



北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.*

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

Stock code: 1858

Annual Report 2016



* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Lin Yiming

Independent non-executive Directors

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

SUPERVISORS

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

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208 Queen's Road Central
Sheung Wan
Hong Kong

COMPANY'S WEBSITE

<http://www.clzd.com>

AUDITORS

Pan-China Certified Public Accountants LLP
Certified Public Accountants

LEGAL ADVISOR AS TO HONG KONG LAW

Zhong Lun Law Firm

CORPORATE INFORMATION

COMPLIANCE ADVISER

China Everbright Capital Limited

H SHARE REGISTRAR

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

PRINCIPAL BANK

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



FIVE YEAR FINANCIAL SUMMARY

	For the year ended December 31				
	2012	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total current assets	120,663	132,704	162,501	379,578	439,426
Total non-current assets	66,847	67,929	77,355	98,463	100,703
Total assets	187,510	200,633	239,856	478,041	540,129
Total current liabilities	14,340	15,071	26,310	37,654	41,992
Total non-current liabilities	5,946	5,673	7,626	16,831	17,227
Total liabilities	20,286	20,744	33,936	54,485	59,219
Total shareholder's equity	167,224	179,889	205,920	423,556	480,910
Net current assets	106,323	117,633	136,191	341,924	397,434
Total assets less current liabilities	173,170	185,562	213,546	440,388	498,137
Revenue	98,095	110,546	134,534	177,368	207,926
Operating profit	35,968	37,709	42,248	43,496	70,818
Profit before tax for the year	37,203	38,116	42,913	43,494	73,744
Net profit for the year	31,940	32,665	37,031	37,866	63,441

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the Board (the “**Board**”) of Directors of **Beijing Chunlizhengda Medical Instruments Co., Ltd.** (the “**Company**”), I am pleased to propose the annual report of the Company and its subsidiary (the “**Group**”) for the year ended 31 December 2016 (“**during the year**”).

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

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

As one of the leading orthopedic medical device company in China, leveraging on the diversified implantable orthopedic medical device products, powerful research and development capability as well as a constantly expanding sales network, the Company has captured the opportunities of the industry growth and achieved healthy and stable development during the year. The Company recorded revenue of approximately RMB207.9 million in 2016 which represents a year-on-year increase of 17.2% (2015: RMB177.4 million). The profit attributable to the equity holders of the Company recorded a year-on-year increase of 67.3% to approximately RMB63.4 million (2015: approximately RMB37.9 million). Basic earnings per share amounted to RMB0.92, which represents a year-on-year increase of 55.9% (2015: RMB0.59). The Company proposed the payment of 2016 Final Dividend to shareholders of RMB0.155 per share (including tax charge) (2015: RMB 0.088 per share (including tax charge)).

During the reporting period, the Company has gradually optimized its product structure and devoted strenuous efforts in promoting high-end products such as ceramic joints and XN new knee joint system, which as a result better enhanced our brand image and increased the Company's gross profit margin. The approach of lean production management has also increased the Company's capability in timely and speedy responses to production orders, which contributed to the growth of the gross profit margin.



CHAIRMAN'S STATEMENT

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

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

Shi Chunbao

Chairman

31 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

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

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

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

II. BUSINESS REVIEW

We are a reputable orthopedic medical device company in China which focuses 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 year ended 31 December 2016, we recorded a revenue of RMB207.9 million, representing an increase of 17.2% compared with that of the previous year (2015: RMB177.4 million). The gross profit was RMB159.7 million, representing an increase of 30.8% compared with that of the previous year (2015: RMB122.1 million). The profit attributable to equity holders of the Company was RMB63.4 million, representing an increase of 67.3% compared with that of the previous year (2015: RMB37.9 million). Basic earnings per share was RMB0.92, representing a year-on-year increase of 55.9% (2015: RMB0.59).

Optimizing product structure

Since 2016, the Company, in the aspects of product structure, has been striving to promote high-end products such as ceramic hip joint prosthesis and the new XN knee joint to distributors and doctors. The introduction and clinical application of high-end products can better enhance the Company's brand image and its position in the market, as well as increase the Company's gross profit margin, which was 76.8% during the year, representing an increase of eight percentage points compared with 68.8% of the previous year. Apart from optimizing the product structure, our factories have adopted the approach of lean management, which has enhanced the production efficiency and contributed to the increase in gross profit margin.

According to the domestic joint products registration index (國產關節類產品註冊檢索) of the China Food and Drug Administration, we are one of the domestic enterprises that hold the most comprehensive medical device registration certificates for joint prosthesis products in China in terms of number and types of certificates. As at 31 December 2016, we held 16 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 6 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.

MANAGEMENT DISCUSSION AND ANALYSIS

New products and new technologies

During the reporting period, the Company has continued its effort in promoting the new XN knee joint, the ceramic joint prosthesis and DAMIS (Direct Anterior Minimally Invasive Surgery), a minimally invasive direct anterior surgical technology for hip joint. 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.

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 in 2016 has been put into use in the first half of 2016. 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.

Product research and development

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. The Company's main direction for research and development includes the enhancement of existing products, the research and development of new products and the development of orthopedic-related products other than joint prosthesis and spinal products. Currently, the number of research and development projects undertaken with respect to such areas amounted to more than 40, and the projects have reached different stages of product research and development.

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.

III. FINANCIAL REVIEW

Revenue

Our revenue increased by 17.2% from approximately RMB177.4 million in 2015 to approximately RMB207.9 million in 2016. The increase in revenue was mainly attributable to the sales growth of standard joint and ceramic hip joint prosthesis products and the optimization of product structure and the enhancement of service standards. The revenue of our major products in 2016 compared to the previous year is as follows:

Product category	Year ended 31 December		Increase over Corresponding period
	2016 (RMB'000)	2015 (RMB'000)	Growth rate
Standard joint	172,343	134,243	28.4%
Custom joint	30,755	30,028	2.4%
Spinal products	4,828	13,097	-63.1%
Total	207,926	177,368	17.2%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

Our gross profit increased by 30.8% from approximately RMB122.1 million in 2015 to approximately RMB159.7 million in 2016. Our gross profit margin increased from 68.8% in 2015 to 76.8% in 2016, which was mainly attributable to our strengthened inventories management, the implementation of lean management which improves production efficiency, the optimization of product structure and our enhanced bargaining power with subcontractors.

Selling expenses

Our selling expenses increased by 15% from approximately RMB45.4 million in 2015 to approximately RMB52.2 million in 2016. The increase in selling expenses was mainly attributable to the increase in remuneration of sales personnel, and the increase in investment in market development and products promotion and the increase in professional academic promotion expenses resulted from business expansion

Administrative expenses

Our administrative expenses decreased by 3.6% from approximately RMB36.5 million in 2015 to approximately RMB35.2 million in 2016, which was mainly attributable to the decrease in administrative personnel's travelling, transportation and office expenses and listing-related expenses.

Impairment loss of assets

Our impairment loss of assets increased by 1,466.7% from approximately RMB0.3 million in 2015 to approximately RMB4.7 million in 2016, which was mainly attributable to the sufficient impairment provision under accounting policies and the actual conditions of asset quality in accordance with the prudent asset impairment provision policy of the Company.

Non-operating income

Our non-operating income increased by 322.2% from approximately RMB0.9 million in 2015 to approximately RMB3.8 million in 2016, which was mainly attributable to the increase in the government grants received by the Company.

Non-operating expenses

Our non-operating expenses were approximately RMB0.9 million in 2015, equivalent to the expenses in 2016, which was mainly attributable to the our donation to the China Health Promotion Foundation.

Income tax expenses

Our income tax expenses increased by 83.9% from approximately RMB5.6 million in 2015 to approximately RMB10.3 million in 2016, which was mainly attributable to the increased profit from activities in 2016.

Net profit for the year

Our net profit for the year increased by 67.3% from approximately RMB37.9 million in 2015 to approximately RMB63.4 million in 2016. The increase in net profit was mainly attributable to the increase of approximately RMB37.6 million in our gross profit on sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and capital resources

Our liquidity increased by 24.3% from approximately RMB239.1 million as at 31 December 2015 to approximately RMB297.3 million as at 31 December 2016. Our principal sources of liquidity are generated from our operations and the issue of H shares. The Board is of the opinion that we have sufficient resources to support our operations and meet our foreseeable capital expenditures.

Inventory

Our inventory decreased by 7.7% from approximately RMB64.6 million as at 31 December 2015 to approximately RMB59.6 million as at 31 December 2016. In accordance with the accounting policies, a provision for inventory write-down amounting to approximately RMB0.6 million was made in relation to the difference between the cost of inventories and the net realizable value. The inventories primarily consist of raw materials, products in process and goods on hand. The decrease in inventories was mainly attributable to a decrease in products in process and goods on hand.

Fixed Assets and Construction in Progress

Our fixed assets and construction in progress increased by 0.6% from approximately RMB61.9 million as at 31 December 2015 to approximately RMB62.3 million as at 31 December 2016. The increases in fixed assets and construction in progress were mainly attributable to the expansion of the Daxing New Production Base and the acquisition of production facilities in 2016.

Net current assets

Our net current assets increased by 16.2% from approximately RMB341.9 million as at 31 December 2015 to approximately RMB397.4 million as at 31 December 2016. The increase in net current assets was mainly attributable to the decrease in accounts payables and the increase in monetary capital generated from operations.

Intangible assets

Our intangible assets decreased by 1.7% from approximately RMB34.5 million as at 31 December 2015 to approximately RMB33.9 million as at 31 December 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

As at 31 December 2016, our net cash inflows generated from operating activities was RMB65.0 million, which was mainly due to the cash received from the sales of goods; our net cash inflows generated in investing activities was RMB1.7 million, which was mainly due to the finance interest income; our net cash flows used in financing activities was RMB6.1 million, which was mainly due to the payment of dividends; and our cash and cash equivalents increased by RMB62.2 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 or guarantees

As at 31 December 2016, we did not have any significant contingent liabilities or guarantees.

Capital commitment

As at 31 December 2016, our total capital commitment was approximately RMB413.4 million, which mainly comprised the expenses incurred due to the construction of new plants in Daxing New Production Base and the acquisition of equipment.

Gearing ratio

As at 31 December 2016, our gearing ratio (total borrowings over total equity) was 10.96% (31 December 2015: 11.40%). Our assets were not pledged or mortgaged.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H shares of the Company were listed on the Main Board on 11 March 2015 with net proceeds received by the Company from the global offering in the amount of approximately RMB185.86 million after deducting underwriting commissions and all related expenses. The net proceeds received from the global offering will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated 27 February 2015.

As at 31 December 2016, approximately RMB30.0 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:

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

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

Marketing Team

Our marketing team currently consists of over 100 people. It expands and maintains our customer base in all provinces in mainland China and overseas markets. To achieve greater market penetration, we would hire additional marketing staff to further develop our marketing team in each province and provide better services to local customers.

MANAGEMENT DISCUSSION AND ANALYSIS

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 enhance our professional and technological knowledge and competitiveness.

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

Retention of talents

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

EMPLOYEES

As at 31 December 2016, our Group had a total of 391 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. As at 31 December 2016, the total salary and related cost paid to our employees were approximately RMB38.2 million. Our Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither our Company, nor its subsidiary purchased, redeemed or sold any of our Company's listed securities in 2016.

FINAL DIVIDEND

2016 final dividend

The Board proposed the declaration of final dividend of RMB0.155 per share (including tax charge) for the year ended 31 December 2016 (2015: RMB0.088 per share (including tax charge)). The declaration of the final dividend is subject to the shareholders' approval in the forthcoming annual general meeting.

The final dividend will be payable to the shareholders of H shares in Hong Kong Dollars. The applicable exchange rate would be the average mid-point rate of the relevant foreign currencies as published on the website of the People's Bank of China for the seven business days prior to the declaration of such dividends and other payments.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Shi Chunbao (史春寶), aged 47, is our executive Director, chairman of our Board, general manager and sales and marketing director. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

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

Ms. Yue Shujun (岳術俊), aged 45, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

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

Mr. Wang Jianliang (王建良), aged 38, is currently the domestic sales director of the Company who is principally responsible for domestic sales of the Company in the People's Republic of China. Mr. Wang joined the Company on 9 June 2000 and held the position of sales for the Hebei region from June 2000 to July 2003. He acted as the manager for the Hunan, Guangxi, Guangdong and Hainan regions from August 2003 to October 2011 and worked as the manager for the Southern region (provinces south to the Qinling-Huaihe Line) from November 2011 to October 2013. He was then appointed as the domestic sales director of the Company since November 2013.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Director

Mr. Lin Yiming (林一鳴), aged 48, is our non-executive Director. He is responsible for providing advice on the management as well as the strategic development of our Group. Mr. Lin became our Director on 17 September 2010 and has been our non-executive Director since 16 April 2014. Prior to joining our Group, Mr. Lin held the position of chairman of Beijing Shidai Kewei Education Consulting Co., Ltd. (北京時代柯維教育諮詢有限公司) from August 2009 to August 2012, the principal activities of which are providing education, consulting and trainings, and was the dean of School of Tourism, the dean of School of Business and an assistant to the principal at Beijing Geely University (北京吉利學院) from January 2010 to June 2014. Mr. Lin has been the executive principle of Beijing Geely University since June 2014. Mr. Lin obtained a Master degree in Business Administration from Concordia University – Wisconsin, USA in September 2011.

