



北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.\*

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

Stock code: 1858

# Interim Report 2017



\* For identification purpose only



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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Shi Chunbao (*Chairman*)  
Ms. Yue Shujun  
Mr. Wang Jianliang

### Non-executive Director

Mr. Lin Yiming

### Independent non-executive Directors

Mr. Ge Changyin (appointed on June 28, 2017)  
Ms. Xu Hong (resigned on June 28, 2017)  
Mr. Tong Xiaobo  
Mr. Cheung Ying Kwan

## SUPERVISORS

Ms. Zhang Lanlan  
Mr. Zhang Jinyong  
Ms. Pei Xiaohui

## AUDIT COMMITTEE

Mr. Ge Changyin (*Chairman*) (appointed on June 28, 2017)  
Ms. Xu Hong (*Chairman*) (resigned on June 28, 2017)  
Mr. Tong Xiaobo  
Mr. Lin Yiming

## REMUNERATION COMMITTEE

Mr. Tong Xiaobo (*Chairman*)  
Mr. Ge Changyin (appointed on June 28, 2017)  
Ms. Xu Hong (resigned on June 28, 2017)  
Mr. Shi Chunbao

## NOMINATION COMMITTEE

Mr. Shi Chunbao (*Chairman*)  
Mr. Ge Changyin (appointed on June 28, 2017)  
Ms. Xu Hong (resigned on June 28, 2017)  
Mr. Cheung Ying Kwan

## JOINT COMPANY SECRETARIES

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

## AUTHORISED REPRESENTATIVES

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

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7th Floor, Winbase Centre  
208 Queen's Road Central  
Sheung Wan  
Hong Kong

## COMPANY'S WEBSITE

<http://www.clzd.com>

## AUDITORS

Pan-China Certified Public Accountants LLP  
Certified Public Accountants

## LEGAL ADVISORS AS TO HONG KONG LAW

Zhong Lun Law Firm

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

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

The orthopedic implant <sup>(note)</sup> 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 healthcare reform in the PRC has increased the demand and acceptance for orthopedic implants. Various favorable factors such as aging population, continuous growth in healthcare expenditure and improvements in public healthcare infrastructure have also propelled the growth of the orthopedic implant industry in the PRC.

## BUSINESS REVIEW

We are a reputable orthopedic medical device company in the PRC focusing on research and development, production and sales of implantable orthopedic medical devices, including joint prosthesis products and spinal products. Our Group's revenue was mainly derived from our sales to distributors in both the PRC 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 the PRC.

For the six months ended June 30, 2017, we recorded a revenue of RMB124.2 million, representing an increase of 11.8% compared with the corresponding period of the previous year (corresponding period of 2016: RMB111.1 million). The gross profit was RMB93.3 million, representing an increase of 11.9% compared with the corresponding period of the previous year (corresponding period of 2016: RMB83.4 million). The profit attributable to equity holders of the Company was RMB35.4 million, representing a decrease of 2.2% compared with the corresponding period of the previous year (corresponding period of 2016: RMB36.2 million). Basic earnings per share was RMB0.51, representing a year-on-year decrease of 1.9% (corresponding period of 2016: RMB0.52).

### **Comprehensive medical device registration certificates**

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

As at June 30, 2017, we held 16 medical device registration certificates in the PRC 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 six are Class I medical device registration certificates. As the PRC adopts a strict product registration system for medical devices manufacturers, enterprises with complete product registrations are more competitive in the market.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### **New products and new technologies**

The Company's ceramic hip joint prosthesis products generated strong market responses when they were launched in 2015. In the first half of this year, ceramic products continuously made contribution to the turnover of joint prosthesis products for the Company and have become the major product of the hip joint prosthesis products.

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

### **Spinal products**

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

### **Extensive distribution and sales network**

We have built an extensive distribution network covering all provinces, municipalities and autonomous regions in the PRC (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 the PRC and some are exported to other countries in Asia, South America, Africa, Oceania and Europe under the brand name of "春立Chunli". We mainly sell our products through distributors, or on ODM and OEM bases.

### **Others**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Revenue

Our revenue increased by 11.8% from approximately RMB111.1 million for the six months ended June 30, 2016 to approximately RMB124.2 million for the six months ended June 30, 2017, which was mainly attributable to the sales growth of standard joint and ceramic hip joint prosthesis products and the expansion of sales network. Our spinal products decreased by 110.5% as compared with that of the six months ended June 30, 2016, which was mainly attributable to the incomplete product lines of the Company's spinal product lines, and that some key products are under clinical trials or in the process of applying for registration certificates. Some customers have switched from spinal products to joint products, while some customers terminated their spinal product contracts. The revenue of our major products as compared with that of the previous year is as follows:

Product category	For the six months ended June 30		Increase over Corresponding period
	2017 (RMB'000)	2016 (RMB'000)	
Standard joint prosthesis products	107,997	90,869	18.8%
Custom joint prosthesis products	16,656	16,234	2.6%
Spinal products	(418)	3,967	(110.5%)
Other businesses	4	4	0.0%
Total	124,239	111,073	11.8%

#### Gross profit

Our gross profit increased by 11.9% from approximately RMB83.4 million for the six months ended June 30, 2016 to approximately RMB93.3 million for the six months ended June 30, 2017. Our gross profit margins for the six months ended June 30, 2017 and for the corresponding period in 2016 maintained at the same level, both being 75.1%.

