Company.

FUTURE PROSPECTS

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

Expansion of the production facilities

The Company plan to increase its production capacity significantly to meet the anticipated increasing market demand. The Company are in the process of building a new production plant and facilities (the "**Daxing New Production Base**"). Phase I of the development mainly involves the construction of the first production plant, the acquisition of equipment for the expansion of production capacity of standard joint prosthesis products and spinal products, the development and commercialisation of advanced customized joint prosthesis products and the construction of a research and development center and a sales and marketing center. Phase I of the development has been commenced in March 2014, and it is expected to be completed in around December 2016 and commenced operation in around October 2017. Phase II of the development mainly includes the construction of the second production plant for the further development and commercialisation of ceramic hip joint prosthesis products and further expansion of production capacity of standard joint prosthesis products. Phase II of the development is expected to be commenced and completed in around January 2017 and December 2018 respectively. It is expected to commence operation in around October 2019. (For details of the Daxing New Production Base, please refer to the Company's prospectus.)

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 portfolio 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 at 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

Currently, the marketing team of the Group comprises over 120 staff, which covers all provinces in mainland China, enabling us to provide services such as product training, aftersales services to clinician and distributor partners in a more convenient way and to cultivate talents so as to lay foundation for our further expansion. Moreover, we shall further recruit senior sales managers and sales representatives to expand our marketing team, so in those provinces and cities with larger population, more sales personnel will be allocated to conduct customer service.

Strengthen our innovation ability and increase the research and development resources

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

Expand our brand influence

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

Retention of talents

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

EMPLOYEES

As at 30 June 2016, the Group had a total of approximately 427 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff, general and administration staff. As at 30 June 2016, the total salary and related costs paid to our employees were approximately RMB18.6 million. The Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2016, neither the Company, nor its subsidiary purchased, redeemed or sold any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the declaration of an interim dividend for the six months ended 30 June 2016.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has committed to delivering and maintaining a higher standard of corporate governance to meet business needs and shareholders' expectation. The Company has adopted the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices. The Corporate Governance Code has been applicable to the Company with effect from 11 March 2015. Pursuant to code provision A.2.1 of the Corporate Governance Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, Mr. Shi Chunbao currently performs the roles as the chairman and general manager. The Board believes that vesting the roles of both chairman and general manager in the same person has the benefit of ensuring consistent leadership within the Group and enables more efficient overall strategic planning for the Group. The Board considers that the balance of power and authority will not be impaired by the present arrangement and this structure will enable the Company to make and implement decisions promptly and effectively. After taking into account the overall circumstances of the Group, the Board will continue to review and consider whether the duties of the chairman and general manager should be separated.

Save as disclosed above, during the reporting period, the Company has complied with all applicable principles and code provisions of the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE

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

REVIEW OF INTERIM RESULTS

The Audit Committee of the Board has reviewed the Company's consolidated financial statements for the six months ended 30 June 2016, including the applicable accounting principles and practices.

These financial statements have been reviewed by our Group's auditors Pan-China Certified Public Accountants LLP (special general partner).

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

As at 30 June 2016, the interests or short positions of the directors, supervisors and the chief executive officer of the Company in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, will be as follows:

INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	35.0%
		18,762,913	Interest of Spouse	27.1%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	27.1%
		24,237,087	Interest of Spouse	35.0%
Mr. Lin Yiming	Domestic shares	1,160,000	Beneficial owner	1.7%

The calculation is based on the total number of 69,170,400 ordinary shares of the Company in issue as at 30 June 2016.

Saved as disclosed above, as at 30 June 2016, none of the directors, supervisors and the chief executive officer of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	35.0%
		18,762,913	Interest of Spouse	27.1%
Ms. Yue Shujun	Domestic shares	18,762,913	Beneficial owner	27.1%
		24,237,087	Interest of Spouse	35.0%

Save as disclosed above, as at 30 June 2016, 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.

REVIEW REPORT



天健会计师事务所

Pan-China Certified Public Accountants

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PCCPAAR [2016]
No. 8-272

To the Shareholders of Beijing Chunlizhengda Medical Instruments Co., Ltd.:

We have reviewed the accompanying interim financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”), which comprise the consolidated and parent company balance sheets as at June 30, 2016, 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 six-month period then ended, as well as notes to financial statements. The directors are responsible for the preparation and presentation of these interim financial statements. Our responsibility is to issue a review report on these interim financial statements based on our review.

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

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Company are not present fairly, in all material aspects, the consolidated and parent company’s financial position as at June 30, 2016, and the consolidated and parent company’s results of operations and cash flows for the six-month period then ended, in accordance with China Accounting Standards for Business Enterprise.

Pan-China Certified Public Accountants LLP
Hangzhou, China

Chinese Certified Public Accountant

Chinese Certified Public Accountant

Date of Report: August 30, 2016

The review report and the accompanying financial statements are English 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.

CONSOLIDATED BALANCE SHEET

As at June 30, 2016 (Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
Current assets:			
Cash and bank balances	1	233,415,277.50	239,066,355.74
Settlement funds			
Loans to other banks			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable	2	16,700,629.10	11,596,397.70
Accounts receivable	3	102,466,013.15	55,288,962.08
Advances paid	4	2,419,386.23	6,784,304.41
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable			
Dividend receivable			
Other receivables	5	675,002.44	496,339.05
Reverse-REPO financial assets			
Inventories	6	63,737,454.70	64,635,690.31
Assets classified as held-for-sale			
Non-current assets due within one year			
Other current assets	7	186,162.15	1,709,648.89
Total current assets		419,599,925.27	379,577,698.18
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	8	53,089,522.60	50,848,279.82
Construction in progress	9	11,166,768.82	11,080,164.80
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets	10	34,335,084.28	34,463,938.52
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets	11	1,068,362.82	762,120.29
Other non-current assets	12	611,679.10	1,309,152.10
Total non-current assets		100,271,417.62	98,463,655.53
Total assets		519,871,342.89	478,041,353.71

Consolidated Balance Sheet

As at June 30, 2016 (Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
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	13	23,691,398.10	27,758,856.31
Advances received	14	2,494,536.05	1,993,646.86
Proceeds from sale of repurchase financial assets			
Handling fee and commission payable			
Employee benefits payable	15	2,823,377.46	2,682,332.37
Taxes and rates payable	16	3,402,479.69	171,998.72
Interest payable			
Dividend payable	17	6,086,995.20	5,046,969.38
Other payables	18	8,370,713.03	
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		46,869,499.53	37,653,803.64
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income	19	19,032,972.59	16,673,255.31
Deferred tax liabilities	11	271,386.46	158,287.02
Other non-current liabilities			
Total non-current liabilities		19,304,359.05	16,831,542.33
Total liabilities		66,173,858.58	54,485,345.97
Equity:			
Paid-in capital	20	69,170,400.00	69,170,400.00
Capital reserve	21	230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	22	17,376,350.74	17,376,350.74
General risk reserve			
Undistributed profit	23	137,111,553.56	106,970,076.99
Total equity attributable to the parent company		453,697,484.31	423,556,007.74
Non-controlling interest			
Total equity		453,697,484.31	423,556,007.74
Total liabilities & equity		519,871,342.89	478,041,353.71

PARENT COMPANY BALANCE SHEET

As at June 30, 2016 (Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
Current assets:			
Cash and bank balances		233,375,364.69	239,039,458.70
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		16,700,629.10	11,596,397.70
Accounts receivable	1	102,466,013.15	55,288,962.08
Advances paid		2,419,386.23	6,784,304.41
Interest receivable			
Dividend receivable			
Other receivables	2	658,521.99	479,858.60
Inventories		63,737,454.70	64,635,690.31
Assets classified as held-for-sale			
Non-current assets due within one year			
Other current assets			1,484,836.44
Total current assets		419,357,369.86	379,309,508.24
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	3	665,263.00	665,263.00
Investment property			
Fixed assets		53,087,547.60	50,846,304.82
Construction in progress		11,166,768.82	11,080,164.80
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets		34,335,084.28	34,463,938.52
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets		1,051,882.37	745,639.84
Other non-current assets		611,679.10	1,309,152.10
Total non-current assets		100,918,225.17	99,110,463.08
Total assets		520,275,595.03	478,419,971.32