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

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

Independent Non-Executive Directors

Ms. Xu Hong (徐泓), aged 62, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Ms. Xu obtained the qualification as a Certified Public Accountant granted by the Chinese Institute of Certified Public Accountants in February 1999 and worked at Zhongsheng Certified Public Accountants Co., Ltd. (中盛會計師事務所有限責任公司) from 1999, the principal business activities of which are the provision of audit and consulting services. In May 2005, she obtained the qualification as a Certified Tax Agent from the Registered Taxation Administration Center of Xinjiang Uygur Autonomous Region (新疆維吾爾族自治區註冊稅務管理中心). Ms. Xu has been a teacher at the Department of Accounting at the School of Business at Renmin University of China (中國人民大學) since 1990 and then a professor at that university since 1999.

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

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

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

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tong Xiaobo (佟小波), aged 57, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Mr. Tong worked as a quality supervisor at the Beijing Medical Devices Testing Center (北京醫療器械檢測中心) of CFDA (Center for Quality Supervision and Testing of Medical Devices (醫療器械產品質檢站)) from 1985 to 1991. Mr. Tong then worked as the chief officer of the research center of Beijing Institute of Medical Devices (北京醫療器械研究所研究室), an institute engaging in medical devices testing apparatus and equipment research and development from 1993 to 1998, responsible for the research of the testing technologies of medical devices. Mr. Tong has been the director and chief engineer of Beijing Fuluke Measuring Technology Research Institute (北京福祿克測量技術研究所), an institute engaging in testing medical devices and consulting, since 2000 and is currently its authorised representative, responsible for testing the standards of medical devices and consultations. Mr. Tong has been the chief engineer of Beijing Tefan Medical Devices Laboratory (北京特凡醫療器械實驗室), an institute engaging in medical devices research, development, testing and consulting since 2007 and is currently its authorised representative, responsible for the consultation of medical devices. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience. Mr. Tong has been a shareholder of Beijing Tefan Medical Devices Laboratory since May 2004. Mr. Tong obtained a diploma in Electronics, the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University in August 1985.

Mr. Cheung Ying Kwan (張應坤), aged 56, was appointed as our independent non-executive Director since 11 March 2015. Mr. Cheung has over 21 years of experience in financial management. Mr. Cheung is currently the company secretary of China Metal Resources Utilisation Limited, a listed company on the Main Board of the Hong Kong Stock Exchange (stock code: 1636) mainly engaged in manufacturing and sales of copper and copper products. From March 2006 to August 2013, Mr. Cheung was the financial controller of Gushan Environmental Energy Limited, the American depository shares of which were listed on the New York Stock Exchange from December 2007 to October 2012. From April 2001 to March 2006, Mr. Cheung also served as the qualified accountant and company secretary of Goldigit Atom-tech Holdings Limited, and as the authorised representative of that company from December 2002 to March 2006. The company is now known as Jinchuan Group International Resources Co. Ltd., a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2362) which mainly engaged in the development and production of pesticides in the PRC. From November 2005 to May 2013, Mr. Cheung was an independent non-executive director of Auto Italia Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0720) which mainly engaged in the import, marketing, distribution and after-sales services of high quality, branded products in Asia. Since June 2010, Mr. Cheung has been an independent non-executive director of Tian Shan Development (Holding) Limited, which is listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2118) and mainly engaged in property development. Since 3 February 2016, Mr. Cheung has been an independent non-executive director of Nga Chun Holdings Company Limited (stock code: 1462).

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

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Zhang Jinyong (張金勇), aged 48, is currently the president of Dacheng Rongzhi (Beijing) Technology Co., Ltd (大成融智(北京)科技有限公司). Mr. Zhang joined Dacheng Rongzhi (Beijing) Technology Co., Ltd. in January 2009. Prior to joining Dacheng Rongzhi (Beijing) Technology Co., Ltd., Mr. Zhang held the position of general manager of Beijing Dacheng Zhibo Technology Development Center (北京大成智博科技發展中心) from January 2002 to December 2008. He obtained a junior college degree in electronic technology and applied computer science from Changzhou Electronics Industry Worker University (常州市電子工業職工大學), Jiangsu in July 1996 and a Master degree in Business Administration from Concordia University Wisconsin, the USA in July 2011. Mr. Zhang is currently studying for a Master degree in Executive Master of Business Administration in Peking University, Beijing.

Ms. Pei Xiaohui (裴曉輝), aged 44, is currently the general secretary of the Stomatology Special Committee of China Association for Medical Devices Industry (中國醫療器械行業協會口腔專委會) (the “SSC”) and the director of training and consultation department of China Association for Medical Devices Industry (中國醫療器械行業協會). Ms. Pei joined the SSC in August 2014 and China Association for Medical Devices Industry in October 2006. Prior to joining the SSC and China Association for Medical Devices Industry, Ms. Pei worked as the general office administrative of Beijing Jianxiang Construction Group (北京建雄建築集團) from July 1995 to October 1998. Ms. Pei then served as the assistant to manager of quality control department and the director of system department of Beijing Wanzhong Air Conditioning and Refrigeration Equipment Company (北京萬眾空調製冷設備公司) from November 1998 to April 2001. She worked in Beijing Kake Benitez Enterprise Management Consultants, LLC. (北京卡克斯企業管理顧問有限責任公司) and held the position of the manager of marketing and consultation departments from May 2001 to April 2002. From April 2002 to October 2006, she worked in Beijing Manager Management Consulting Co., Ltd. (北京曼尼格爾企業管理顧問有限公司) as the manager of consultation department. Ms. Pei obtained the Certificate of qualification of internal auditor of quality control by China Quality Mark Certification Committee (方圓標誌認證委員會質量體系內部審核員) in 1997. She became the auditor of China National Registration Board for Auditors (中國認證人員國家註冊委員會審核員) and the consultant of China National Auditor and Training Accreditation Board (中國認證人員培訓機構國家認可委員會諮詢師) in 2002 and 2004 respectively, and was admitted as the Corporate Human Resources Management Practitioner (企業人力資源管理師) in 2005. Ms. Pei obtained her junior college degree in human resources from Northern Jiaotong University (北方交通大學) (now known as Beijing Jiaotong University (北京交通大學)), Beijing in 1995 and a bachelor degree in administrative management from Peking University, Beijing in 2005. She obtained a Master degree in biomedical engineering from Beihang University, Beijing in 2010.

Ms. Zhang Lanlan (張蘭蘭), aged 28, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since 17 September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Qi Yi (祁毅), aged 63, is a Supervisor and the chairman of the Board of Supervisors. Mr. Qi was the head of the department of production of Chunli Limited from October 2001 to December 2004, responsible for production management and the head of the department of quality control of Chunli Limited from January 2005 to December 2007, responsible for the management of quality of our products. Mr. Qi has been the chief officer of the corporate management department of Chunli Limited since January 2008 until September 2010, responsible for the management of product standards. Mr. Qi has been a Supervisor of our Company since 17 September 2010, responsible for supervising the operation and management of our Company and the Board and the senior management. Mr. Qi obtained a diploma in Business Administration (企業管理), the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University (北京廣播電視大學) in October 1991.

Mr. Qi Yi resigned his position as a supervisor on 22 July 2016 due to his other commitments in the Company which require more of his dedication.

Mr. Xie Fengbao (解鳳寶), aged 34, is a Supervisor of our Company. Mr. Xie was a designer in the technology department of our Company from March 2001 to March 2008, responsible for the enhancement of product design and blueprint drawings. Since August 2009, Mr. Xie has also been the chief officer of Chunli Limited's technology department, responsible for the overall operation of the Technology Department. Mr. Xie has been a Supervisor of our Company since 17 September 2010, responsible for supervising our Company's operation and management. Mr. Xie obtained a diploma in Machinery Manufacturing and Automation (機械製造與自動化) from a part-time continuing studies program held by Beijing University of Technology (北京工業大學).

Mr. Xie Fengbao resigned his position as a supervisor on 22 July 2016 due to his other commitments in the Company which require more of his dedication.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

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

Ms. Xu Yanping (徐艷萍), aged 41, is the chief financial officer of the Company. She joined the Company in July 2015 and was then appointed as the financial manager of the Company. She is responsible for the financial management matters of the Company. Prior to joining the Company, Ms. Xu worked as the financial manager in Beijing Topcon Business and Trade Co., Ltd.* (北京拓普康商貿有限公司) from September 2004 to June 2015, and was responsible for handling financial process and systems establishing, and internal auditing to its branch office. Ms. Xu obtained an associate diploma in accounting in Institute of Management, the Chinese Academy of Sciences (中國科學院管理幹部學院) in July 1998. Ms. Xu is a qualified intermediate accountant of the PRC (accredited by Beijing Municipal Human Resources and Social Security Bureau (北京市人力資源和社會保障局) in November 2010). She is currently studying the self-taught higher education examination program for project management in Tianjin University of Technology and the part-time Master degree of business administration in China University of Political Science and Law.

JOINT COMPANY SECRETARIES

Mr. Yuan Rui (袁瑞) is the secretary to the Board of the Company, and has become one of our joint company secretaries since 31 August 2015. Mr. Yuan, aged 34, is currently secretary to the Board and the marketing director of the Company. Apart from the business and duties of the Board, he is also responsible for brand planning and management as well as organizing marketing campaigns of the Company. Mr. Yuan joined the Company on 20 February 2012 and held the position of the sales manager of overseas department from February 2012 to December 2013. He was the marketing director of the Company since 1 January 2014. Prior to joining the Company, Mr. Yuan was the external assistant of the President Office and America regional sales manager of Naton Medical Group, which mainly engaged in production and sales of medical products, from November 2008 to January 2012. Mr. Yuan obtained a bachelor’s degree in English Language and Literature from Shandong University in June 2006. He also obtained his Master degree in Business Administration from Beijing Institute of Technology in June 2013.

Mr. Ip Pui Sum (葉沛森), aged 57, has become one of our joint company secretaries since 11 March 2015. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statement audit, accounting and company secretary services. Mr. Ip has been appointed as the company secretary of companies listed on the Main Board of the Hong Kong Stock Exchange including Tingyi (Cayman Islands) Holding Corp. (stock code: 0322), Luoyang Glass Company Limited (stock code: 1108), National Agricultural Holdings Limited (stock code: 1236) and Orient Victory China Holdings Limited (stock code: 0265) since 12 January 1996, 6 August 2008, 1 December 2011 and 10 March 2014 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master degree in Business Administration from Henley Management School and Brunel University, United Kingdom in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the aggregated sales of the Group to the largest customer and the top five customers amounted to 6.30% (2015: 5.10%) and 22.90% (2015: 17.59%), respectively, of the total income of the Group for the year.

For the year ended 31 December 2016, the aggregated purchases of the Group to the largest supplier and the top five suppliers amounted to 11.58% (2015: 44.03%) and 38.78% (2015: 64.19%), respectively, of the total purchases of the Group.

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

FIVE YEAR FINANCIAL SUMMARY

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

FINANCIAL STATEMENT

The profit of the Group for the year ended 31 December 2016 and the affair of the Company and the Group as at that date are set out in the consolidated financial statement on page 42 to page 114 of the annual report.

ADDITIONAL INFORMATION OF BUSINESS REVIEW

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

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in properties, plants and equipment for the year ended 31 December 2016 are set out in note V.8, 9 to the consolidated financial statements.

RESERVES

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

REPORT OF THE DIRECTORS

DIVIDEND

The Board proposed the payment of final dividend for the year ended 31 December 2016 as to RMB0.155 per share (including tax charge) and RMB10,721,412 (including tax charge) in aggregate (“**2016 Final Dividend**”), which is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (“**AGM**”) to be held on 28 June 2017. Dividend on domestic shares will be paid in RMB whereas dividend on H shares will be paid in Hong Kong dollars. Details of the distribution plan will be separately announced in due course.

Under the China Enterprise Income Tax Law and its implementation regulations and other relevant rules, where the Company distributes the proposed 2016 Final Dividend to non-resident enterprise shareholders whose names appear on the register of member for H shares of the Company, it is required to withhold enterprise income tax at the generally applicable tax rate of 10%. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, or trustees or other groups or organizations, will be treated as shares being held by the non-resident enterprise shareholders, and consequently will be subject to the withholding of the enterprise income tax.

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

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

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

REPORT OF THE DIRECTORS

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

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

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled to attend the 2016 Annual General Meeting, the Company's register of Shareholders of H Shares will be closed from Sunday, 28 May 2017 to Wednesday, 28 June 2017 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified to attend and vote at the 2016 Annual General Meeting, Shareholders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 26 May 2017.

Shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 28 June 2017 are entitled to attend and vote at the Annual General Meeting.

In order to ascertain the Shareholders who are entitled to receive the final dividend for the year ended 31 December 2016, the Register of Members of the Company will be closed from Friday, 30 June 2017 to Wednesday, 5 July 2017 (both days inclusive), during which period no transfers of shares shall be effected. In order to be qualified for receiving the final dividend of the year 2016, any holders of H Shares whose transfers have not been registered have to lodge all transfers of shares accompanied by the relevant share certificates with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 29 June 2017.

Shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 5 July 2017 are entitled to receive the final dividend for the year ended 31 December 2016.