#### Selling expenses

Our selling expenses increased by 20.8% from approximately RMB26.4 million for the six months ended June 30, 2016 to approximately RMB31.9 million for the six months ended June 30, 2017, which was mainly attributable to the expenses for developing and expanding sales channels, conducting effective doctor trainings, expenses for convening provincial, municipal and local meetings and increase in staff costs resulted from the increase in sales staff.

#### Administrative expenses

Our administrative expenses increased by 42.5% from approximately RMB15.3 million for the six months ended June 30, 2016 to approximately RMB21.8 million in for the six months ended June 30, 2017, which was mainly attributable to the increase in our investment for research and development.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Impairment loss of assets**

Our impairment loss of assets decreased by 80% from approximately RMB2.0 million for the six months ended June 30, 2016 to approximately RMB0.4 million for the six months ended June 30, 2017, which was mainly attributable to the write off of accounts receivable as bad debt.

### **Non-operating income**

Our non-operating income decreased by 88.9% from approximately RMB0.9 million for the six months ended June 30, 2016 to approximately RMB0.1 million for the six months ended June 30, 2017, which was mainly attributable to the inclusion of income from government grants related to daily operations into “other gains” by the ASBE No. 16 “Government Grants” (Amended).

### **Non-operating expenses**

Our non-operating expenses decreased from approximately RMB6,000 for the six months ended June 30, 2016 to approximately RMB1,700 for the six months ended June 30, 2017, which was mainly attributable to the loss incurred from the disposal of current assets in 2016.

### **Income tax expenses**

Our income tax expenses decreased by 3.3% from approximately RMB6.0 million for the six months ended June 30, 2016 to approximately RMB5.8 million for the six months ended June 30, 2017, and the effective tax rate decreased to 14.0% as at June 30, 2017 from 14.2% for the corresponding period of the previous year.

### **Net profit for the period**

Our net profit for the year decreased by 2.2% from approximately RMB36.2 million for the six months ended June 30, 2016 to approximately RMB35.4 million for the six months ended June 30, 2017, which was mainly attributable to the increase in expenses for research and development, increase in expenses for marketing and promotional meetings and increase in staff costs resulted from the increase in sales staff.

### **Liquidity and capital resources**

Our liquidity increased by 3.5% from approximately RMB297.3 million as at December 31, 2016 to approximately RMB307.8 million as at June 30, 2017. Our principal sources of capital 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 increased by 9.7% from approximately RMB59.6 million as at December 31, 2016 to approximately RMB65.4 million as at June 30, 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Fixed assets and construction in progress**

Our fixed assets and construction in progress decreased by 1.0% from approximately RMB62.4 million as at December 31, 2016 to approximately RMB61.8 million as at June 30, 2017, which was mainly attributable to the decrease in our investment for the acquisition of production facilities in 2017.

### **Net current assets**

Our net current assets increased by 6.3% from approximately RMB397.4 million as at December 31, 2016 to approximately RMB422.4 million as at June 30, 2017, which was mainly attributable to the increase in inventory, notes receivable and accounts receivable.

### **Intangible assets**

Our intangible assets slightly decreased by 1.2% from approximately RMB33.9 million as at December 31, 2016 to approximately RMB33.5 million as at June 30, 2017, which was mainly attributable to the amortization of land use rights and software.

### **Working capital and financial resources**

#### *Cash flow analysis*

As at June 30, 2017, our net cash inflows generated from operating activities was RMB10.8 million, which was mainly attributable to the cash received from the sales of goods; our net cash inflows generated from investing activities was RMB0.4 million, which was mainly attributable to the finance interest income; our net cash inflows generated from financing activities was nil; and our cash and cash equivalents increased by RMB10.5 million as compared with that of the end of the previous year.

#### *Capital expenditure*

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

#### *Contingent liabilities and guarantees*

As at June 30, 2017, we did not have any significant contingent liabilities and guarantees.

#### *Capital commitment*

As at June 30, 2017, our total capital commitment was approximately RMB408.3 million, which mainly comprised the expenses incurred due to the construction of new plants in Daxing New Production Base and the acquisition of equipments.



## MANAGEMENT DISCUSSION AND ANALYSIS

### SUBSEQUENT EVENTS

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

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

As at June 30, 2017, approximately RMB30.8 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:

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

We will continue to optimise 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 that can better analyse and cater for specific needs of patients. As such, we believe that advanced customised joint prosthesis products can generate higher profit margins.

## 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 technological expertise as well as technology and competitiveness.

### **Expand our brand influence**

To further strengthen our brand, we will continue to implement strict supervision on product quality to maintain our brand image. At the same time, we will actively organise and participate in seminars for market practitioners including distributors and representatives from hospitals on orthopedic medical devices with well-known experts and professors in the industry from both the PRC 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 packages. 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 June 30, 2017, our Group had a total of approximately 441 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. As at June 30, 2017, the total salary and related cost paid to our employees were approximately RMB21.1 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

For the six months ended June 30, 2017, neither the Company, nor its subsidiary purchased, redeemed or sold any of the Company's listed securities.