Parent Company Balance Sheet

As at June 30, 2016 (Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
Current liabilities:			
Short-term borrowings			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable		23,691,398.10	27,758,856.31
Advances received		2,494,536.05	1,993,646.86
Employee benefits payable		2,823,377.46	2,671,634.25
Taxes and rates payable		3,402,479.69	171,917.12
Interest payable			
Dividend payable		6,086,995.20	
Other payables		10,300,841.18	7,106,282.41
Liabilities classified as held-for-sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		48,799,627.68	39,702,336.95
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income		19,032,972.59	16,673,255.31
Deferred tax liabilities		271,386.46	158,287.02
Other non-current liabilities			
Total non-current liabilities		19,304,359.05	16,831,542.33
Total liabilities		68,103,986.73	56,533,879.28
Equity:			
Paid-in capital		69,170,400.00	69,170,400.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		17,376,350.74	17,376,350.74
Undistributed profit		135,585,677.55	105,300,161.29
Total equity		452,171,608.30	421,886,092.04
Total liabilities & equity		520,275,595.03	478,419,971.32

CONSOLIDATED INCOME STATEMENT

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Audited)
I. Total operating revenue		111,072,693.48	93,400,647.69
Including: operating revenue	1	111,072,693.48	93,400,647.69
Interest proceeds			
Premium earned			
Revenue from handling charges and commission			
II. Total operating cost		69,739,558.72	62,105,446.60
Including: operating cost	1	27,690,636.13	24,947,461.55
Interest expenses			
Handling charges and commission expenditures			
Surrender value			
Net payment of insurance claims			
Net provision of insurance reserve			
Premium bonus expenditures			
Reinsurance expenses			
Taxes & surcharge for operations	2	1,227,531.56	1,069,974.46
Selling expenses	3	26,371,931.66	20,733,811.84
Administrative expenses	4	15,290,319.87	17,766,535.08
Financial expense	5	-2,882,477.41	-3,698,057.51
Assets impairment loss	6	2,041,616.91	1,285,721.18
Add: gains on changes of fair value (or less: losses)			
Investment income (or less: losses)			
Including: investment income from associates and joint ventures			
Gains on foreign exchange (or less: losses)			
III. Operating profit (or less: losses)		41,333,134.76	31,295,201.09
Add: Non-operating revenue	7	886,159.55	376,575.86
Including: Gains on disposal of non-current assets		7,500.00	24,260.88
Less: Non-operating expenditures	8	6,303.50	854,912.04
Including: losses on disposal of fixed assets		4,903.50	55,779.22
IV. Profit before tax (or less: total loss)		42,212,990.81	30,816,864.91
Less: income tax	9	5,984,519.04	4,187,546.03

Consolidated Income Statement

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Audited)
V. Net profit (or less: net loss)		36,228,471.77	26,629,318.88
Net profit attributable to owners of parent company		36,228,471.77	26,629,318.88
Non-controlling interest			
VI. Other comprehensive income after tax			
Items attributable to the owners of the parent company			
(I) Not reclassified subsequently to profit or loss			
1. Changes in re-measurement on the net defined benefit liability/asset			
2. Items attributable to investees under equity method that will not reclassified to profit or loss			
(II) To be reclassified subsequently to profit or loss			
1. Items attributable to investees under equity method that may be reclassified to profit or loss			
2. Profit or loss from changes in fair value of available-for-sale financial assets			
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets			
4. Profit or loss on cash flow hedging			
5. Translation reserve			
6. Others			
Items attributable to non-controlling shareholders			
VII. Total comprehensive income		36,228,471.77	26,629,318.88
Items attributable to owners of parent company		36,228,471.77	26,629,318.88
Items attributable to non-controlling interest			
VIII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)		0.52	0.45
(II) Diluted EPS (yuan per share)		0.52	0.45

PARENT COMPANY INCOME STATEMENT

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

	<i>Note No.</i>	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
I. Operating revenue	1	111,072,693.48	93,400,647.69
Less: Operating cost	1	27,632,010.58	24,947,461.55
Taxes & surcharge for operations		1,227,531.56	1,069,974.46
Selling expenses		26,371,931.66	20,728,459.84
Administrative expenses		15,205,077.07	17,694,185.12
Financial expense		-2,882,648.75	-3,693,914.40
Assets impairment loss		2,041,616.91	1,285,721.18
Add: Gain on changes of fair value (or less: losses)			
Investment income (or less: losses)			
Including: investment income from associates and joint ventures			
II. Operating profit (or less: losses)		41,477,174.45	31,368,759.94
Add: Non-operating revenue		886,159.55	376,575.86
Including: Gains on disposal of non-current assets		7,500.00	24,260.88
Less: Non-operating expenditures		6,303.50	854,912.04
Including: losses on disposal of non-current assets		4,903.50	55,779.22
III. Profit before tax (or less: total loss)		42,357,030.50	30,890,423.76
Less: income tax		5,984,519.04	4,187,546.03

Parent Company Income Statement

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
IV.	Net profit (or less: net loss)	36,372,511.46	26,702,877.73
V.	Other comprehensive income after tax		
	(I) Not reclassified subsequently to profit or loss		
	1. Changes in re-measurement on the net defined benefit liability/asset		
	2. Items attributable to investees under equity method that will not reclassified to profit or loss		
	(II) To be reclassified subsequently to profit or loss		
	1. Items attributable to investees under equity method that may be reclassified to profit or loss		
	2. Profit or loss from changes in fair value of available-for-sale financial assets		
	3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets		
	4. Profit or loss on cash flow hedging		
	5. Translation reserve		
	6. Others		
VI.	Total comprehensive income	36,372,511.46	26,702,877.73
VII.	Earnings per share (EPS):		
	(I) Basic EPS (yuan per share)		
	(II) Diluted EPS (yuan per share)		

CONSOLIDATED CASH FLOW STATEMENT

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
I. Cash flows from operating activities:			
Cash receipts from sale of goods or rendering of services		69,798,441.15	56,345,313.36
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 from disposal of financial assets at fair value through profit or loss			
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	1	138,191.33	118,470.00
Subtotal of cash inflows from operating activities		69,936,632.48	56,463,783.36
Cash payments for goods purchased and services received		16,422,010.75	37,099,567.59
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payments for insurance indemnities of original insurance contracts			
Cash payments for interest, handling charges and commission			
Cash payments for policy bonus			
Cash paid to and on behalf of employees		19,363,954.52	15,162,281.62
Cash payments for taxes and rates		17,141,537.96	9,628,791.79
Other cash payments related to operating activities	2	23,267,119.23	28,115,892.02
Subtotal cash outflows from operating activities		76,194,622.46	90,006,533.02
Net cash flows from operating activities		-6,257,989.98	-33,542,749.66