SUFFICIENCY OF THE PUBLIC FLOAT

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

PURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2016, neither of the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Name	Age	Position	Appointment date
Mr. Shi Chunbao (史春寶)	47	Executive Director, chairman of the Board, general manager and sales and marketing director	September 2010
Ms. Yue Shujun (岳術俊)	45	Executive Director and deputy general manager	September 2010
Mr. Wang Jianliang (王建良)	38	Executive Director and domestic sales director	November 2016
Mr. Lin Yiming (林一鳴)	48	Non-executive Director	September 2010
Ms. Xu Hong (徐泓)	62	Independent non-executive Director	September 2010
Mr. Tong Xiaobo (佟小波)	57	Independent non-executive Director	September 2010
Mr. Cheung Ying Kwan (張應坤)	57	Independent non-executive Director	May 2014
Mr. Zhang Jinyong (張金勇)	48	Chairman of the Board of Supervisors	July 2016
Ms. Pei Xiaohui (裴曉輝)	44	Supervisor	July 2016
Ms. Zhang Lanlan (張蘭蘭)	28	Employee Supervisor	September 2010
Mr. Zhang Zhendong (張振東)	42	Executive Director	August 2015 (resigned on 27 June 2016)
Mr. Qi Yi (祁毅)	63	Chairman of the Board of Supervisors	September 2010 (resigned on 22 July 2016)
Mr. Xie Fengbao (解鳳寶)	34	Supervisor	September 2010 (resigned on 22 July 2016)

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

REMUNERATION OF DIRECTORS AND SUPERVISORS

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

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2016.

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

As at 31 December 2016, the interests or short positions of the directors, supervisors and the chief executive officer in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), will be as follows:

INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

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

Notes:

1. The calculation is based on the number of 50,000,000 domestic shares of the Company in issue as at 31 December 2016.
2. The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2016.

Saved as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	24,237,087 (long position)	Beneficial owner	48.47%	35.04%
		18,762,913 (long position)	Interest of Spouse	37.53%	27.13%
Ms. Yue Shujun	Domestic shares	18,762,913 (long position)	Beneficial owner	37.53%	27.13%
		24,237,087 (long position)	Interest of Spouse	48.47%	35.04%
Or Ching Han, Helen (Note 3)	H shares	1,350,000 (long position)	Beneficial owner	7.04%	1.95%
Citigroup Inc.	H shares	1,500,000 (long position)	Person having a security interest	7.82%	2.17%
Taiping Assets Management (HK) Company Limited	H shares	1,354,600 (long position)	Investment manager	7.07%	1.96%
Taiping Trustees Limited	H shares	1,300,600 (long position)	Trustee	6.78%	1.88%
Winning Beauty Limited	H shares	1,127,000 (long position)	Beneficial owner	5.87%	1.63%
SPQ Asia Capital Limited	H shares	980,800 (long position)	Investment manager	5.11%	1.42%

Notes:

- The calculation is based on the number of 50,000,000 domestic shares and 19,170,400 H shares of the Company in issue as at 31 December 2016, respectively.
- The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2016.
- Orchid China Master Fund Limited directly holds 1,350,000 H shares of the Company. Orchid China Management (Cayman) Limited holds 100% equity interest of Orchid China Master Fund Limited. Honest City Investments Limited holds 63% equity interest of Orchid China Management (Cayman) Limited. Explorer Associates Limited respectively holds 30% equity interest of Orchid China Management (Cayman) Limited and 100% equity interest of Honest City Investments Limited. Or Ching Han, Helen holds 100% interest of Explorer Associates Limited. Accordingly, Or Ching Han, Helen is deemed to be interested in the 1,350,000 shares held by Orchid China Master Fund Limited.

Save as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

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

Related Party	Details of the connected transactions	Amount for the current period	Amount for the corresponding period in the last year
Beijing Gaoyang Materials Center	Sales of goods	13,094,646.36	9,051,287.69

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

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

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

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

To the extent the above transactions constituted connected transactions (as defined in the Listing Rules), the Group had complied with the relevant requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

The Extraordinary General Meeting held on 22 July 2016

To consider and approve the continuing connected transactions conducted during the year ended 31 December 2015 under the distribution framework contract (“**Distribution Framework Contract**”) (the details of which are set out in the Circulars) dated 19 April 2014 and entered into between the Company and 北京高陽物資中心 (Beijing Gaoyang Materials Center) in relation to the Company agreeing to sell its joint prosthesis products and spinal products to Gaoyang Materials for distribution and Gaoyang Materials being authorized to act as a distributor of the Company, of which the aggregate value amounted to approximately RMB9.1 million (equivalent to approximately HK\$10.9 million), which had exceeded the annual cap of RMB7.2 million in respect of such transactions for the year ended 31 December 2015 previously estimated by the board of directors of the Company and stated in the prospectus (“**Prospectus**”) of the Company dated 27 February 2015. To consider and approve and confirm the proposed annual caps of RMB18.5 million (equivalent to approximately HK\$22.2 million) being the maximum aggregate annual value in respect of the continuing connected transactions under the Distribution Framework Contract for the year ended 31 December 2016 (in replacement of the annual cap of RMB7.9 million (equivalent to approximately HK\$9.5 million) in respect of the transactions under the Distribution Framework Contract for the year ended 31 December 2016 stated in the Prospectus).

The Extraordinary General Meeting held on 3 March 2017

To confirm and approve the proposed annual caps of RMB22 million, RMB30 million and RMB35 million respectively (equivalent to approximately HK\$25.1 million, HK\$34.2 million and HK\$39.9 million respectively), being the maximum aggregate annual value in respect of the continuing connected transactions under the Renewed Distribution Framework Contract for the three years ending 31 December 2019. Pan-China Certified Public Accountants LLP, the auditor of the Company, was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The Company has received a letter from Pan-China Certified Public Accountants LLP containing their finding and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

CONTRACTS OF SIGNIFICANCE

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

COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

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

IN COMPLIANCE WITH THE CORPORATE GOVERNMENT CODE

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

PROPERTIES

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2016, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against the Company.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

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

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, which includes, the review of the Group's consolidated annual results for the year ended 31 December 2016.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 has been audited by Pan-China Certified Public Accountants LLP, who shall be retired and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Pan-China Certified Public Accountants LLP as the auditor of the Group is to be proposed at the AGM.

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

Beijing, PRC, 31 March 2017

REPORT OF THE BOARD OF SUPERVISORS

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

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

The Board of Supervisors have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2016 AGM. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up till now, none of the directors, chief executive nor senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the shareholders of the Company.

The Board of Supervisors is satisfied with the various tasks carried out by the Company in 2016 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Board of Supervisors

Zhang Jinyong

Beijing, PRC, 31 March 2017

CORPORATE GOVERNANCE REPORT

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

1. BOARD OF DIRECTORS

1.1 Composition of the Board of Directors

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

Name	Position
Mr. Shi Chunbao	Chairman, Executive Director and general manager
Ms. Yue Shujun	Executive Director
Mr. Wang Jianliang (effective from 18 November 2016)	Executive Director
Mr. Zhang Zhendong (resigned on 27 June 2016)	Executive Director
Mr. Lin Yiming	Non-executive Director
Ms. Xu Hong	Independent non-executive Director
Mr. Tong Xiaobo	Independent non-executive Director
Mr. Cheung Ying Kwan	Independent non-executive Director

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

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

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

Pursuant to article 100 of the Articles of Association, the term of office of directors is three years and is subject to re-election and reappointment. The term of office of Mr. Shi Chunbao, Ms. Yue Shujun, Mr. Lin Yiming, Ms. Xu Hong and Mr. Tong Xiaobo has expired on 16 April 2017. Three of them will offer themselves for re-election as members of the Board at the AGM, namely (i) Mr. Shi Chunbao and Ms. Yue Shujun as executive directors; and (ii) Mr. Lin Yiming as non-executive directors. Ms. Xu Hong and Mr. Tong Xiaobo have notified the Board that they will retire from their office as the independent non-executive Directors and will not seek for re-election.

CORPORATE GOVERNANCE REPORT

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

1.2 Board Meetings

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

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

During the year ended 31 December 2016, the Board of Directors held 6 meetings in total, with details of the attendance of Directors specified as follows:

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

Notes:

1. Mr. Zhang Zhendong has resigned on 27 June 2016.
2. The term of office of Mr. Wang Jianliang took effect on 18 November 2016.

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

1.4 Chairman and Chief Executive Officer

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

1.5 Directors' Appointment and Re-election

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

1.6 Board Diversity Policy

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

CORPORATE GOVERNANCE REPORT

1.7 Training for Directors

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

1.8 Directors' Insurance

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

2. BOARD COMMITTEES

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

2.1 Audit Committee

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

The principal duties of the Audit Committee are making recommendations on the appointment, re-appointment and removal of the external auditors; reviewing and monitoring the independence and objectiveness of the external auditors and the effectiveness of the audit procedure in accordance with applicable standards; reviewing the preparation and disclosure of financial information of the Company; overseeing the financial reporting system and internal control procedure of the Company; and enhancing the communication between internal auditors and external auditors. During the year ended 31 December 2016, the Audit Committee held three meetings, the details of which are as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Lin Yiming	Non-executive Director	3/3	100%
Ms. Xu Hong	Independent non-executive Director	3/3	100%
Mr. Tong Xiaobo	Independent non-executive Director	3/3	100%

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

1. Considered the reappointment of the external auditors;
2. Reviewed the consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practices;
3. Reviewed and confirmed the continuing connected transactions;
4. Reviewed the interim financial result for the six months ended 30 June 2016.

CORPORATE GOVERNANCE REPORT

2.2 Nomination Committee

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

The principal duties of the Nomination Committee are reviewing the selection requirements and procedures, structure, number, composition and diversity of the directors and senior management; identifying and selecting qualified candidates to be nominated as directors and senior management or making recommendations to the Board; making recommendations to the Board on the appointment or reappointment of and the succession planning for directors and senior management; reviewing, at its discretion, the board diversity policy; reviewing the independence of independent non-executive directors; and carrying out other duties as authorized by the Board. During the year ended 31 December 2016, the Nomination Committee held one meeting, the details of which are as follows:

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

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

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

2.3 Remuneration Committee

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

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

CORPORATE GOVERNANCE REPORT

The principal duties of the Remuneration Committee are evaluating the appointment, remuneration policies and assessment criteria for the directors and senior management, conducting such assessment and providing advice. It shall include setting the overall remuneration policy and structure for the directors and senior management of the Company and to propose to the Board in respect of establishing remuneration policy through a formal and transparent procedure; reviewing and approving the remuneration proposals for the management with reference to the corporate goals and objectives made by the Board; make recommendations to the Board on the remuneration packages of Directors and senior management; and carrying out other duties as authorized by the Board. During the year ended 31 December 2016, the Remuneration Committee held one meeting, the details of which are as follows:

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

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2016 is set out below:

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

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

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

3. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing the annual financial statements of the Company for the year ended 31 December 2016.

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

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

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

CORPORATE GOVERNANCE REPORT

4. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

5. JOINT COMPANY SECRETARIES

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

6. INTERNAL CONTROL

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

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

7. AUDITOR'S REMUNERATION

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

Type of Service	RMB'000
Annual Audit Services	736
Total	736

During the year ended 31 December 2016, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

CORPORATE GOVERNANCE REPORT

8. GENERAL MEETINGS

During the year ended 31 December 2016, the Company convened two general meetings, as detailed below:

The Annual General Meeting for the year 2015 held on 28 June 2016:

To consider and approve the annual report for the year 2015; to consider and approve the report of the Board of Directors for the year 2015; to consider and approve the report of the Board of Supervisors for the year 2015; to consider and approve the reappointment of the auditor and to authorise the Board of Directors to determine the auditor's remuneration for the year 2016; to consider and approve the financial report for the year 2015; to consider and approve the dividend distribution plan for the year 2015.

The Extraordinary General Meeting held on 22 July 2016:

To confirm, ratify and approve the continuing connected transactions conducted during the year ended 31 December 2015 under the distribution framework contract ("**Distribution Framework Contract**") (the details of which are set out in the circular) dated 19 April 2014 and entered into between the Company and Beijing Gaoyang Materials Center (北京高陽物資中心) ("**Gaoyang Materials**") in relation to the Company agreeing to sell its joint prosthesis products and spinal products to Gaoyang Materials for distribution and Gaoyang Materials being authorized to act as a distributor of the Company, of which the aggregate value amounted to approximately RMB9.1 million (equivalent to approximately HK\$10.9 million), which had exceeded the annual cap of RMB7.2 million in respect of such transactions for the year ended 31 December 2015 previously estimated by the board ("**Board**") of directors ("**Directors**") of the Company and stated in the prospectus ("**Prospectus**") of the Company dated 27 February 2015; to approve and confirm the proposed annual caps of RMB18.5 million (equivalent to approximately HK\$22.2 million) being the maximum aggregate annual value in respect of the continuing connected transactions under the Distribution Framework Contract for the year ended 31 December 2016 (in replacement of the annual cap of RMB7.9 million (equivalent to approximately HK\$9.5 million) in respect of the transactions under the Distribution Framework Contract for the year ended 31 December 2016 stated in the Prospectus); to consider and approve the resignation of Mr. Qi Yi as a supervisor of the Company; to consider and approve the resignation of Mr. Xie Fengbao as a supervisor of the Company; to consider and approve the appointment of Mr. Zhang Jinyong as a supervisor of the Company; to consider and approve the appointment of Ms. Pei Xiaohui as a supervisor of the Company.

9. COMMUNICATIONS WITH SHAREHOLDERS

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

9.1 Shareholders' Rights to Propose Resolutions

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

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

CORPORATE GOVERNANCE REPORT

9.2 Shareholders' Right to Requisite a Meeting

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

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

9.3 Inquiry and Communication of Shareholders

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

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

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

10. ARTICLES OF ASSOCIATION AND AMENDMENTS

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

11. NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

Chunli, founded in 1998, has maintained a healthy and rapid development which was benefited from our efforts in environmental protection and social responsibilities. After 17 years of persisting efforts of our staff, we listed on the Main Board of the Hong Kong Stock Exchange on 11 March 2015. As a listed company, we have always focused on environmental protection and safe production, and served orthopedic patients around the world with the guideline of “regarding as self-use and continuously innovating”.

ENVIRONMENTAL PROTECTION, ENERGY SAVING AND EMISSION REDUCTION

For the environmental protection of sewage treatment, the Company invested RMB235,000 to establish sewage treatment stations, so that the standard of water from production use and domestic use discharged after filtration and sedimentation can satisfy, and even be higher than, the national sewage discharge standard, and the water discharged can enter into the municipal pipe network to enhance water cycle regeneration, which reduces the use of non-renewable energy and the generation of unnecessary carbon emissions.

For the hazardous wastes produced from production, the Company has signed recycling contracts with hazardous wastes disposal stations under formal companies regulated by the state, and has been provided by the other parties with Receipts of Hazardous Wastes Transfer (《危險廢物轉移聯單》), which has enabled hazardous wastes produced from production to be recycled effectively and reasonably. For the internal energy saving and emission reduction of the Company, all lightings have been replaced by LED lights, which has significantly reduced energy consumption.

The Company invested RMB600,000 in 2014 to build geothermal heat pump air-conditioning, which has reduced the mutual interference between workshops and the external environment, as well as reduced the adverse impact of municipal heating of workshops in the past.

The Company invested RMB290,000 to install internal pressure vacuum equipment in benchwork workshops, which has eliminated external emission of dusts, and signed a testing and detection contract with Beijing (Aolai Guoxin), a testing and inspection institution, commissioning it to conduct environmental testing on workshops and issue testing report. In order to improve the Company’s environment, the Company has input significant manpower, materials and financial resources to grow various plants such as magnolia, chrysanthemum, boxwood and green bamboo in the Company, for purifying air and eliminating dusts.

EMPLOYEE HEALTH AND TRAININGS

Chunli is people-oriented and adopts humane management. The Company provides staff with delicious breakfast, lunch and dinner, and strictly supervises the procurement of food. The Company strictly prohibits the procurement of food which may be harmful to human health. The canteen has also invested RMB138,000 to install advanced range hood equipment, which has eliminated the pollution of fumes to the external environment.

For the recruitment of new employees, the Company recruits in strict accordance with the Company's recruitment system, and provides medical examination to employees before joining our factories, as well as trainings on safety and the Company's system. For aged employees, the Company provides regular medical examination and provides medical check-up when their job positions are re-allocated. Employees will immediately be notified of the examination results, and such record will be compiled into personal health records which are kept by responsible executive personnel.

The outstanding team of the Company consists of more than 200 production workplace staff and more than 100 sales staff, and their average age is approximately 28 years old, which is the age of vitality and vigorous mentality. The Company never discriminates against employees for their nationality, race, sex, age, marriage, etc., and the management leader arranges employees' work according to their ability. All special equipment is certified for operation. The established labor union can timely reflect the opinions of employees on behalf of the employees and protect the interests of employees. As the environment of workplace has met the international standards, employees can give full play to their own potential in a favorable environment.

SAFE PRODUCTION

As a responsible medical instruments company, the Company communicates with all relevant departments on its responsibilities to ensure that safe and high standards are maintained in production. The Company has signed the Safe Production Target Letter of Responsibility (安全生產目標責任書), which stipulates the main steps and targets for safe production in 2016. All relevant departments shall abide by and implement the measures and activities formulated in the Letter of Responsibility. The Company carries out production safety inspection activities every month to investigate whether there are hazards in workplace for protecting employees' safety. Based on the results of investigation, corrective and preventive recommendations will be submitted to responsible departments within a pre-determined period of time. The Company will continue to invest in safety funds for the upgrade of protective equipment and the maintenance of safety and protective facilities. The Company attaches great importance to the health and safety of employees, and has formulated a set of policies which provide employees with quality and safe working environment. The Company has implemented appropriate safety measures to protect the safety of frontline employees. In order to reduce the rate of accidents, the Company has implemented a safety management system and formulated a safety manual, which cover various aspects including the duties and responsibilities of each department, organizations, trainings, inspection system, special equipment management, fire safety facilities management and hazardous substances management, as well as a set of contingency plans such as fire safety production, environmental protection, food poisoning, fights and electric shock, and has established a contingency team for the immediate and effective control and handling of incidents

For fire safety, the Company has invested RMB650,000 to build and remodel the Company's overall fire facilities in 2014. Sufficient fire extinguishers are placed and fire hydrants are installed at various locations of the Company, and various fire equipment such as fire alarms and fire sprays are installed in production workshops.

CHARITY

Chunli Medical and China Charity Federation jointly launched the “Chunli Sunshine Plan (春立陽光計劃)” in 2009, providing joint products of RMB5 million for free to joint disease patients applied for aid within five years. In 2014, Chunli Medical and China Charity Federation renewed the “Chunli Sunshine Plan” for the next five years, and added spine products for the treatment of joint and spine disease patients applied for aid.

In 2015, during the listing of Chunli Medical, the Company donated RMB790,000 to the Community Chest for its contribution in public welfare.

In 2016, Chunli Medical cooperated with China Health Promotion Foundation, becoming the donating company of domestic joint prosthesis and spine products in its “rheumatism prevention and aid for ankylosing spondylitis” project. The Company has provided joint products of more than RMB800,000 for aid under the project.

Beijing Chunlizhengda Medical Instruments Co., Ltd.

31 March 2017

INDEPENDENT AUDITOR'S REPORT



天健会计师事务所

Pan-China Certified Public Accountants

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PCCPAAR [2015]
No. 8-112

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

I. AUDITORS' OPINION

We have audited the accompanying financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as "the **Company**"), which comprise the consolidated and company balance sheets as at December 31, 2016, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the consolidated and company financial positions of the Company as at December 31, 2016, and of its consolidated and company financial performances and its consolidated and company cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

II. BASIS OF OPINIONS

We have conducted our audit in accordance with China Standards on Auditing issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with China Code of Ethics for Certified Public Accountants (hereinafter as "**the Code of Ethics**"), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is revenue recognition.

(I) Description of the Key Audit Matter

The Company is mainly engaged in the sale of artificial organ implants under distributorship business mode. For the year ended December 31, 2016, the operating revenue the Company recognized under distributorship business mode amounted to 170.89 million yuan, which accounted for 82.19% of total operating revenue. Under the distributorship business mode, management analyzes and assesses the terms of distribution agreements and has determined that the significant risks and rewards of ownership of the goods are transferred and revenue is recognized when the goods have been delivered to the distributors, as disclosed in note III (XXI) to the financial statements. As the accounting of revenue recognition under this mode involves management's judgements and estimates, we consider this matter as a key audit matter.

(II) How our audit addressed the Key Audit Matter

During the audit, the audit procedures we implemented mainly comprise: we have understood, assessed and tested the design, implementation and operating effectiveness of key internal controls in connection with the recognition of operating revenue under the distributorship business mode and determined that we could rely on these internal controls; we have obtained the distribution agreements the Company entered into with distributors and verified the key terms of the agreements, including but not limited to: rights and obligations, selling price, payment and settlement, transfer of goods ownership, and evaluated whether management has reasonably determined when the significant risks and rewards of ownership of the goods are transferred; we reviewed distributors' business registration information and enquired related employees to check whether the distributor is a related party to the Company; we interviewed new and major distributors and enquire the Company's sales staff to examine the implementation of the distribution agreements, including but not limited to: the reasonable inventory of distributors and the sales to ultimate end-users; in addition, we checked purchase orders, delivery documents, shipping documents, accounting records, payment documents, regular confirmation requests between distributors and the Company and also confirmed with distributors of the receivables balance and sales amount in current period.

IV. OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Company's 2016 annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with China Accounting Standards for Business Enterprises, and for designing, implementing and maintaining the internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve: collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- (III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

- (IV) Conclude on the appropriateness of management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (VI) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pan-China Certified Public Accountants LLP
Hangzhou · China

Chinese Certified Public Accountant (The engagement partner)

Chinese Certified Public Accountant

Date of Report: March 31, 2017

CONSOLIDATED BALANCE SHEET

As at December 31, 2016
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances	1	297,285,790.16	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	12,207,859.40	11,596,397.70
Accounts receivable	3	68,472,003.04	55,288,962.08
Prepayment	4	829,678.43	6,784,304.41
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable			
Dividend receivable			
Other receivables	5	863,240.69	496,339.05
Reverse-REPO financial assets			
Inventories	6	59,591,366.45	64,635,690.31
Assets classified as held-for-sale			
Non-current assets due within one year			
Other current assets	7	176,195.81	1,709,648.89
Total current assets		439,426,133.98	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	51,074,794.44	50,848,279.82
Construction in progress	9	11,284,911.93	11,080,164.80
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets	10	33,892,975.08	34,463,938.52
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets	11	1,471,457.51	762,120.29
Other non-current assets	12	2,978,555.00	1,309,152.10
Total non-current assets		100,702,693.96	98,463,655.53
Total assets		540,128,827.94	478,041,353.71

CONSOLIDATED BALANCE SHEET

As at December 31, 2016
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Central bank loans			
Absorbing deposit and interbank deposit			
Loans from other banks			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable	13	19,030,101.28	27,758,856.31
Advances received	14	4,953,824.06	1,993,646.86
Proceeds from sale of repurchase financial assets			
Handling fee and commission payable			
Employee benefits payable	15	2,989,533.99	2,682,332.37
Taxes payable	16	8,741,879.96	171,998.72
Interest payable			
Dividend payable			
Other payables	17	6,276,448.83	5,046,969.38
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		41,991,788.12	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	18	16,805,269.13	16,673,255.31
Deferred tax liabilities	11	422,167.33	158,287.02
Other non-current liabilities			
Total non-current liabilities		17,227,436.46	16,831,542.33
Total liabilities		59,219,224.58	54,485,345.97
Equity:			
Share capital/Paid-in capital	19	69,170,400.00	69,170,400.00
Other equity instruments			
Capital reserve	20	230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	21	23,774,980.13	17,376,350.74
General risk reserve			
Undistributed profit	22	157,925,043.22	106,970,076.99
Total equity attributable to the company		480,909,603.36	423,556,007.74
Non-controlling interest			
Total equity		480,909,603.36	423,556,007.74
Total liabilities & equity		540,128,827.94	478,041,353.71

PARENT COMPANY'S BALANCE SHEET

As at December 31, 2016
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances		297,193,825.81	239,039,458.70
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		12,207,859.40	11,596,397.70
Accounts receivable	1	68,472,003.04	55,288,962.08
Prepayment		829,678.43	6,784,304.41
Interest receivable			
Dividend receivable			
Other receivables	2	863,240.69	479,858.60
Inventories		59,591,366.45	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		439,157,973.82	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		51,072,819.44	50,846,304.82
Construction in progress		11,284,911.93	11,080,164.80
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets		33,892,975.08	34,463,938.52
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets		1,450,856.95	745,639.84
Other non-current assets		2,978,555.00	1,309,152.10
Total non-current assets		101,345,381.40	99,110,463.08
Total assets		540,503,355.22	478,419,971.32

PARENT COMPANY'S BALANCE SHEET

As at December 31, 2016
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable		19,030,101.28	27,758,856.31
Advances received		4,953,824.06	1,993,646.86
Employee benefits payable		2,989,533.99	2,671,634.25
Taxes payable		8,741,879.96	171,917.12
Interest payable			
Dividend payable			
Other payables		7,775,188.69	7,106,282.41
Liabilities classified as held-for-sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		43,490,527.98	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		16,805,269.13	16,673,255.31
Deferred tax liabilities		422,167.33	158,287.02
Other non-current liabilities			
Total non-current liabilities		17,227,436.46	16,831,542.33
Total liabilities		60,717,964.44	56,533,879.28
Equity:			
Share capital/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		23,774,980.13	17,376,350.74
Undistributed profit		156,800,830.64	105,300,161.29
Total equity		479,785,390.78	421,886,092.04
Total liabilities & equity		540,503,355.22	478,419,971.32