Consolidated Cash Flow Statement

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
II. Cash flows from investing activities:			
Cash receipts from return of investments			
Cash receipts from return on investments			
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		7,500.00	73,200.00
Net cash receipts from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities	3	9,571,876.20	11,173,284.19
Subtotal of cash inflows from investing activities		9,579,376.20	11,246,484.19
Cash payments for acquiring fixed assets, intangible assets and other long-term assets			
Cash payments for acquiring investments			
Net increase of pledged loans			
Net cash payments for acquiring subsidiaries & other business units			
Other cash payments related to investing activities			
Subtotal of cash outflows from investing activities		5,409,431.84	14,780,802.95
Net cash flows from investing activities		4,169,944.36	-3,534,318.76
III. Cash flows from financing activities:			
Cash receipts from investment by others			202,198,658.82
Including: cash received by subsidiaries from non-controlling shareholders as investments			
Cash receipts from borrowings			
Cash receipts from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			202,198,658.82
Cash payments for the repayments of borrowings			
Cash payments for distribution of dividends or profits and for interest expenses			
Including: cash paid for distribution of dividends or profits by subsidiaries to minority owners			
Other cash payments related to financing activities	4		8,438,345.53
Subtotal of cash outflows from financing activities			8,438,345.53
Net cash flows from financing activities			193,760,313.29

Consolidated Cash Flow Statement

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
IV. Effect of foreign exchange rate changes on cash & cash equivalents		463,831.34	2,068,478.74
V. Net increase in cash and cash equivalents		-1,624,214.28	158,751,723.61
Add: Opening balance of cash and cash equivalents		235,039,491.78	63,563,110.13
VI. Closing balance of cash and cash equivalents		233,415,277.50	222,314,833.74

PARENT COMPANY CASH FLOW STATEMENT

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		69,798,441.15	56,345,313.36
Receipts of tax refund			
Other cash receipts related to operating activities		138,191.33	422,902.08
Subtotal of cash inflow from operating activities		69,936,632.48	56,768,215.44
Cash payments for goods purchased and services received		16,136,030.53	37,099,567.59
Cash paid to and on behalf of employees		19,355,361.97	15,095,306.32
Cash payments of taxes and rates		17,141,537.96	9,628,791.79
Other cash payments related to operating activities		23,574,629.11	28,132,629.96
Subtotal of cash outflows from operating activities		76,207,559.57	89,956,295.66
Net cash flows from operating activities		-6,270,927.09	-33,188,080.22
II. Cash flows from investing activities:			
Cash receipts from return of investments			
Cash receipts from investments gains			
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		7,500.00	73,200.00
Net cash receipts from disposals of subsidiaries and other business units			
Other cash receipts related to investing activities		9,571,797.54	11,169,141.08
Subtotal of cash inflow from investing activities		9,579,297.54	11,242,341.08
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		5,409,431.84	14,780,802.95
Cash payments for investments			
Net cash payments for acquisitions of subsidiaries and other business units			
Other cash payments related to investing activities			
Subtotal of cash outflows from investing activities		5,409,431.84	14,780,802.95
Net cash flows from investing activities		4,169,865.70	-3,538,461.87

Parent Company Cash Flow Statement

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
III. Cash flows from financing activities:			
Cash receipts from absorbing investment			202,198,658.82
Cash receipts from borrowings			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			202,198,658.82
Cash payments for the repayment of borrowings			
Cash payments for distribution of dividends or profit or interest expenses			
Other cash payments related to financing activities			8,438,345.53
Subtotal of cash outflows from financing activities			8,438,345.53
Net cash flows from financing activities			193,760,313.29
IV. Effect of foreign exchange rate changes on cash and cash equivalents		463,831.34	2,068,478.74
V. Net increase in cash and cash equivalents		-1,637,230.05	159,102,249.94
Add: Opening balance of cash and cash equivalents		235,012,594.74	61,150,517.26
VI. Closing balance of cash and cash equivalents		233,375,364.69	220,252,767.20

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Current period cumulative (Unaudited)												
	Other equity instruments					Equity attributable to parent company					Total equity		
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve		Undistributed profit	Non-controlling interest
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				17,376,350.74		106,970,076.99		423,556,007.74
Add: Cumulative changes of accounting policies													
Error correction of prior period													
Business combination under common control													
Others													
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01				17,376,350.74		106,970,076.99		423,556,007.74
III. Current period increase (or less: decrease)													
(I) Total comprehensive income													
(II) Capital contributed or withdrawn by owners													
1. Capital contributed by owners													
2. Capital contributed by holders of other equity instruments													
3. Amount of share-based payment included in equity													
4. Others													
(III) Profit distribution													
1. Appropriation of surplus reserve													
2. Appropriation of general risk reserve													
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													
Others													
IV. Balance at the end of current period	69,170,400.00				230,039,180.01				17,376,350.74		137,111,553.56		453,697,484.31

Consolidated Statement of Changes in Equity

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Other equity instruments							Equity attributable to parent company					Non-controlling interest	Total equity
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit			
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														
Business combination under common control														
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						20,540,323.68		206,399,308.54	
(I) Total comprehensive income														
(II) Capital contributed or withdrawn by owners	19,170,400.00				166,686,584.86						26,629,318.88		26,629,318.88	
1. Capital contributed by owners	19,170,400.00				166,686,584.86								185,856,984.86	
2. Capital contributed by holders of other equity instruments													185,856,984.86	
3. Amount of share-based payment included in equity														
4. Others														
(III) Profit distribution														
1. Appropriation of surplus reserve														
2. Appropriation of general risk reserve														
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	69,170,400.00				230,039,180.01				13,570,973.75		99,539,155.30		412,319,709.06	

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Other equity instruments							Current period cumulative (Unaudited)														
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				17,376,350.74	105,300,161.29	421,886,092.04	69,170,400.00				230,039,180.01				17,376,350.74	105,300,161.29	421,886,092.04
Add: Cumulative changes of accounting policies																						
Error correction of prior period																						
Others																						
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01				17,376,350.74	105,300,161.29	421,886,092.04	69,170,400.00				230,039,180.01				17,376,350.74	105,300,161.29	421,886,092.04
III. Current period increase (or less: decrease)																						
(I) Total comprehensive income																						
(II) Capital contributed or withdrawn by owners																						
1. Capital contributed by owners																						
2. Capital contributed by holders of other equity instruments																						
3. Amount of share-based payment included in equity																						
4. Others																						
(III) Profit distribution																						
1. Appropriation of surplus reserve																						
2. Appropriation of profit to owners																						
3. 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	135,585,677.55	452,171,608.30	69,170,400.00				230,039,180.01				17,376,350.74	135,585,677.55	452,171,608.30

Parent Company Statement of Changes in Equity

For the Six-Month Period Ended June 30, 2016 (Expressed in Renminbi Yuan)

Items	Other equity instruments						Preceding period comparative (Unaudited)					Total equity
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit		
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												
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				20,615,882.53	206,472,867.39		
(I) Total comprehensive income												
(II) Capital contributed or withdrawn by owners	19,170,400.00				166,686,584.86					26,702,877.73	185,856,984.86	
1. Capital contributed by owners	19,170,400.00				166,686,584.86						185,856,984.86	
2. Capital contributed by holders of other equity instruments												
3. Amount of share-based payment included in equity												
4. Others												
(III) Profit distribution												
1. Appropriation of surplus reserve									-6,086,995.20		-6,086,995.20	
2. Appropriation of profit to owners												
3. 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				13,570,973.75	97,754,646.16	410,535,199.92	

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 Six-Month Period Ended June 30, 2016 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 RMB69,170,400, and total shares are 69,170,400 shares (each with par value of one yuan), of which, 50,000,000 shares are restricted shares, and 19,170,400 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 Twenty Meeting of the Second Session of the Board of Directors dated August 30, 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 purpose only.

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. The accounting period for these interim financial statements is from January 1, 2016 to June 30, 2016.

(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 "CASBE33 – Consolidated Financial Statements", based on relevant information and the financial statements of the parent company and its subsidiaries.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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.

(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.

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*

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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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.
- (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.

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 (Continued)

- 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(X) Receivables

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

Judgment basis or amount criteria of individually significant amount	Accounts receivable is considered individually significant if the amount is over 2% (inclusive) of the total balance of accounts receivable; Other receivable is considered individually significant if the amount is over 10% (inclusive) 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.