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Total operating revenue		207,926,096.34	177,368,809.71
Including: operating revenue	1	207,926,096.34	177,368,809.71
Interest proceeds			
Premium earned			
Revenue from handling charges and commission			
II. Total operating cost		137,108,056.19	133,873,058.43
Including: operating cost	1	48,261,494.80	55,279,800.95
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	2	2,545,293.61	1,496,735.64
Selling expenses	3	52,228,116.53	45,397,143.56
Administrative expenses	4	35,190,372.34	36,503,697.61
Financial expense	5	-5,835,148.95	-5,136,710.01
Assets impairment loss	6	4,717,927.86	332,390.68
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)		70,818,040.15	43,495,751.28
Add: Non-operating income	7	3,776,449.78	853,353.20
Including: Gains on disposal of non-current assets			8,087.38
Less: Non-operating expenses	8	850,510.05	854,912.04
Including: losses on disposal of fixed assets		79,820.71	55,779.22
IV. Profit before tax (or less: total loss)		73,743,979.88	43,494,192.44
Less: income tax	9	10,303,389.06	5,628,574.88
V. Net profit (or less: net loss)		63,440,590.82	37,865,617.56
Net profit attributable to owners of company		63,440,590.82	37,865,617.56
Non-controlling interest			

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2015

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
VI. Other comprehensive income after tax			
Items attributable to the owners of the 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		63,440,590.82	37,865,617.56
Items attributable to owners of company		63,440,590.82	37,865,617.56
Items attributable to non-controlling interest			
VIII. Earnings per share:			
(I) Basic EPS (yuan per share)		0.92	0.59
(II) Diluted EPS (yuan per share)		0.92	0.59

PARENT COMPANY'S INCOME STATEMENT

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Operating revenue	1	207,926,096.34	177,368,809.71
Less: Operating cost	1	48,261,494.80	55,279,800.95
Taxes & surcharge		2,545,293.61	1,496,735.64
Selling expenses		52,225,440.53	45,381,087.56
Administrative expenses		34,660,048.93	36,344,913.99
Financial expense		-5,835,492.32	-5,131,482.18
Assets impairment loss		4,701,447.41	307,670.01
Add: Gain on changes of fair value (or less: losses)			
Investment income (or less: losses)	2		
Including: investment income from associates and joint ventures			
II. Operating profit (or less: losses)		71,367,863.38	43,690,083.74
Add: Non-operating income		3,776,449.78	853,353.20
Including: Gains on disposal of non-current assets			8,087.38
Less: Non-operating expenses		850,510.05	854,912.04
Including: losses on disposal of non-current assets		79,820.71	55,779.22
III. Profit before tax (or less: total loss)		74,293,803.11	43,688,524.90
Less: income tax		10,307,509.17	5,634,755.05
IV. Net profit (or less: net loss)		63,986,293.94	38,053,769.85
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		63,986,293.94	38,053,769.85
VII. Earnings per share:			
(I) Basic EPS (yuan per share)			
(II) Diluted EPS (yuan per share)			

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash receipts from sale of goods or rendering of services		217,537,183.35	185,268,967.83
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	2,408,278.10	379,413.00
Subtotal of cash inflows from operating activities		219,945,461.45	185,648,380.83
Cash payments for goods purchased and services received		30,621,583.14	65,075,410.67
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payment of insurance indemnities of original insurance contracts			
Cash payment of interest, handling charges and commission			
Cash payment of policy bonus			
Cash paid to and on behalf of employees		38,495,528.57	33,590,826.74
Cash payments of taxes and rates		30,374,393.69	31,628,257.43
Other cash payments related to operating activities	2	55,508,683.71	55,864,486.04
Subtotal cash outflows from operating activities		155,000,189.11	186,158,980.88
Net cash flows from operating activities		64,945,272.34	-510,600.05
II. Cash flows from investing activities:			
Cash received from return of investments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets			73,200.00
Net cash received from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities	3	10,053,273.71	12,867,871.26
Subtotal of cash inflows from investing activities		10,053,273.71	12,941,071.26
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		8,357,557.55	26,583,250.02
Cash paid for acquiring investments			
Net increase of pledged loans			
Net cash paid for acquiring subsidiaries & other business units			
Other cash payments related to investing activities	4		4,026,863.96
Subtotal of cash outflows from investing activities		8,357,557.55	30,610,113.98
Net cash flows from investing activities		1,695,716.16	-17,669,042.72

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
III. Cash flows from financing activities:			
Cash received from investment by others			202,198,658.82
Including: cash received by subsidiaries from non-controlling shareholders as investments			
Cash received from borrowings			
Cash received from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			202,198,658.82
Cash repayments of borrowings			
Cash paid for distribution of dividends or profits and for interest expenses		6,086,995.20	6,086,995.20
Including: cash paid for distribution of dividends or profits by subsidiaries to minority owners			
Other cash payments related to financing activities	5		8,438,345.53
Subtotal of cash outflows from financing activities		6,086,995.20	14,525,340.73
Net cash flows from financing activities		-6,086,995.20	187,673,318.09
IV. Effect of foreign exchange rate changes on cash & cash equivalents		1,692,305.08	1,982,706.33
V. Net increase in cash and cash equivalents		62,246,298.38	171,476,381.65
Add: Opening balance of cash and cash equivalents		235,039,491.78	63,563,110.13
VI. Closing balance of cash and cash equivalents		297,285,790.16	235,039,491.78

PARENT COMPANY'S CASH FLOW STATEMENT

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		217,537,183.35	185,268,967.83
Receipts of tax refund			
Other cash receipts related to operating activities		2,408,278.10	2,514,623.42
Subtotal of cash inflow from operating activities		219,945,461.45	187,783,591.25
Cash payments for goods purchased and services received		30,335,602.92	64,846,532.17
Cash payments to and on behalf of employees		38,494,715.74	33,585,245.02
Cash payments of taxes and rates		30,374,393.69	31,628,257.43
Other cash payments related to operating activities		55,860,387.44	55,843,198.02
Subtotal of cash outflows from operating activities		155,065,099.79	185,903,232.64
Net cash flows from operating activities		64,880,361.66	1,880,358.61
II. Cash flows from investing activities:			
Cash received from return of investments			
Cash received from investments gains			
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets			73,200.00
Net cash receipts from disposals of subsidiaries and other business units			
Other cash receipts related to investing activities		10,053,117.08	12,862,608.43
Subtotal of cash inflow from investing activities		10,053,117.08	12,935,808.43
Cash payments to acquire fixed assets, intangible assets and other long-term assets		8,357,557.55	26,583,250.02
Cash payments to acquire investments			
Net cash payments for acquisitions of subsidiaries and other business units			
Other cash payments related to investing activities			4,026,863.96
Subtotal of cash outflows from investing activities		8,357,557.55	30,610,113.98
Net cash flows from investing activities		1,695,559.53	-17,674,305.55
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		6,086,995.20	6,086,995.20
Other cash payments related to financing activities			8,438,345.53
Subtotal of cash outflows from financing activities		6,086,995.20	14,525,340.73
Net cash flows from financing activities		-6,086,995.20	187,673,318.09
IV. Effect of foreign exchange rate changes on cash and cash equivalents		1,692,305.08	1,982,706.33
V. Net increase in cash and cash equivalents		62,181,231.07	173,862,077.48
Add: Opening balance of cash and cash equivalents		235,012,594.74	61,150,517.26
VI. Closing balance of cash and cash equivalents		297,193,825.81	235,012,594.74

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Current period cumulative											Non-controlling interest	Total equity
	Equity attributable to company												
	Share capital/ Paid-in capital	Other equity instruments				Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve		
Preferred shares		Perpetual bonds	Others	Others									
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)									6,396,629.39		50,954,966.23		57,353,595.62
(i) Total comprehensive income											63,440,590.82		63,440,590.82
(ii) Capital contributed or withdrew 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									6,396,629.39		-12,485,624.59		-6,086,995.20
1. Appropriation of surplus reserve									6,396,629.39		-6,396,629.39		
2. Appropriation of general risk reserve													
3. Appropriation of profit to owners											-6,086,995.20		-6,086,995.20
4. Others													
(iv) Internal carry-over within equity													
1. Transfer of capital reserve to capital													
2. Transfer of surplus reserve to capital													
3. Surplus reserve to cover losses													
4. Others													
(v) Special reserve													
1. Appropriation of current period													
2. Application of current period													
(vi) Others													
IV. Balance at the end of current period	69,170,400.00				230,039,180.01				23,774,980.13		157,925,043.22		480,909,603.36

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

(Expressed in Renminbi Yuan)

Items	Current period cumulative											Total equity	
	Equity attributable to company				Equity attributable to company								
	Share capital/ Paid-in capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit		Non- controlling interest
Preferred shares		Perpetual bonds	Others										
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				3,805,376.99		27,973,245.37		217,635,607.22
(I) Total comprehensive income											37,865,617.56		37,865,617.56
(II) Capital contributed or withdrew by owners	19,170,400.00				166,686,584.86								185,856,984.86
1. Capital contributed by owners	19,170,400.00				166,686,584.86								185,856,984.86
2. Capital contributed by holders of other equity instruments													
3. Amount of share-based payment included in equity													
4. Others													
(III) Profit distribution									3,805,376.99		-9,892,372.19		-6,086,995.20
1. Appropriation of surplus reserve									3,805,376.99		-3,805,376.99		
2. Appropriation of general risk reserve													
3. Appropriation of profit to owners											-6,086,995.20		-6,086,995.20
4. Others													
(IV) Internal carry-over within equity													
1. Transfer of capital reserve to capital													
2. Transfer of surplus reserve to capital													
3. Surplus reserve to cover losses													
4. Others													
(V) Special reserve													
1. Appropriation of current period													
2. Application of current period													
(VI) Others													
IV. Balance at the end of current period	69,170,400.00				230,039,180.01				17,376,350.74		106,970,076.99		423,556,007.74

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Current period cumulative											Total equity
	Share capital/ 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	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
III. Current period increase (or less: decrease)								6,398,629.39	51,500,669.35			57,899,298.74
(I) Total comprehensive income										63,986,293.94		63,986,293.94
(II) Capital contributed or withdrew 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								6,398,629.39	-12,485,624.59			-6,086,995.20
1. Appropriation of surplus reserve								6,398,629.39	-6,398,629.39			
2. Appropriation of profit to owners										-6,086,995.20		-6,086,995.20
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			23,774,980.13	156,800,830.64			479,785,390.78

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

(Expressed in Renminbi Yuan)

Items	Share capital/ Paid-in capital	Other equity instruments			Capital reserve	Preceding period comparative		Special reserve	Surplus reserve	Undistributed profit	Total equity
		Preferred shares	Perpetual bonds	Others		Less: treasury shares	Other comprehensive income				
I. Balance at the end of prior year	50,000,000.00				63,352,595.15			13,570,973.75	77,138,763.63	204,062,332.53	
Add: Cumulative changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	50,000,000.00				63,352,595.15			13,570,973.75	77,138,763.63	204,062,332.53	
III. Current period increase (or less: decrease)	19,170,400.00				166,686,584.86			3,805,376.99	28,161,397.66	217,823,759.51	
(I) Total comprehensive income									38,053,769.85	38,053,769.85	
(II) Capital contributed or withdrew by owners	19,170,400.00				166,686,584.86					185,856,984.86	
1. Capital contributed by owners	19,170,400.00				166,686,584.86					185,856,984.86	
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution								3,805,376.99	-9,892,372.19	-6,086,995.20	
1. Appropriation of surplus reserve								3,805,376.99	-3,805,376.99		
2. Appropriation of profit to owners									-6,086,995.20	-6,086,995.20	
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	105,300,161.29	421,886,092.04	

Shi Chunbao _____
Legal Representative
(Signature and stamp)

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

I. COMPANY PROFILE

Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”) is established by Mr. Shi Chunbao (史春寶先生) and Ms. Yue Shujun (岳術俊女士) under the approval of Beijing Administration for Industry and Commerce. The Company registered at Beijing Administration for Industry and Commerce, Tongzhou Sub-bureau on February 12, 1998 and acquired a business license with unified social credit code of 91110000633737758W. The Company is headquartered in Beijing. Its current registered capital is 69.1704 million yuan, and total shares are 69.1704 million shares (each with par value of one yuan), of which, 50 million shares are restricted shares, and 19.1704 million shares are outstanding shares. The Company’s shares were listed at the Stock Exchange of Hong Kong Limited 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-first Meeting of the Second Session of the Board of Directors dated March 31, 2017.

The Company has brought the subsidiary Beijing Zhao Yi Te Medical Devices Co., Ltd.* (北京兆億特醫療器械有限公司) 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

(I) Preparation basis

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

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

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

* The English name is for identification propose only.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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) Statement of compliance

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

(II) Accounting period

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

(III) Operating cycle

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

(IV) Functional currency

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

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

1. *Accounting treatment of business combination under common control*

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

2. *Accounting treatment of business combination not under common control*

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

(VI) Compilation method of consolidated financial statements

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

The Company measures its financial 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

3. *Recognition criteria and measurement method of financial assets transfer*

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 for 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

- (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.
 - 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

(3) Available-for-sale financial assets (Continued)

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.

(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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(X) Receivables (Continued)

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

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XI) Inventories

1. *Classification of inventories*
Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or suppliers etc. to be consumed in the production process or in the rendering of services.
2. *Accounting method for dispatching inventories*
Inventories are recognized at the actual cost, and raw materials and goods on hand dispatched from storage are accounted for with weighted average method on a monthly basis.
3. *Basis for determining net realizable value*
At the balance sheet date, inventories are measured at the lower of cost or net realizable value; provisions for inventory write-down are made on the excess of its cost over the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.
4. *Inventory system*
Perpetual inventory method is adopted.
5. *Amortization method of low-value consumables and packages*
 - (1) Low-value consumables
Low-value consumables are amortized with one-off method.
 - (2) Packages
Packages are amortized with one-off method.

(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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. Determination of investment cost

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. *Determination of investment cost (Continued)*

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

3. *Subsequent measurement and recognition method of gain or loss*

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

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

(1) Stand-alone financial statements

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

(2) Consolidated financial statements

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XIII) Fixed assets

1. *Recognition principles of fixed assets*

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

2. *Depreciation method of different categories of fixed assets*

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

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

(XV) Borrowing costs

1. *Recognition principle of borrowing costs capitalization*

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XV) Borrowing costs (Continued)

2. *Borrowing costs capitalization period*

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

3. *Capitalization rate and capitalized amount of borrowing costs*

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

(XVI) Intangible assets

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XVII) Impairment of part of long-term assets

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

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

(XVIII) Long-term prepayments

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

(XIX) Employee benefits

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XIX) Employee benefits (Continued)

3. *Post-employment benefits*

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

(1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined contribution plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.

(2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:

1) In accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. The Company discounts obligations under the defined benefit plan using the discount rate to determine the present value of the defined benefit plan obligations and the current service cost;

2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;

3) At the end of reporting period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. Changes as a result of re-measurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XIX) Employee benefits (Continued)

5. *Other long-term employee benefits*

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

(XX) Provisions

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

(XXI) Revenue

1. *Revenue recognition principles*

(1) Sale of goods

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

(2) Rendering of services

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXI) Revenue (Continued)

1. *Revenue recognition principles (Continued)*

(3) Revenue arising from use by others of assets

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

2. *Revenue recognition method adopted by the Company*

The Company's main 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.

(XXII) Government grants

1. *Government grants related to assets*

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

2. *Government grants related to income*

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXIII) Deferred tax assets/Deferred tax liabilities

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

(XXIV) Operating leases

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXV) Critical accounting judgements and estimates

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

Key sources of estimation uncertainty are:

1. *Recognition of deferred tax assets*

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

2. *Provision for bad debts*

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

3. *Provision for inventory write-down*

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

4. *Impairment of non-current assets*

As stated in impairment of part of non-current assets under Note III, for non-current assets such as long-term equity investments, 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 group of assets. When the measurement result indicates that the recoverable amount of such non-current assets is lower than their carrying amount, the carrying amount is reduced to the recoverable amount, and the difference is recognized as assets impairment loss through profit or loss, and provision for impairment loss of assets is made accordingly.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

IV. TAXES

(I) Main taxes and tax rates

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

(II) Tax preferential policies

1. VAT

The Company's export goods are entitled to enjoy the "exemption, offset and refund" policy, to be specific, 13% refund for bars, rods, profiles products; 15% refund for artificial joints; 15% refund for orthopedic or fracture appliances; and 17% refund for other medical instruments which are not listed on the Tax Document Number: 90.18.

2. Enterprise income tax

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes to items of the consolidated balance sheet

1. Cash and bank balances

Items	Closing balance	Opening balance
Cash on hand	267,926.27	662,644.94
Cash in bank	297,017,863.89	234,376,846.84
Other cash and bank balances		4,026,863.96
Total	297,285,790.16	239,066,355.74

2. Notes receivable

(1) Details

Categories	Closing balance			Opening balance		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance	11,337,529.40		11,337,529.40	10,314,167.70		10,314,167.70
Commercial acceptance	870,330.00		870,330.00	1,282,230.00		1,282,230.00
Total	12,207,859.40		12,207,859.40	11,596,397.70		11,596,397.70

(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	1,850,000.00	
Commercial acceptance	124,000.00	

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

3. Accounts receivable

(1) Details

1) Details of different categories of accounts receivable

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision for bad debts	
				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	74,183,612.62	95.98	6,489,309.76	8.75	67,694,302.86
Receivable of individually insignificant amount but with provision made on an individual basis	3,110,800.74	4.02	2,333,100.56	75.00	777,700.18
Total	77,294,413.36	100.00	8,822,410.32	11.41	68,472,003.04

Categories	Book balance		Opening balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision for bad debts	
				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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

3. Accounts receivable (Continued)

(1) Details (Continued)

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

Ages	Closing balance		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 1 year	52,234,526.82	1,567,035.80	3.00
1-2 years	16,583,688.10	1,326,695.05	8.00
2-3 years	1,844,166.34	368,833.27	20.00
3-4 years	392,213.05	196,106.53	50.00
4-5 years	491,896.00	393,516.80	80.00
Over 5 years	2,637,122.31	2,637,122.31	100.00
Subtotal	74,183,612.62	6,489,309.76	8.75

(2) Age analysis

The age analysis of accounts receivable based on the month when receivables recognized, is as follows:

Ages	Closing balance		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 3 months	25,861,902.70	1,146,920.60	4.43
3-6 months	8,720,254.07	555,254.16	6.37
6-12 months	19,400,773.55	1,176,163.67	6.06
Over 1 year	23,311,483.04	5,944,071.89	25.50
Total	77,294,413.36	8,822,410.32	11.41

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

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

Provision for bad debts made in current period totaled 4,038,207.26 yuan, and no provision for bad debts were collected or reversed in the current period.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

3. *Accounts receivable (Continued)*

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

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang Materials Centre	8,862,197.22	11.47	265,865.92
Party A	5,391,174.90	6.97	311,822.74
Party B	4,821,910.00	6.24	231,289.10
Party C	3,960,200.00	5.12	118,806.00
Party D	2,519,213.60	3.26	160,664.49
Subtotal	25,554,695.72	33.06	1,088,448.25

4. *Prepayment*

(1) Age analysis

Ages	Closing balance			Opening balance		
	Book balance	Proportion (%)	Carrying amount	Book balance	Proportion (%)	Carrying amount
Within 1 year	667,984.34	80.51	667,984.34	6,486,388.63	95.60	6,486,388.63
1-2 years	158,056.41	19.05	158,056.41	222,915.78	3.29	222,915.78
2-3 years	3,637.68	0.44	3,637.68			
Over 3 years				75,000.00	1.11	75,000.00
Total	829,678.43	100.00	829,678.43	6,784,304.41	100.00	6,784,304.41

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

Debtors	Book balance	Proportion to the total balance of prepayment (%)
Party E	217,337.09	26.20
Party F	163,371.50	19.69
Party G	119,915.64	14.45
Party H	113,570.00	13.69
Party I	56,124.10	6.76
Subtotal	670,318.33	80.79

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

5. Other receivables

(1) Details

1) Details on categories

Categories	Closing balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	1,173,410.48	100.00	310,169.79	26.43	863,240.69
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	1,173,410.48	100.00	310,169.79	26.43	863,240.69

Categories	Opening balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

5. Other receivables (Continued)

(1) Details (Continued)

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

Ages	Closing balance		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 1 year	744,073.49	22,322.20	3.00
1-2 years	27,195.00	2,175.60	8.00
2-3 years	105,525.00	21,105.00	20.00
3-4 years	64,100.00	32,050.00	50.00
Over 5 years	232,516.99	232,516.99	100.00
Subtotal	1,173,410.48	310,169.79	26.43

- (2) Provisions made, collected or reversed in current period
Provisions for bad debts made in current period totaled 57,518.82 yuan, and no provision for bad debts were collected or reversed in the current period.

- (3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	456,606.97	330,837.03
Guarantee deposit	514,794.36	225,642.84
Others	202,009.15	192,510.15
Total	1,173,410.48	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	200,000.00	Within 1 year	17.04	6,000.00
Party K	Petty cash	131,183.71	Within 1 year	11.18	3,935.51
Party L	Guarantee deposit	128,828.00	Over 5 years	10.98	128,828.00
Party M	Petty cash	103,000.00	Within 1 year	8.78	3,090.00
Party N	Guarantee deposit	97,151.52	Within 1 year	8.28	2,914.55
Subtotal		660,163.23		56.26	144,768.06

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

6. *Inventories*
(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw materials	20,213,614.59	213,304.43	20,000,310.16	19,667,281.66		19,667,281.66
Work in progress	9,531,130.45	8,807.35	9,522,323.10	10,003,472.92		10,003,472.92
Finished goods	30,468,823.19	400,090.00	30,068,733.19	34,964,935.73		34,964,935.73
Total	60,213,568.23	622,201.78	59,591,366.45	64,635,690.31		64,635,690.31

(2) Provision for inventory write-down

Items	Opening balance	Increase		Decrease		Closing balance
		Provision	Others	Reversal or written-off	Others	
Raw materials		213,304.43				213,304.43
Work in progress		8,807.35				8,807.35
Finished goods		400,090.00				400,090.00
Total		622,201.78				622,201.78

7. *Other current assets*

Items	Closing balance	Opening balance
VAT to be deducted	176,195.81	537,941.36
Prepaid enterprise income taxes		1,171,707.53
Total	176,195.81	1,709,648.89

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

8. Fixed assets

Items	Buildings and structures	Mechanical equipment	Transport facilities	Other equipment	Total
Cost					
Opening balance	20,242,404.85	45,223,055.53	1,794,728.53	2,312,932.78	69,573,121.69
Increase	137,307.70	5,271,384.06		29,603.41	5,438,295.17
1) Acquisition	137,307.70	5,271,384.06		29,603.41	5,438,295.17
Decrease			98,075.00	1,498,344.29	1,596,419.29
1) Disposal/scrap			98,075.00	1,498,344.29	1,596,419.29
Closing balance	20,379,712.55	50,494,439.59	1,696,653.53	844,191.90	73,414,997.57
Accumulated depreciation					
Opening balance	1,835,660.42	13,831,523.44	1,166,941.99	1,890,716.02	18,724,841.87
Increase	698,549.55	4,181,539.14	146,111.04	105,760.11	5,131,959.84
1) Accrual	698,549.55	4,181,539.14	146,111.04	105,760.11	5,131,959.84
Decrease			93,171.50	1,423,427.08	1,516,598.58
1) Disposal/scrap			93,171.50	1,423,427.08	1,516,598.58
Closing balance	2,534,209.97	18,013,062.58	1,219,881.53	573,049.05	22,340,203.13
Carrying amount					
Closing balance	17,845,502.58	32,481,377.01	476,772.00	271,142.85	51,074,794.44
Opening balance	18,406,744.43	31,391,532.09	627,786.54	422,216.76	50,848,279.82

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

9. Construction in progress

(1) Details

Projects	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Expansion of new production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park ("Daxing New Production Base") – First stage construction work	11,284,911.93		11,284,911.93	11,080,164.80		11,080,164.80
Total	11,284,911.93		11,284,911.93	11,080,164.80		11,080,164.80

(2) Changes in significant projects

Projects	Budgets (RMB'0,000)	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
Daxing New Production Base – First stage construction work	18,429.65	11,080,164.80	204,747.13			11,284,911.93
Subtotal	18,429.65	11,080,164.80	204,747.13			11,284,911.93

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

9. *Construction in progress (Continued)*

(2) Changes in significant projects (Continued)

Projects	Accumulated investment to budget	Completion percentage (%)	Accumulated amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Annual capitalization rate (%)	Fund source
Daxing New Production Base - First stage construction work	6.12	6.12				Self-generated funds and publicly raised fund
Subtotal	6.12	6.12				

10. *Intangible assets*

(1) Details

Items	Land use right	Software	Total
Cost			
Opening balance	37,052,810.33	248,200.00	37,301,010.33
Increase		299,145.29	299,145.29
Decrease			
Closing balance	37,052,810.33	547,345.29	37,600,155.62
Accumulated amortization			
Opening balance	2,670,442.03	166,629.78	2,837,071.81
Increase	771,359.16	98,749.57	870,108.73
Decrease			
Closing balance	3,441,801.19	265,379.35	3,707,180.54
Carrying amount			
Closing balance	33,611,009.14	281,965.94	33,892,975.08
Opening balance	34,382,368.30	81,570.22	34,463,938.52

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

10. *Intangible assets (Continued)*

(2) Analysis of carrying amount of land use right

Items	Closing balance	Opening balance
Outside Hong Kong		
Including: Mid-term lease	33,611,009.14	34,382,368.30
Subtotal	33,611,009.14	34,382,368.30

11. *Deferred tax assets and deferred tax liabilities*

(1) Deferred tax assets before offset

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for impairment of assets	9,754,781.89	1,471,457.51	5,036,854.03	762,120.29
Total	9,754,781.89	1,471,457.51	5,036,854.03	762,120.29

(2) Deferred tax liabilities before offset

Items	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation of fixed assets	2,814,448.91	422,167.33	1,055,246.84	158,287.02
Total	2,814,448.91	422,167.33	1,055,246.84	158,287.02

12. *Other non-current assets*

Items	Closing balance	Opening balance
Machinery and equipment prepayments	2,978,555.00	1,309,152.10
Total	2,978,555.00	1,309,152.10

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

13. *Accounts payable*

(1) Details

Items	Closing balance	Opening balance
Purchasing of materials	16,638,372.75	26,689,784.82
Purchasing of machinery and equipment	391,728.53	1,069,071.49
Total	19,030,101.28	27,758,856.31