(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

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
Provision method	Provision for bad debts are made at the excess of the carrying amount of the receivables over the present value of the estimated future cash flows based on independent impairment test

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XI) Inventories (Continued)

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.

(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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. *Determination of investment cost (Continued)*

- (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.

- (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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

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.

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

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

(XIV) Construction in progress

- 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.
- 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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 or 49.00
Financial software	5.00

(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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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.
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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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.

(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 products are 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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.

(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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(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.

(XXV) Critical accounting judgments 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXV) Critical accounting judgments and estimates (Continued)

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.

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%; The subsidiary: 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 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 (from 2015 to 2017) since the date of certificate.

Notes to Financial Statements

For the Six-Month Period Ended June 30, 2016 Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Remarks: "Opening balance" in this report refers to balances as at January 1, 2016, while "closing balance" refers to balances as at June 30, 2016; and "current period" refers to the period from January 1, 2016 to June 30, 2016, while "preceding period" refers to the period from January 1, 2015 to June 30, 2015. This is also applicable to that of the parent company.

(I) Notes to items of the consolidated balance sheet

1. Cash and bank balances

Items	Closing balance (Unaudited)	Opening balance (Audited)
Cash on hand	268,905.46	662,644.94
Cash in bank	233,146,372.04	234,376,846.84
Other cash and bank balances		4,026,863.96
Total	<u>233,415,277.50</u>	<u>239,066,355.74</u>

2. Notes receivable

(1) Details

Categories	Closing balance (Unaudited)			Opening balance (Audited)		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance	16,517,839.10		16,517,839.10	10,314,167.70		10,314,167.70
Trade acceptance	182,790.00		182,790.00	1,282,230.00		1,282,230.00
Total	<u>16,700,629.10</u>		<u>16,700,629.10</u>	<u>11,596,397.70</u>		<u>11,596,397.70</u>

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

Items	Balance derecognized as at the balance sheet date	Balance not yet derecognized as at the balance sheet date
Bank acceptance		950,000.00

Due to the fact that the acceptor of bank acceptance is commercial bank, which is of high credit level, there is very little possibility of failure in recoverability when it is due. Based on this fact, the Company derecognized the endorsed or discounted bank acceptance. However, if any bank acceptance is not recoverable when it is due, the Company still holds joint liability on such acceptance, according to the China Commercial Instrument Law.

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 (Unaudited)		
			Provision for bad debts		Carrying amount
	Amount	% to total	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	109,292,124.29	100.00	6,826,111.14	6.25	102,466,013.15
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	109,292,124.29	100.00	6,826,111.14	6.25	102,466,013.15

Categories	Book balance		Opening balance (Audited)		
			Provision for bad debts		Carrying amount
	Amount	% to total	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

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	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	96,959,565.95	2,908,786.98	3.00
1-2 years	8,174,571.51	653,965.72	8.00
2-3 years	853,385.22	170,677.04	20.00
3-4 years	262,924.50	131,462.25	50.00
4-5 years	402,289.80	321,831.84	80.00
Over 5 years	2,639,387.31	2,639,387.31	100.00
Subtotal	109,292,124.29	6,826,111.14	6.25

(2) Age analysis

Ages	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 3 months	34,216,943.26	1,026,508.29	3.00
3-6 months	37,084,947.84	1,112,548.44	3.00
6-12 months	25,657,674.85	769,730.25	3.00
Over 1 year	12,332,558.34	3,917,324.16	31.76
Total	109,292,124.29	6,826,111.14	6.25

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 grants 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.

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

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

3. Accounts receivable (Continued)

- (3) Provisions made, collected or reversed in current period
Provision for bad debts made in current period totaled RMB2,041,908.08, 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
Beijing Gaoyang Materials Centre	12,112,242.08	11.08	363,367.26
Party A	5,913,159.90	5.41	256,230.90
Party B	3,933,615.24	3.60	118,008.46
Party C	3,833,000.00	3.51	114,990.00
Party D	3,177,813.80	2.91	103,372.72
Subtotal	28,969,831.02	26.51	955,969.34

4. Advances paid

- (1) Age analysis

Ages	Closing balance (Unaudited)			Opening balance (Audited)		
	Book balance	% to total	Provision for bad debts Carrying amount	Book balance	% to total	Provision for bad debts Carrying amount
Within 1 year	1,904,557.95	78.72	1,904,557.95	6,486,388.63	95.60	6,486,388.63
1-2 years	439,828.28	18.18	439,828.28	222,915.78	3.29	222,915.78
Over 3 years	75,000.00	3.10	75,000.00	75,000.00	1.11	75,000.00
Total	2,419,386.23	100.00	2,419,386.23	6,784,304.41	100.00	6,784,304.41

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****4. Advances paid**

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

Debtors	Book balance	Proportion to the total balance of advances paid (%)
Party E	895,000.10	36.99
Party F	366,218.86	15.14
Party G	142,120.00	5.87
Party H	124,894.00	5.16
Party I	97,151.52	4.02
Subtotal	1,625,384.48	67.18

5. Other receivables

(1) Details

1) Details on categories

Categories	Closing balance (Unaudited)				
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	Carrying amount
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	927,362.24	100.00	252,359.80	27.21	675,002.44
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	927,362.24	100.00	252,359.80	27.21	675,002.44

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

(Continued)

Categories	Book balance		Opening balance (Audited)		
	Amount	% to total	Provision for bad debts Amount	Provision proportion (%)	Carrying amount
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

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

Ages	Closing balance (Unaudited)		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 1 year	521,220.25	15,636.61	3.00
1-2 years	109,525.00	8,762.00	8.00
2-3 years	64,100.00	12,820.00	20.00
4-5 years	86,878.99	69,503.19	80.00
Over 5 years	145,638.00	145,638.00	100.00
Subtotal	927,362.24	252,359.80	27.21

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****5. Other receivables**

- (2) Provisions made, collected or reversed in current period
Provisions for bad debts made in current period totaled RMB-291.17, 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 (unaudited)	Opening balance (audited)
Petty cash	369,774.73	330,837.03
Bid security		11,200.00
Guarantee deposit	314,794.36	225,642.84
Other	242,793.15	181,310.15
Total	927,362.24	748,990.02

- (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	13.89	128,828.00
Party K	Petty cash	103,000.00	Within 1 year	11.11	3,090.00
Party I	Guarantee deposit	97,151.52	Within 1 year	10.48	2,914.55
Party L	Other	82,402.24	4-5 years	8.89	65,921.79
Party M	Guarantee deposit	50,000.00	1-2 years	5.39	4,000.00
Subtotal		461,381.76		49.76	204,754.34

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****6. Inventories**

Items	Closing balance (Unaudited)		Opening balance (Audited)			
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw materials	20,923,999.22		20,923,999.22	19,667,281.66		19,667,281.66
Work in progress	8,628,294.92		8,628,294.92	10,003,472.92		10,003,472.92
Finished goods	34,185,160.56		34,185,160.56	34,964,935.73		34,964,935.73
Total	63,737,454.70		63,737,454.70	64,635,690.31		64,635,690.31

7. Other current assets

Items	Closing balance (unaudited)	Opening balance (audited)
VAT to be deducted	186,162.15	537,941.36
Prepaid enterprise income taxes		1,171,707.53
Total	186,162.15	1,709,648.89