(2) Age analysis

Ages	Closing balance	Opening balance
Within 1 year	16,546,978.29	27,385,278.32
1-2 years	2,283,125.00	99,232.50
2-3 years	65,032.50	232,869.29
Over 3 year	134,965.49	41,476.20
Total	19,030,101.28	27,758,856.31

14. *Advances received*

Items	Closing balance	Opening balance
Goods payments	4,953,824.06	1,993,646.86
Total	4,953,824.06	1,993,646.86

15. *Employee benefits payable*

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	2,499,345.31	36,045,688.77	35,738,487.15	2,806,546.93
Post-employment benefits – defined contribution plan	182,987.06	2,757,041.42	2,757,041.42	182,987.06
Total	2,682,332.37	38,802,730.19	38,495,528.57	2,989,533.99

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

15. *Employee benefits payable (Continued)*

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wage, bonus, allowance and subsidy	2,133,878.76	30,414,735.22	30,121,537.04	2,427,076.94
Employee welfare fund		1,481,400.47	1,481,400.47	
Social insurance premium	129,473.42	2,316,042.72	2,316,042.72	129,473.42
Including: Medicare premium	108,559.32	2,005,760.30	2,005,760.30	108,559.32
Occupational injuries premium	10,457.05	154,815.07	154,815.07	10,457.05
Maternity premium	10,457.05	155,467.35	155,467.35	10,457.05
Housing provident funds	94,968.00	1,227,863.00	1,227,863.00	94,968.00
Trade union fund and employee education fund	141,025.13	605,647.36	591,643.92	155,028.57
Subtotal	2,499,345.31	36,045,688.77	35,738,487.15	2,806,546.93

(3) Details of defined contribution plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment insurance premium	174,273.38	2,637,000.13	2,637,000.13	174,273.38
Unemployment insurance premium	8,713.68	120,041.29	120,041.29	8,713.68
Subtotal	182,987.06	2,757,041.42	2,757,041.42	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 payable*

Items	Closing balance	Opening balance
VAT	4,061,179.77	
Enterprise income tax	4,116,041.82	
Individual income tax withheld for tax authorities	202,256.68	123,872.62
Urban maintenance and construction tax	160,145.01	24,063.05
Education surcharge	121,354.01	14,437.83
Local education surcharge	80,902.67	9,625.22
Total	8,741,879.96	171,998.72

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

17. Other payables

Items	Closing balance	Opening balance
Sales rebate	5,363,284.43	4,801,339.59
Others	913,164.40	245,629.79
Total	6,276,448.83	5,046,969.38

18. Deferred income

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons for balance
Government grants	16,673,255.31	3,100,000.00	2,967,986.18	16,805,269.13	Government grants related to assets
Total	16,673,255.31	3,100,000.00	2,967,986.18	16,805,269.13	

(2) Details of government grants

Items	Opening balance	Increase	Included in non-operating income in current period	Other movements	Closing balance	Related to assets/income
Fund on industrialization of ceramic femoral head on ceramic hip joint prostheses	5,166,755.31		515,007.72		4,651,747.59	Related to assets
Fund on clinical study of PEEK interbody fusion cage	1,996,500.00		133,100.00		1,863,400.00	Related to assets
Fund of innovation ability development on joint prosthesis of Beijing engineering laboratory	9,510,000.00		951,000.00		8,559,000.00	Related to assets
Fund on clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system		2,500,000.00	768,878.46		1,731,121.54	Related to assets and income
Fund on clinical study of high crosslinked polyethylene knee prosthesis		600,000.00	600,000.00			Related to income
Total	16,673,255.31	3,100,000.00	2,967,986.18		16,805,269.13	

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 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. Share capital

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

20. Capital reserve

Items	Opening balance	Increase	Decrease	Closing balance
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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

21. *Surplus reserve*

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	17,376,350.74	6,398,629.39		23,774,980.13
Total	17,376,350.74	6,398,629.39		23,774,980.13

(2) Other remarks

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

22. *Undistributed profit*

(1) Details

Items	Current period cumulative	Preceding period comparative
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 company	63,440,590.82	37,865,617.56
Less: Appropriation of statutory surplus reserve	6,398,629.39	3,805,376.99
Dividend payable on ordinary shares	6,086,995.20	6,086,995.20
Closing balance	157,925,043.22	106,970,076.99

(2) Other remarks

Pursuant to the resolution of the meeting of the Board of Directors on March 30, 2016 and the resolution of the general meeting of the shareholders for the year ended December 31, 2015 on June 28, 2016, the Company declared and paid the 2015 final dividend to the shareholders of the Company at the rate of RMB0.088 per share (including tax charge), amounting to RMB6,086,995.20 yuan.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

(II) Notes to items of the consolidated income statement

1. *Operating revenue/cost*
(1) Details

Items	Current period cumulative		Preceding period comparative	
	Income	Cost	Income	Cost
Revenue from main operation	207,926,096.34	48,261,494.80	177,368,809.71	55,279,800.95
Total	207,926,096.34	48,261,494.80	177,368,809.71	55,279,800.95

2. *Taxes and surcharge*

Items	Current period cumulative	Preceding period comparative
Urban maintenance and construction tax	1,219,900.22	748,367.82
Education surcharge	707,585.51	563,883.76
Local education surcharge	512,314.71	184,484.06
Housing property tax	60,273.05	
Land use tax	44,070.12	
Stamp duty	1,150.00	
Total	2,545,293.61	1,496,735.64

3. *Selling expenses*

Items	Current period cumulative	Preceding period comparative
Travelling & Advertising expenses	32,995,932.29	28,948,061.03
Employee benefits	10,087,811.35	7,007,199.20
Sale rebates	5,363,284.43	4,801,339.61
Office expenses	1,265,868.73	1,953,489.05
Transportation expenses	1,012,764.20	764,530.83
Rentals	39,535.00	123,965.77
Others	1,462,920.53	1,798,558.07
Total	52,228,116.53	45,397,143.56

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

4. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Research and development expenses	14,281,599.38	13,317,513.43
Employee benefits	10,975,231.09	10,173,278.28
Other professional fees	3,033,083.17	2,646,361.01
Rentals and property maintenance fee	1,311,782.99	1,260,415.61
Depreciation	956,479.64	963,743.55
Amortization of intangible assets	870,108.73	820,998.08
Auditor's remuneration	735,849.06	483,018.87
Office expenses	628,613.95	485,309.50
Entertainments	448,184.45	143,616.43
Motor vehicle expenses	339,117.31	351,781.87
Travelling expenses	332,654.67	1,124,974.94
Other tax charges	74,530.83	272,490.21
Professional and other fees relating to listing	-	3,080,148.21
Others	1,203,137.07	1,380,047.62
Total	35,190,372.34	36,503,697.61

5. Financial expenses

Items	Current period cumulative	Preceding period comparative
Interest expenses		
Less: Interest income	4,526,409.75	3,357,871.26
Less: Foreign exchange gains	1,373,322.25	1,874,054.94
Add: Bank charges	64,583.05	95,216.19
Total	-5,835,148.95	-5,136,710.01

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

6. *Assets impairment loss*

Items	Current period cumulative	Preceding period comparative
Bad debts	4,095,726.08	332,390.68
Inventory write-down loss	622,201.78	
Total	4,717,927.86	332,390.68

7. *Non-operating income*

(1) Details

Items	Current period cumulative	Preceding period comparative
Gains on disposal of non-current assets		8,087.38
Including: Gains on disposal of fixed assets		8,087.38
Government grants	3,593,173.41	842,428.44
Others	183,276.37	2,837.38
Total	3,776,449.78	853,353.20

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

7. *Non-operating income (Continued)*

(2) Details of government grants

Items	Current period cumulative	Preceding period comparative	Related to assets/income
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	951,000.00		Related to assets
Grant for clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system	768,878.46		Related to income
Grant for clinical study of high crosslinked polyethylene knee prosthesis	600,000.00		Related to income
Grant for industrialisation of ceramic femoral head on ceramic hip prostheses	515,007.72	463,015.44	Related to assets
International market development fund for small and medium sized foreign trade enterprises	429,692.00		Related to income
Grant for clinical study of PEEK interbody fusion cage	133,100.00		Related to assets
Grant for advanced enterprise	100,000.00		Related to income
Subsidy for employment stabilization	86,995.23		Related to income
Subsidy for disposal vehicle	7,500.00		Related to income
Subsidy from Z-Park Credit Promotion Association	1,000.00		Related to income
Grant for application on patent		150,000.00	Related to income
Grant for small and medium enterprise			
In developing international market		113,259.00	Related to income
Advanced enterprise tax Incentives		100,000.00	Related to income
Fund for innovation		14,000.00	Related to income
Special fund for development from Beijing Municipal International Business and Economics Commission		2,154.00	Related to income
Subtotal	3,593,173.41	842,428.44	

8. *Non-operating expenses*

Items	Current period cumulative	Preceding period comparative
Losses on disposal of non-current assets	79,820.71	55,779.22
Including: Losses on disposal of fixed assets	79,820.71	55,779.22
Donation expenditures	710,507.34	790,060.00
Others	60,182.00	9,072.82
Total	850,510.05	854,912.04

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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	Preceding period comparative
Current period income tax expenses	10,748,845.97	5,522,618.54
Deferred income tax expenses	-445,456.91	105,956.34
Total	10,303,389.06	5,628,574.88

(2) *Reconciliation of accounting profit to income tax expenses*

Items	Current period cumulative	Preceding period comparative
Profit before tax	73,743,979.88	43,494,192.44
Income tax expenses based on statutory/applicable tax rate	11,061,596.98	6,524,128.87
Effect of different tax rate applicable to subsidiaries	-54,982.32	-19,433.25
Effect of prior income tax reconciliation	139,242.27	6,407.51
Effect of non-deductible costs, expenses and losses	95,316.38	84,233.32
Others, such as tax effects on deductible research and development costs	-1,071,119.95	-1,009,164.52
Effect of deductible temporary differences or deductible losses not recognized	133,335.70	42,402.95
Income tax expenses	10,303,389.06	5,628,574.88

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

1. *Other cash receipts related to operating activities*

Items	Current period cumulative	Preceding period comparative
Government grants	2,225,187.23	379,413.00
Others	183,090.87	
Total	2,408,278.10	379,413.00

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

2. *Other cash payments related to operating activities*

Items	Current period cumulative	Preceding period comparative
Travelling & Advertising expenses	33,328,586.96	30,073,035.97
Office expenses	1,894,482.68	2,438,798.55
Research and development expenses	9,227,968.36	10,093,216.88
Professional fees	3,768,932.23	7,177,344.47
Others	7,288,713.48	6,082,090.17
Total	55,508,683.71	55,864,486.04

3. *Other cash receipts related to investing activities*

Items	Current period cumulative	Preceding period comparative
Interest income	4,526,409.75	3,357,871.26
Deposit for L/C	4,026,863.96	
Government grants relating to assets	1,500,000.00	9,510,000.00
Total	10,053,273.71	12,867,871.26

4. *Other cash payments related to investing activities*

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

5. *Other cash payments related to financing activities*

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

6. Supplement information to the cash flow statement

(1) Supplement information to the cash flow statement

Supplement information	Current period cumulative	Preceding period comparative
1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	63,440,590.82	37,865,617.56
Add: Provision for assets impairment loss	4,717,927.86	332,390.68
Depreciation of fixed assets, oil and gas assets, productive biological assets	5,131,959.84	4,036,903.93
Amortization of intangible assets	870,108.73	820,998.08
Amortization of long-term prepayments		
Loss on disposal of fixed assets, intangible assets and other non-current assets (Less: gains)	79,820.71	47,691.84
Fixed assets retirement loss (Less: gains)		
Losses on changes in fair value (Less: gains)	-5,899,732.00	-5,136,710.01
Financial expenses (Less: gains)		
Investments losses (Less: gains)		
Decrease of deferred tax assets (Less: increase)	-709,337.22	-52,330.68
Increase of deferred tax liabilities (Less: decrease)	263,880.31	158,287.02
Decrease in inventories (Less: increase)	4,422,122.08	-29,162,764.43
Decrease in operating receivables (Less: increase)	-12,552,863.13	-19,268,248.99
Increase of operating payables (Less: decrease)	5,180,794.34	9,847,564.95
Others		
Net cash flow from operating activities	64,945,272.34	-510,600.05
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	297,285,790.16	235,039,491.78
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	62,246,298.38	171,476,381.65

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

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

(2) Cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	297,285,790.16	235,039,491.78
Including: Cash on hand	267,926.27	662,644.94
Cash in bank on demand for payment	297,017,863.89	234,376,846.84
2) Cash equivalents		
Including: Bond investments maturing within three months		
3) Cash and cash equivalents at the end of the period	297,285,790.16	235,039,491.78

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

Items	Current period cumulative	Preceding period comparative
Commercial bills amount transferable by endorsement	10,535,337.80	3,451,010.00
Including: payment	10,535,337.80	3,451,010.00

(IV) Others

1. Monetary items in foreign currencies

Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent
Cash and bank balances			
Including: USD	1,768,220.87	6.9370	12,266,148.18
EUR	295.50	7.3068	2,159.16
HKD	16,247,287.36	0.8945	14,533,198.54
Accounts receivable			
Including: USD	470,309.00	6.9370	3,262,533.53

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

VI. INTEREST IN OTHER ENTITIES

(I) Interest in significant subsidiaries

Subsidiaries	Main operating place	Place of registration	Kind of legal entity	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 contribution 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 at December 31, 2016, 33.06% (2015: 29.65% of the total accounts receivable was due from the five largest customers of the Company. The Company has no significant concentration of credit risk.