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****8. Fixed assets**

(1) Details

Items	Buildings and structures	Mechanical equipment	Transport facilities	Other equipment	Total
Cost					
Opening balance (Audited)	20,242,404.85	45,223,055.53	1,794,728.53	2,312,932.78	69,573,121.69
Increase		4,848,806.66		47,246.15	4,896,052.81
1) Acquisition		4,848,806.66		47,246.15	4,896,052.81
Decrease			98,075.00		98,075.00
1) Disposal/scrap			98,075.00		98,075.00
Closing balance (Unaudited)	20,242,404.85	50,071,862.19	1,696,653.53	2,360,178.93	74,371,099.50
Accumulated depreciation					
Opening balance (Audited)	1,835,660.42	13,831,523.44	1,166,941.99	1,890,716.02	18,724,841.87
Increase	350,101.70	2,171,491.66	73,055.52	55,257.65	2,649,906.53
1) Accrual	350,101.70	2,171,491.66	73,055.52	55,257.65	2,649,906.53
Decrease			93,171.50		93,171.50
1) Disposal/scrap			93,171.50		93,171.50
Closing balance (Unaudited)	2,185,762.12	16,003,015.10	1,146,826.01	1,945,973.67	21,281,576.90
Carrying amount					
Closing balance (Unaudited)	18,056,642.73	34,068,847.09	549,827.52	414,205.26	53,089,522.60
Opening balance (Audited)	18,406,744.43	31,391,532.09	627,786.54	422,216.76	50,848,279.82

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 (Unaudited)			Opening balance (Audited)		
	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	11,166,768.82		11,166,768.82	11,080,164.80		11,080,164.80
Total	11,166,768.82		11,166,768.82	11,080,164.80		11,080,164.80

(2) Changes in significant projects

Projects	Budgets (RMB'0,000)	Opening balance (Audited)	Increase	Transferred to fixed assets	Other decrease	Closing balance (Unaudited)
Daxing New Production Base – first stage construction work	21,840.28	11,080,164.80	86,604.02			11,166,768.82
Subtotal	21,840.28	11,080,164.80	86,604.02			11,166,768.82

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
Daxing New Production Base – First stage construction work	5.11	5.11				Self-generated funds and publicly raised fund
Subtotal	5.11	5.11				

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****10. Intangible assets**

(1) Details

Items	Land use right	Software	Total
Cost			
Opening balance (Audited)	37,052,810.33	248,200.00	37,301,010.33
Increase		299,145.29	299,145.29
Decrease			
Closing balance (Unaudited)	37,052,810.33	547,345.29	37,600,155.62
Accumulated amortization			
Opening balance (Audited)	2,670,442.03	166,629.78	2,837,071.81
Increase	385,679.58	42,319.95	427,999.53
Decrease			
Closing balance (Unaudited)	3,056,121.61	208,949.73	3,265,071.34
Carrying amount			
Closing balance (Unaudited)	33,996,688.72	338,395.56	34,335,084.28
Opening balance (Audited)	34,382,368.30	81,570.22	34,463,938.52

(2) Analysis of carrying amount of land use right

Items	Closing balance (Unaudited)	Opening balance (Audited)
Outside Hong Kong		
Including: Mid-term lease	33,996,688.72	34,382,368.30
Subtotal	33,996,688.72	34,382,368.30

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****11. Deferred tax assets and deferred tax liabilities**

(1) Deferred tax assets before offset

Items	Closing balance (Unaudited)		Opening balance (Audited)	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for impairment of assets	7,078,470.94	1,068,362.82	5,036,854.03	762,120.29
Total	7,078,470.94	1,068,362.82	5,036,854.03	762,120.29

(2) Deferred tax liabilities before offset

Items	Closing balance (Unaudited)		Opening balance (Audited)	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation of fixed assets	1,809,243.15	271,386.46	1,055,246.84	158,287.02
Total	1,809,243.15	271,386.46	1,055,246.84	158,287.02

12. Other non-current assets

Items	Closing balance (Unaudited)	Opening balance (Audited)
Machinery equipment prepayments	611,679.10	1,309,152.10
Total	611,679.10	1,309,152.10

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 (Unaudited)	Opening balance (Audited)
Purchasing of materials	23,405,109.51	26,689,784.82
Purchasing of machinery and equipment	286,288.59	1,069,071.49
Total	23,691,398.10	27,758,856.31

(2) Age analysis

Ages	Closing balance (Unaudited)	Opening balance (Audited)
Within 1 year	23,352,020.11	27,385,278.32
1-2 years	65,032.50	99,232.50
2-3 years	232,869.29	232,869.29
Over 3 year	41,476.20	41,476.20
Total	23,691,398.10	27,758,856.31

(3) Details of the top 5 creditors with largest balances

Creditors	Book balance	Proportion to the total balance of accounts payable (%)
Party N	7,339,450.00	30.98
Party O	3,264,321.98	13.78
Party P	1,786,792.50	7.54
Party Q	1,010,693.02	4.27
Party R	1,000,000.00	4.22
Subtotal	14,401,257.50	60.79

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****14. Advances received**

Items	Closing balance (Unaudited)	Opening balance (Audited)
Goods payments	2,494,536.05	1,993,646.86
Total	2,494,536.05	1,993,646.86

15. Employee benefits payable

(1) Details

Items	Opening balance (Audited)	Increase RMB	Decrease RMB	Closing balance (Unaudited)
Short-term employee benefits	2,499,345.31	18,104,774.30	17,963,729.21	2,640,390.40
Post-employment benefits – defined benefit plan	182,987.06	1,400,225.31	1,400,225.31	182,987.06
Total	2,682,332.37	19,504,999.61	19,363,954.52	2,823,377.46

(2) Details of short-term employee benefits

Items	Opening balance (Audited)	Increase RMB	Decrease RMB	Closing balance (Unaudited)
Wage, bonus, allowance and subsidy	2,133,878.76	15,138,918.88	14,998,802.10	2,273,995.54
Employee welfare fund		889,798.17	889,798.17	
Social insurance premium	129,473.42	1,140,688.14	1,140,688.14	129,473.42
Including: Medicare premium	108,559.32	991,568.00	991,568.00	108,559.32
Occupational injuries premium	10,457.05	74,605.95	74,605.95	10,457.05
Maternity premium	10,457.05	74,514.19	74,514.19	10,457.05
Housing provident funds	94,968.00	633,764.00	633,764.00	94,968.00
Trade union fund and employee education fund	141,025.13	301,605.11	300,676.80	141,953.44
Subtotal	2,499,345.31	18,104,774.30	17,963,729.21	2,640,390.40

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****15. Employee benefits payable (Continued)**

(3) Details of defined benefit plan

Items	Opening balance (Audited)	Increase RMB	Decrease RMB	Closing balance (Unaudited)
Basic endowment insurance premium	174,273.38	1,335,032.95	1,335,032.95	174,273.38
Unemployment insurance premium	8,713.68	65,192.36	65,192.36	8,713.68
Subtotal	182,987.06	1,400,225.31	1,400,225.31	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 (Unaudited)	Opening balance (Audited)
VAT	2,840,618.09	
Enterprise income tax	166,763.21	
Individual income tax withheld for tax authorities	118,547.40	123,872.62
Urban maintenance and construction tax	138,275.50	24,063.05
Education surcharge	82,965.29	14,437.83
Local education surcharge	55,310.20	9,625.22
Total	3,402,479.69	171,998.72

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****17. Dividend payable**

Items	Closing balance (Unaudited)	Opening balance (Audited)
Dividend of ordinary shares	6,086,995.20	
Total	6,086,995.20	

18. Other payables

Items	Closing balance (Unaudited)	Opening balance (Audited)
Sales rebate	8,006,575.27	4,801,339.59
Others	364,137.76	245,629.79
Total	8,370,713.03	5,046,969.38

19. Deferred income

(1) Details

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)	Reasons for balance
Government grants	16,673,255.31	3,100,000.00	740,282.72	19,032,972.59	Government grants related to assets
Total	16,673,255.31	3,100,000.00	740,282.72	19,032,972.59	

Notes to Financial Statements

For the Six-Month Period Ended June 30, 2016 Monetary unit: RMB Yuan

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

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

19. Deferred income (Continued)

(2) Details of government grants

Items	Opening balance (Audited)	Increase	Included in non-operating revenue in current period	Other movements	Closing balance (Unaudited)	Related to assets/income
Fund on industrialization of ceramic femoral head on ceramic hip joint prostheses	5,166,755.31		231,507.72		4,935,247.59	Related to assets
Fund on clinical study of PEEK interbody fusion cage	1,996,500.00		33,275.00		1,963,225.00	Related to assets
Fund of innovation ability development on joint prosthesis of Beijing engineering laboratory	9,510,000.00		475,500.00		9,034,500.00	Related to assets
Fund on clinical trial research and pilot production capacity building of spine artificial vertebral body fixation system		2,500,000.00			2,500,000.00	Related to assets
Fund on clinical research project of highly cross-linked polyethylene knee joint prosthesis		600,000.00			600,000.00	Related to assets
Total	16,673,255.31	3,100,000.00	740,282.72		19,032,972.59	

20. Share capital

Items	Opening balance (Audited)	Issue of new shares	Bonus shares	Movements Reserve transferred to shares	Others	Subtotal	Closing balance (Unaudited)
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
H shares	19,170,400.00						19,170,400.00
Total	69,170,400.00						69,170,400.00

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to items of the consolidated balance sheet (Continued)****21. Capital reserve**

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)
Share premium	228,239,180.01			228,239,180.01
Other capital reserve	1,800,000.00			1,800,000.00
Total	230,039,180.01			230,039,180.01

22. Surplus reserve

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)
Statutory surplus reserve	17,376,350.74			17,376,350.74
Total	17,376,350.74			17,376,350.74

23. Undistributed profit

(1) Details

Items	Current period cumulative (Unaudited)	Preceding period comparative (Audited)
Balance before adjustment at the end of preceding period	106,970,076.99	78,996,831.62
Opening balance after adjustment	106,970,076.99	78,996,831.62
Add: Net profit attributable to owners of the parent company	36,228,471.77	37,865,617.56
Less: Appropriation of statutory surplus reserve		3,805,376.99
Dividend payable on ordinary shares	6,086,995.20	6,086,995.20
Closing balance	137,111,553.56	106,970,076.99

(2) Other remarks

Pursuant to the resolution of the meeting of the Board of Directors dated March 30, 2016 and the resolution of the General Meeting of 2015 dated June 28, 2016, the Company declared to distribute cash dividends of RMB6,086,995.20 to shareholders at the rate of RMB0.088 per share (including tax).

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 (Unaudited)		Preceding period comparative (Unaudited)	
	Income	Cost	Income	Cost
Revenue from main operations	111,072,693.48	27,690,636.13	93,400,647.69	24,947,461.55
Total	111,072,693.48	27,690,636.13	93,400,647.69	24,947,461.55

2. Taxes and surcharge for operations

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Urban maintenance and construction tax	613,765.79	534,987.23
Education surcharge	368,259.46	320,992.33
Local education surcharge	245,506.31	213,994.90
Total	1,227,531.56	1,069,974.46

3. Selling expenses

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Employee benefits	5,405,306.64	3,172,364.28
Office expenses	716,060.98	995,789.85
Advertising expenses	15,068,565.09	13,066,389.63
Transportation expenses	455,376.35	479,704.70
Rentals	4,535.00	70,773.00
Sale rebates	4,112,523.02	2,301,339.61
Others	609,564.58	647,450.77
Total	26,371,931.66	20,733,811.84

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 (Unaudited)	Preceding period comparative (Unaudited)
Employee benefits	5,385,869.74	4,505,846.67
Motor vehicle expenses	187,845.68	166,590.23
Rentals and property maintenance fee	566,958.09	632,367.00
Depreciation	479,839.82	466,736.75
Office expenses	105,080.24	145,122.21
Other tax charges	178,874.00	195,850.82
Professional and other fees relating to listing		3,080,148.21
Other professional fees	1,353,354.20	1,368,289.99
Auditor's remuneration	566,037.74	483,018.87
Research and development expenses	5,279,990.00	5,414,366.28
Amortization of intangible assets	427,999.53	410,498.54
Entertainments	283,023.51	61,224.34
Others	475,447.32	836,475.17
Total	15,290,319.87	17,766,535.08

5. Financial expenses

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Interest expenditures		
Less: Interest income	2,445,012.24	1,663,284.19
Add: Foreign exchange losses	5,517.94	20,046.25
Less: Foreign exchange gains	471,097.49	2,088,524.99
Add: Handling charges	28,114.38	33,705.42
Total	-2,882,477.41	-3,698,057.51

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 (Unaudited)	Preceding period comparative (Unaudited)
Bad debts	2,041,616.91	1,285,721.18
Total	2,041,616.91	1,285,721.18

7. Non-operating revenue

(1) Details

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Gains on disposal of non-current assets	7,500.00	24,260.88
Including: Gains on disposal of fixed assets	7,500.00	24,260.88
Government grants	878,474.05	349,977.72
Others	185.50	2,337.26
Total	886,159.55	376,575.86

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to items of the consolidated income statement (Continued)****7. Non-operating revenue (Continued)**

(2) Details of government grants

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)	Related to assets/income
Advanced enterprise tax incentives	100,000.00	100,000.00	Related to income
Grant for SMEs in Developing International Market		11,470.00	Related to income
Grant for industrialization of ceramic femoral head on ceramic hip prostheses	231,507.72	231,507.72	Related to assets
Grant for application on patent		7,000.00	Related to income
Advanced enterprise incentives of 2015	1,000.00		Related to income
Grants for continuous employment	37,191.33		Related to income
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	475,500.00		Related to assets
Grant for clinical study of PEEK interbody fusion cage	33,275.00		Related to assets
Subtotal	878,474.05	349,977.72	

8. Non-operating expenditures

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Losses on disposal of non-current assets	4,903.50	55,779.22
Including: Losses on disposal of fixed assets	4,903.50	55,779.22
Donation expenditures		790,060.00
Others	1,400.00	9,072.82
Total	6,303.50	854,912.04

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to items of the consolidated income statement (Continued)****9. Income tax expenses**

(1) Details

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Current period income tax expenses	6,177,662.13	4,380,404.21
Deferred income tax expenses	-193,143.09	-192,858.18
Total	5,984,519.04	4,187,546.03

(2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Profit before tax	42,212,990.81	30,816,864.91
Income tax expenses based on statutory/applicable tax rate	6,331,948.63	4,622,529.73
Effect of different tax rate applicable to subsidiaries	-14,403.97	-7,355.89
Effect of prior income tax reconciliation	-8,782.93	6,407.51
Effect of non-deductible costs, expenses and losses	48,169.69	-39,755.89
Others, such as tax effects on deductible research and development costs	-408,422.30	-412,669.15
Effect of deductible temporary differences or deductible losses not recognized	36,009.92	18,389.72
Income tax expenses	5,984,519.04	4,187,546.03

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of the consolidated cash flow statement****1. Other cash receipts related to operating activities**

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Government grants	138,191.33	118,470.00
Total	138,191.33	118,470.00

2. Other cash payments related to operating activities

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Advertising expenses	15,068,565.09	13,066,389.63
Office expenses	821,141.22	1,140,912.06
Research and development expenses	2,877,239.72	4,062,571.39
Professional fees	1,919,391.94	5,899,273.45
Others	2,580,781.26	3,946,745.49
Total	23,267,119.23	28,115,892.02

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of the consolidated cash flow statement (Continued)****3. Other cash receipts related to investing activities**