(II) Liquidity risk

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(II) Liquidity risk (Continued)

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

Financial liabilities classified based on remaining time period till maturity

Items	Closing balance				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Accounts payable	19,030,101.28	19,030,101.28	19,030,101.28		
Other payables	6,276,448.83	6,276,448.83	6,276,448.83		
Subtotal	25,306,550.11	25,306,550.11	25,306,550.11		

Items	Opening balance				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Accounts payable	27,758,856.31	27,758,856.31	27,758,856.31		
Other payables	5,046,969.38	5,046,969.38	5,046,969.38		
Subtotal	32,805,825.69	32,805,825.69	32,805,825.69		

(III) Market risk

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

1. Interest risk

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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(III) Market risk (Continued)

1. *Interest risk (Continued)*

The Company have limited exposure to interest rate risk because the Company has no significant interest bearing financial assets and liabilities as at December 31, 2016, other than the interest-bearing bank deposits and balances. The future variations in interest rates will not have a significant impact on the results of the Company, as the Company's variable rates bank deposits and balances 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, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise. Management considered the Company's exposure to interest rate risk is not material. Hence, no interest rate risks sensitively analysis is presented.

There are no bank borrowings during the years ended December 31, 2016. The future increase in interest rates will have an impact in 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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.

2. *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 person in charge, 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	Preceding period comparative
Beijing Gaoyang Materials Centre	Sale of goods	13,094,646.36	9,051,287.69

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors

Items	Fees	Current period cumulative			Total
		Wage, bonus, allowance, and subsidy	Endowment insurance premium	Other social insurance premium	
Executive directors					
Mr. Shi Chunbao		600,000.00	9,280.00	9,039.44	618,319.44
Ms. Yue Shujun		330,000.00	9,280.00	9,039.44	348,319.44
Mr. Wang Jianliang (Note 1)		116,689.50	2,153.84	3,023.64	121,866.98
Mr. Zhang Zhendong (Note 2)		61,636.00	3,050.30	4,283.80	68,970.10
Non-executive director					
Mr. Lin Yiming	-	-	-	-	-
Independent non-executive directors					
Ms. Xu Hong	100,000.00				100,000.00
Mr. Tong Xiaobo	100,000.00				100,000.00
Mr. Cheung Ying Kwan	100,000.00				100,000.00
Supervisors					
Mr. Qi Yi (Note 3)		61,810.00			61,810.00
Mr. Xie Fengbao (Note 3)		72,079.60	3,588.76	5,039.71	80,708.07
Ms. Zhang Lanlan		74,014.97	6,281.06	8,819.26	89,115.29
Mr. Zhang Jinyong (Note 4)					
Ms. Pei Xiaohui (Note 4)					
Total	300,000.00	1,316,230.07	33,633.96	39,245.29	1,689,109.32

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors (Continued)

Items	Fees	Preceding period comparative			Total
		Wage, bonus, allowance, and subsidy	Endowment insurance premium	Other social insurance premium	
Executive directors					
Mr. Shi Chunbao		600,336.00	9,600.00	8,928.00	618,864.00
Ms. Yue Shujun		226,056.00	9,600.00	8,928.00	244,584.00
Mr. Ding Gang		151,335.00	10,800.00	13,284.00	175,419.00
Mr. Zhang Zhendong		116,653.00	5,882.40	8,148.49	130,683.89
Non-executive director					
Mr. Lin Yiming	-	-	-	-	-
Independent non-executive directors					
Ms. Xu Hong	100,000.00				100,000.00
Mr. Tong Xiaobo	100,000.00				100,000.00
Mr. Zhang Yingkun	75,000.00				75,000.00
Supervisors					
Mr. Qi Yi		98,816.00			98,816.00
Mr. Xie Fengbao		118,745.00	5,882.40	8,148.49	132,775.89
Ms. Zhang Lanlan		49,210.10	5,882.40	8,148.49	63,240.99
Total	275,000.00	1,361,151.10	47,647.20	55,585.47	1,739,383.77

Note 1: On 1 September 2016, Mr. Wang Jianliang was appointed as executive director of the Company. On 17 October 2016, Mr. Wang Jianliang resigned from the duties of executive director of the Company. On 18 November 2016, Mr. Wang Jianliang was appointed as executive director of the Company.

Note 2: On 27 June 2016, Mr. Zhang Zhendong resigned from the duties of executive director of the Company.

Note 3: On 22 July 2016, Mr. Qi Yi and Mr. Xie Fengbao resigned from the duties of supervisors of the Company.

Note 4: On 22 July 2016, Mr. Zhang Jinyong and Ms. Pei Xiaohui were appointed as supervisors of the Company, and their remuneration was not paid by the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors (Continued)

(2) Five highest paid individuals

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

Items	Closing balance	Opening balance
Directors or supervisors	2	1
Other than directors or supervisor	3	4

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

Items	Closing balance	Opening balance
Salary and allowances	880,627.83	997,029.59
Endowment insurance premium	60,543.54	35,764.80
Other social insurance premium	91,504.58	59,652.98
Performance related bonus	60,000.00	285,500.00
Subtotal	1,092,675.95	1,377,947.37

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

Items	Closing balance	Opening balance
Nil to HK\$1,000,000	3	4

(III) Balance due to or from related parties

1. Balance due from related parties

Items	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Beijing Gaoyang Materials Centre	8,862,197.22	265,865.92	5,684,286.08	170,528.58
Subtotal		8,862,197.22	265,865.92	5,684,286.08	170,528.58

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

IX. COMMITMENTS AND CONTINGENCIES

(I) Operating lease

As at December 31, 2016, the total minimum payments under irrevocable operating lease contracts are as follows:

Items	Current period cumulative	Preceding period comparative
Within 1 year	1,361,118.24	726,916.00
1-5 years	224,801.13	553,733.33
Total	1,585,919.37	1,280,649.33

(II) Capital commitments

Items	Program	Current period cumulative	Preceding period comparative
Contracted for but not yet recognized		7,466,660.68	22,851,346.66
Authorized but not yet contracted for	Production expansion of orthopedics medical instruments and first-stage project of headquarter construction	145,843,623.38	146,305,344.38
	Production expansion of orthopedics medical instruments and second-stage project of headquarter construction	260,112,700.00	260,112,700.00
Total		413,422,984.06	429,269,391.04

(III) Contingencies

As at December 31, 2016, the Company has no significant contingencies to be disclosed.

X. EVENTS AFTER THE BALANCE SHEET DATE

Profit distribution after the balance sheet date

Profit or dividend planned to be distributed	10,721,412.00
Profit or dividend approved to be distributed	10,721,412.00

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

XI. OTHER SIGNIFICANT EVENTS

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, internal reporting policies, the operation of the Company constitutes one single reportable segment, i.e. manufacture and trading of surgical implants, instruments and related products, which is under the provisions on segment information in business statements of the CASBE No. 35 "Segment Reporting" and Accounting Standards for Business Enterprises Bulletin No. 3 and accordingly, no separate segment information is prepared.

XII. NOTES TO ITEMS OF COMPANY FINANCIAL STATEMENTS

(I) Notes to items of company balance sheet

1. *Accounts receivable*
 - (1) Details
 - 1) Details on categories

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	74,183,612.62	95.98	6,489,309.76	8.75	67,694,302.86
Receivable of individually insignificant amount but with provision made on an individual basis	3,110,800.74	4.02	2,333,100.56	75.00	777,700.18
Total	77,294,413.36	100.00	8,822,410.32	11.41	68,472,003.04

Categories	Book balance		Opening balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

1. *Accounts receivable (Continued)*

(1) Details (Continued)

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

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	52,234,526.82	1,567,035.80	3.00
1-2 years	16,583,688.10	1,326,695.05	8.00
2-3 years	1,844,166.34	368,833.27	20.00
3-4 years	392,213.05	196,106.53	50.00
4-5 years	491,896.00	393,516.80	80.00
Over 5 years	2,637,122.31	2,637,122.31	100.00
Subtotal	74,183,612.62	6,489,309.76	8.75

(2) Age analysis

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 3 months	25,861,902.70	1,146,920.60	4.43
3-6 months	8,720,254.07	555,254.16	6.37
6-12 months	19,400,773.55	1,176,163.67	6.06
Over 1 year	23,311,483.04	5,944,071.89	25.50
Total	77,294,413.36	8,822,410.32	11.41

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

(I) Notes to items of 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 4,038,207.26 yuan, and no provision for bad debts were collected or reversed in the current period.

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

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang Materials Centre	8,862,197.22	11.47	265,865.92
Party A	5,391,174.90	6.97	311,822.74
Party B	4,821,910.00	6.24	231,289.10
Party C	3,960,200.00	5.12	118,806.00
Party D	2,519,213.60	3.26	160,664.49
Subtotal	25,554,695.72	33.06	1,088,448.25

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

2. Other receivables

(1) Details

1) Details on categories of other receivables

Categories	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	1,091,008.24	100.00	227,767.55	20.88	863,240.69
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	1,091,008.24	100.00	227,767.55	20.88	863,240.69

Categories	Book balance		Opening balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	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

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

(I) Notes to items of 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		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 1 year	744,073.49	22,322.20	3.00
1-2 years	27,195.00	2,175.60	8.00
2-3 years	105,525.00	21,105.00	20.00
3-4 years	64,100.00	32,050.00	50.00
Over 5 years	150,114.75	150,114.75	100.00
Subtotal	1,091,008.24	227,767.55	20.88

- (2) Provisions made, collected or reversed in current period
Provisions for bad debts made in current period totaled 41,038.37 yuan, and no provision for bad debts were collected or reversed in the current period.

- (3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	456,606.97	330,837.03
Guarantee deposit	514,794.36	225,642.84
Other	119,606.91	110,107.91
Total	1,091,008.24	666,587.78

- (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	200,000.00	Within 1 year	18.33	6,000.00
Party K	Petty cash	131,183.71	Within 1 year	12.03	3,935.51
Party L	Guarantee deposit	128,828.00	Over 5 years	11.81	128,828.00
Party M	Petty cash	103,000.00	Within 1 year	9.44	3,090.00
Party N	Guarantee deposit	97,151.52	Within 1 year	8.90	2,914.55
Subtotal		660,163.23		60.51	144,768.06

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

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

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

3. Long-term equity investments

(1) Details

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

(2) Investments in subsidiaries

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

(II) Notes to items of the company income statement

1. Operating revenue/cost

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Revenue from main operations	207,926,096.34	48,261,494.80	177,368,809.71	55,279,800.95
Total	207,926,096.34	48,261,494.80	177,368,809.71	55,279,800.95

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

XIII. OTHER SUPPLEMENTARY INFORMATION

(I) RONA and EPS

1. Details

Profit of the reporting period	Weighted average RONA (%)	EPS (yuan/share)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of ordinary shares	14.03	0.92	0.92

2. Calculation process of weighted average RONA

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	63,440,590.82
Opening balance of net assets attributable to shareholders of ordinary shares	B	423,556,007.74
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	C1	
Number of months counting from the next month when the net assets were increased to the end of the reporting period	D1	
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	C2	
Number of months counting from the next month when the net assets were increased to the end of the reporting period	D2	
Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation	E	6,086,995.20
Number of months counting from the next month when the net assets were decreased to the end of the reporting period	F	6
Number of months in the reporting period	G	12
Weighted average net assets	$H = \frac{B + A \times \frac{1}{2} + C1 \times \frac{D1}{G} + C2 \times \frac{D2}{G} - E \times \frac{F}{G}}$	452,232,805.55
Weighted average RONA (%)	I=A/H	14.03

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016

Monetary unit: RMB Yuan

XIII. OTHER SUPPLEMENTARY INFORMATION (Continued)

(I) RONA and EPS (Continued)

3. Calculation process of basic EPS and diluted EPS

(1) Calculation process of basic EPS

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	63,440,590.82
Opening balance of total shares	B	69,170,400.00
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	C	
Number of shares increased due to offering of new shares or conversion of debts into shares	D1	
Number of months counting from the next month when the share was increased to the end of the reporting period	E1	
Number of shares increased due to offering of new shares or conversion of debts into shares	D2	
Number of months counting from the next month when the share was increased to the end of the reporting period	E2	
Number of shares decreased due to share repurchase	F	
Number of months counting from the next month when the share was decreased to the end of the reporting period	G	
Number of shares decreased in the reporting period	H	
Number of months in the reporting period	I	
Weighted average of outstanding ordinary shares	$J=B+C+D1 \times E1/I + D2 \times E2/I - F \times G/I - H$	69,170,400.00
Basic EPS	$K=A/J$	0.92

(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.

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

The Company has prepared its financial reporting under CASBEs. Pursuant to the "Consultation Conclusions on Acceptance of Mainland Accounting and Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by Hong Kong Exchanges and Clearing Limited (HKEX) in December 2016, the Company has decided to prepare information under CASBEs for disclosure in HKEX in 2016.

Beijing Chunlizhengda Medical Instruments Co., Ltd.

March 31, 2017