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Interest proceeds	2,445,012.24	1,663,284.19
Fund of innovation ability development on joint prosthesis of Beijing engineering laboratory		9,510,000.00
Fund on clinical trial research and pilot production capacity building of spine artificial vertebral body fixation system	2,500,000.00	
Fund on clinical research project of highly cross-linked polyethylene knee joint prosthesis	600,000.00	
Refund of L/C deposits	4,026,863.96	
Total	9,571,876.20	11,173,284.19

4. Other cash payments related to financing activities

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Deposit paid regarding the listing		8,438,345.53
Total		8,438,345.53

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of the consolidated cash flow statement (Continued)****5. Supplement information to the cash flow statement**

(1) Supplement information to the cash flow statement

Supplement information	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	36,228,471.77	26,629,318.88
Add: Provision for assets impairment loss	2,041,616.91	1,285,721.18
Depreciation of fixed assets, oil and gas assets, productive biological assets	2,649,906.53	1,846,600.42
Amortization of intangible assets	427,999.53	410,498.54
Amortization of long-term prepayments		
Loss on disposal of fixed assets, intangible assets and other non-current assets (Less: gains)	-2,596.50	31,518.34
Fixed assets retirement loss (Less: gains)		
Losses on changes in fair value (Less: gains)		
Financial expenses (Less: gains)	-2,882,477.41	-3,698,057.51
Investments losses (Less: gains)		
Decrease of deferred tax assets (Less: increase)	-306,242.53	-192,858.18
Increase of deferred tax liabilities (Less: decrease)	113,099.44	
Decrease in inventories (Less: increase)	898,235.61	-7,863,248.50
Decrease in operating receivables (Less: increase)	-50,136,644.59	-60,933,881.26
Increase of operating payables (Less: decrease)	4,710,641.26	8,941,638.43
Others		
Net cash flow from operating activities	-6,257,989.98	-33,542,749.66
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	233,415,277.50	222,314,833.74
Less: Cash at the beginning of the period	235,039,491.78	63,563,110.13
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	-1,624,214.28	158,751,723.61

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of the consolidated cash flow statement (Continued)****5. Supplement information to the cash flow statement (Continued)**

(2) Cash and cash equivalents

Items	Closing balance (Unaudited)	Opening balance (Unaudited)
1) Cash	233,415,277.50	222,314,833.74
Including: Cash on hand	268,905.46	230,945.50
Cash in bank on demand for payment	233,146,372.04	222,083,888.24
2) Cash equivalents		
Including: Bond investments maturing within three months		
3) Cash and cash equivalents at the end of the period	233,415,277.50	222,314,833.74

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

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Commercial bills amount transferable by endorsement	5,261,337.80	3,451,010.00
Including: payment for goods	5,261,337.80	3,451,010.00

(IV) Others**1. Monetary items in foreign currencies**

Items	Closing balance in foreign currencies (Unaudited)	Exchange rate	RMB equivalent (Unaudited)
Cash and bank balances			
Including: USD	1,046,134.83	6.6312	6,937,129.28
EUR	290.50	7.3750	2,142.44
HKD	19,716,066.58	0.8547	16,851,322.11
Accounts receivable			
Including: USD	382,835.87	6.6312	2,538,661.22

VI. INTEREST IN OTHER ENTITIES

(I) Interest in significant subsidiaries

Subsidiaries	Main operating place	Place of registration	Kind of legal entity	Registered capital	Business nature	Holding proportion (%)		Acquisition method
						Direct	Indirect	
Beijing Zhao Yi Te Medical Devices Co., Ltd.	Tongzhou, Beijing	Tongzhou, Beijing	Limited company	660,000.00	Selling of medical devices	100		Through capital contrition to establish a new company

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 June 30, 2016, 26.51% (December 31, 2015: 29.65%) of the total accounts receivable was due from the five largest customers of the Company. The Company has no significant central credit risk.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)**(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.

In order to control such risk, the Company maintains adequate reserves and continuously monitors estimated and actual cash flows, and finally maintains a balance between financing sustainability and flexibility.

Financial instruments classified based on remaining time period till maturity

Items	Carrying amount	Contract amount not yet discounted	Closing balance (Unaudited)		
			Within one year	1-3 years	Over 3 years
Accounts payable	23,691,398.10	23,691,398.10	23,691,398.10		
Other payables	8,370,713.03	8,370,713.03	8,370,713.03		
Subtotal	32,062,111.13	32,062,111.13	32,062,111.13		

Items	Carrying amount	Contract amount not yet discounted	Opening balance (Audited)		
			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		

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(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.

The Company has limited exposure to interest rate risk because apart from the interest bearing bank deposits and balances, it has no significant interest bearing financial assets and liabilities as at June 30, 2016. The future variations in interest rates will not have a significant impact on the results of the Company, as its bank deposits and balances with floating interest rate are all short-term in nature and at the prevailing market interest rates. The Company currently does not have an interest rate hedging policy. However, the directors responsible for the monitoring of interest rate risks will consider hedging tools when necessary. The directors of the Company considered the Company's exposure to interest rate risk is not material. Hence, no interest rate risks sensitivity analysis is implemented.

There are no bank borrowings during the six-month period ended June 30, 2016. The future increase in interest rates will have an impact on the interest expenses if the Company 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.

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(I) Related party relationships

1. The actual controllers

Name of actual controllers	Nationality	Position in the Company	Holding proportion over the Company (%)	Voting right proportion over the Company (%)
Mr. Shi Chunbao	PRC	Chairman 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 couple.

- Please refer notes to interest in other entities for details on the Company's subsidiary.
- Other related parties of the Company

Related parties	Relationships with the Company
Beijing Gaoyang Materials Centre	郭福祥 (Guo Fuxiang), the related party's legal representative, is the husband of Shi Chunbao's cousin.

(II) Related party transactions

1. Sale of goods and rendering of services

Related parties	Content of transaction	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Beijing Gaoyang Materials Centre	Sale of goods	7,105,133.33	4,395,198.80

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)**(II) Related party transactions (Continued)****2. Directors' and supervisors' emoluments**

Items	Current period cumulative (Unaudited)			Total
	Fees	Wage, bonus, allowance, and subsidy	Social insurance premium	
Executive directors:				
Mr. Shi Chunbao		300,000.00	9,168.00	309,168.00
Ms. Yue Shujun		150,000.00	9,168.00	159,168.00
Mr. Zhang Zhendong		61,636.00	7,334.10	68,970.10
Non-executive director:				
Mr. Lin Yiming				
Independent non-executive directors:				
Ms. Xu Hong	50,000.00			50,000.00
Mr. Tong Xiaobo	50,000.00			50,000.00
Mr. Zhang Yingkun	50,000.00			50,000.00
Supervisors:				
Mr. Qi Yi		52,480.00		52,480.00
Mr. Xie Fengbao		61,102.00	7,334.10	68,436.10
Ms. Zhang Lanlan		33,853.76	7,334.10	41,187.86
Total	150,000.00	659,071.76	40,338.30	849,410.06

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)**(II) Related party transactions (Continued)****2. Directors' and supervisors' emoluments (Continued)**

Items	Fees	Preceding period comparative (Unaudited)		Total
		Wage, bonus, allowance, and subsidy	Social insurance premium	
Executive directors:				
Mr. Shi Chunbao		300,000.00	9,264.00	309,264.00
Ms. Yue Shujun		105,600.00	9,264.00	114,864.00
Mr. Ding Gang		120,000.00	16,056.00	136,056.00
Non-executive director:				
Mr. Lin Yiming				
Independent non-executive directors:				
Ms. Xu Hong	50,000.00			50,000.00
Mr. Tong Xiaobo	50,000.00			50,000.00
Mr. Zhang Yingkun	25,000.00			25,000.00
Supervisors:				
Mr. Qi Yi		48,120.00		48,120.00
Mr. Xie Fengbao		56,987.00	6,634.74	63,621.74
Ms. Zhang Lanlan		23,437.00	6,634.74	30,071.74
Total	125,000.00	654,144.00	47,853.48	826,997.48

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)**(II) Related party transactions (Continued)****2. Directors' and supervisors' emoluments (Continued)**

(2) Five highest paid individuals

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

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

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

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Salary and allowances	685,103.33	424,538.91
Social insurance housing funds and related pension costs	111,173.72	30,891.48
Performance related bonus		90,188.21
Subtotal	796,277.05	545,618.60

Numbers of the remaining highest paid individuals were as follows:

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Nil to HK\$1,000,000	4	3

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)**(III) Balance due to or from related parties****1. Balance due from related parties**

Items	Related parties	Closing balance (Unaudited)		Opening balance (Audited)	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Beijing Gaoyang Materials Centre	12,112,242.08	363,367.26	5,684,286.08	170,528.58
Subtotal		12,112,242.08	363,367.26	5,684,286.08	170,528.58

IX. COMMITMENTS AND CONTINGENCIES**(I) Operating lease**

As of June 30, 2016, the total minimum payments under irrevocable operating lease contracts are as follows:

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Within 1 year	1,361,118.24	1,661,764.00
1-5 years	1,037,113.68	615,844.51
Total	2,398,231.92	2,277,608.51

IX. COMMITMENTS AND CONTINGENCIES (Continued)**(II) Capital commitments**

Items	Program	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Contracted for but not yet recognized	Production expansion of orthopedics medical instruments and first-stage project of headquarter construction	5,665,638.12	14,993,184.98
Authorized but not yet contracted for – Daxing New Production Base	First stage construction work Second stage construction work	146,235,990.38 260,112,700.00	152,956,421.23 260,112,700.00
Total		412,014,328.50	428,062,306.21

(III) Contingencies

As of June 30, 2016, the Group has no significant contingencies to be disclosed.

X. EVENTS AFTER THE BALANCE SHEET DATE

As of the date of report, the Company has no events after the balance sheet date to be disclosed.

XI. OTHER SIGNIFICANT EVENTS**(I) Segment information**

The Company is mainly engaged in the manufacture and trading of surgical implants, instruments and related products. Based on the Company's internal organizational structure, management requirements and internal reporting policies, the Company's business constitutes of 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 CASBE35 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 (Unaudited)		Carrying amount
	Amount	% to total	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	109,292,124.29	100.00	6,826,111.14	6.25	102,466,013.15
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	109,292,124.29	100.00	6,826,111.14	6.25	102,466,013.15

Categories	Book balance		Opening balance (Audited)		Carrying amount
	Amount	% total	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

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	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	96,959,565.95	2,908,786.98	3.00
1-2 years	8,174,571.51	653,965.72	8.00
2-3 years	853,385.22	170,677.04	20.00
3-4 years	262,924.50	131,462.25	50.00
4-5 years	402,289.80	321,831.84	80.00
Over 5 years	2,639,387.31	2,639,387.31	100.00
Subtotal	109,292,124.29	6,826,111.14	6.25

(2) Age analysis

Ages	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 3 months	34,216,943.26	1,026,508.29	3.00
3-6 months	37,084,947.84	1,112,548.44	3.00
6-12 months	25,657,674.85	769,730.25	3.00
Over 1 year	12,332,558.34	3,917,324.16	31.76
Total	109,292,124.29	6,826,111.14	6.25

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 RMB2,041,908.08, 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	Relationship with the Company	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang				
Materials Centre	Other related party	12,112,242.08	11.08	363,367.26
Party A	Non-related party	5,913,159.90	5.41	256,230.90
Party B	Non-related party	3,933,615.24	3.6	118,008.46
Party C	Non-related party	3,833,000.00	3.51	114,990.00
Party D	Non-related party	3,177,813.80	2.91	103,372.72
Subtotal		28,969,831.02	26.51	955,969.34

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	Closing balance (Unaudited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	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	844,960.00	100.00	186,438.01	22.06	658,521.99
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	844,960.00	100.00	186,438.01	22.06	658,521.99

Categories	Opening balance (Audited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	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	479,858.60
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	666,587.78	100.00	186,729.18	28.01	479,858.60

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	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	521,220.25	15,636.61	3.00
1-2 years	109,525.00	8,762.00	8.00
2-3 years	64,100.00	12,820.00	20.00
4-5 years	4,476.75	3,581.40	80.00
Over 5 years	145,638.00	145,638.00	100.00
Subtotal	844,960.00	186,438.01	22.06

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

Provisions for bad debts made in current period totaled RMB-291.17, 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 (Unaudited)	Opening balance (Audited)
Amounts due from subsidiary		
Petty cash	369,774.73	330,837.03
Bid security		11,200.00
Guarantee deposit	314,794.36	225,642.84
Other	160,390.91	98,907.91
Total	844,960.00	666,587.78

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)**(I) Notes to items of parent company balance sheet (Continued)****2. 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	15.25	128,828.00
Party K	Petty cash	103,000.00	Within 1 year	12.19	3,090.00
Party I	Guarantee deposit	97,151.52	Within 1 year	11.50	2,914.55
Party M	Guarantee deposit	50,000.00	1-2 years	5.92	4,000.00
Party V	Other	50,000.00	Within 1 year, 1-2 years	5.92	4,900.00
Subtotal		428,979.52		50.78	143,732.55

3. Long-term equity investments

(1) Details

Items	Closing balance (Unaudited)			Opening balance (Audited)		
	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 (Audited)	Increase	Decrease	Closing balance (Unaudited)	Provision for impairment made in current period	Closing balance of provision for impairment
Beijing Zhao Yi Te Medical Devices Co., Ltd.	665,263.00			665,263.00		
Subtotal	665,263.00			665,263.00		

XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)**(II) Notes to items of the parent company income statement****1. Operating revenue/cost**

Items	Current period cumulative (Unaudited)		Preceding period comparative (Unaudited)	
	Revenue	Cost	Revenue	Cost
Revenue from main operations	111,072,693.48	27,632,010.58	93,400,647.69	24,947,461.55
Total	111,072,693.48	27,632,010.58	93,400,647.69	24,947,461.55

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	8.20	0.52	0.52

XIII. OTHER SUPPLEMENTARY INFORMATION (Continued)**(I) RONA and EPS (Continued)****2. Calculation process of weighted average RONA**

Items	Symbols	Current period cumulative (Unaudited)
Net profit attributable to shareholders of ordinary shares	A	36,228,471.77
Opening balance of net assets attributable to shareholders of ordinary shares	B	423,556,007.74
Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation	C	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	D	0
Number of months in the reporting period	E	6
Weighted average net assets	$F=B+A \times 1/2 - C \times D/E$	441,670,243.63
Weighted average RONA	$G=A/F$	8.20%

3. Calculation process of basic EPS and diluted EPS**(1) Calculation process of basic EPS**

Items	Symbols	Current period cumulative (Unaudited)
Net profit attributable to shareholders of ordinary shares	A	36,228,471.77
Opening balance of total shares	B	69,170,400.00
Weighted average of outstanding ordinary shares	C=B	69,170,400.00
Basic EPS	$K=A/C$	0.52

XIII. OTHER SUPPLEMENTARY INFORMATION (Continued)

(I) RONA and EPS (Continued)

3. Calculation process of basic EPS and diluted EPS (Continued)

(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.

(III) Remarks on variance between financial reporting prepared under CASBEs and accounting standards accepted under other jurisdictions

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 2010, the Company has decided to prepare financial information under CASBEs for disclosure in HKEX for the six-month period ended June 30, 2016.

Beijing Chunlizhengda Medical Instruments Co., Ltd.
August 30, 2016