### **INTERIM DIVIDEND**

The Board does not recommend the declaration of an interim dividend for the six months ended June 30, 2017.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE

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

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

## COMPLIANCE WITH MODEL CODE

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

## REVIEW OF INTERIM RESULTS

The Audit Committee of the Board has reviewed the Company's consolidated financial statements for the six months ended June 30, 2017, including the applicable accounting principles and practices.

These financial statements have been reviewed by Pan-China Certified Public Accountants LLP, the Group's auditor.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at June 30, 2017, the interests or short positions of the directors, supervisors and the chief executive officer of the Company in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, will be as follows:

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

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	35.0%
		19,429,580	Interest of Spouse	28.1%
Ms. Yue Shujun	Domestic shares	19,429,580	Beneficial owner	28.1%
		24,237,087	Interest of Spouse	35.0%
Mr. Lin Yiming	Domestic shares	1,160,000	Beneficial owner	1.7%

The calculation is based on the total number of 69,170,400 ordinary shares of the Company in issue as at June 30, 2017.

Saved as disclosed above, as at June 30, 2017, none of the directors, supervisors and the chief executive officer of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2017, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	35.0%
		19,429,580	Interest of Spouse	28.1%
Ms. Yue Shujun	Domestic shares	19,429,580	Beneficial owner	28.1%
		24,237,087	Interest of Spouse	35.0%

Save as disclosed above, as at June 30, 2017, the directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

# REVIEW REPORT



天健会计师事务所

Pan-China Certified Public Accountants

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

We have reviewed the accompanying interim financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”), which comprise the consolidated and parent company balance sheets as at June 30, 2017, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in equity for the six months then ended, as well as notes to financial statements. The directors are responsible for the preparation and presentation of these interim financial statements. Our responsibility is to issue a review report on these interim financial statements based on our review.

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

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Company do not present fairly, in all material aspects, the consolidated and parent company’s financial position as at June 30, 2017, and the consolidated and parent company’s results of operations and cash flows for the six-month period then ended, in accordance with China Accounting Standards for Business Enterprise.

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

**Chinese Certified Public Accountant**

**Chinese Certified Public Accountant**

Date of Report: August 31, 2017

*The review report and the accompanying financial statements are English report and statutory financial statements prepared under accounting principles and practices generally accepted in the People’s Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions.*

# CONSOLIDATED BALANCE SHEET

As at June 30, 2017  
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
<b>Current assets:</b>			
Cash and bank balances	1	307,760,647.02	297,285,790.16
Settlement funds			
Loans to other banks			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable	2	17,960,237.20	12,207,859.40
Accounts receivable	3	85,284,097.31	68,472,003.04
Advances paid	4	2,035,463.04	829,678.43
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable	5	998,810.47	
Dividend receivable			
Other receivables	6	938,416.22	863,240.69
Reverse-REPO financial assets			
Inventories	7	65,364,928.73	59,591,366.45
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	8	141,542.54	176,195.81
<b>Total current assets</b>		<b>480,484,142.53</b>	439,426,133.98
<b>Non-current assets:</b>			
Loans and advances paid			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments			
Investment property			
Fixed assets	9	49,594,805.41	51,074,794.44
Construction in progress	10	12,206,873.42	11,284,911.93
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets	11	33,452,561.04	33,892,975.08
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets	12	1,535,795.28	1,471,457.51
Other non-current assets	13	2,940,705.00	2,978,555.00
<b>Total non-current assets</b>		<b>99,730,740.15</b>	100,702,693.96
<b>Total assets</b>		<b>580,214,882.68</b>	540,128,827.94

## CONSOLIDATED BALANCE SHEET

As at June 30, 2017

(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
<b>Current liabilities:</b>			
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	14	24,904,485.78	19,030,101.28
Advances received	15	6,503,031.94	4,953,824.06
Proceeds from sale of repurchase financial assets			
Handling fee and commission payable			
Employee benefits payable	16	3,888,553.67	2,989,533.99
Taxes and rates payable	17	5,126,547.29	8,741,879.96
Interest payable			
Dividend payable	18	10,721,412.00	
Other payables	19	6,935,943.38	6,276,448.83
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			
<b>Total current liabilities</b>		<b>58,079,974.06</b>	41,991,788.12
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income	20	15,929,444.13	16,805,269.13
Deferred tax liabilities	12	581,895.38	422,167.33
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>16,511,339.51</b>	17,227,436.46
<b>Total liabilities</b>		<b>74,591,313.57</b>	59,219,224.58
<b>Equity:</b>			
Paid-in capital	20	69,170,400.00	69,170,400.00
Capital reserve	21	230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	22	23,774,980.13	23,774,980.13
General risk reserve			
Undistributed profit	23	182,639,008.97	157,925,043.22
Total equity attributable to the parent company		505,623,569.11	480,909,603.36
Non-controlling interest			
<b>Total equity</b>		<b>505,623,569.11</b>	480,909,603.36
<b>Total liabilities &amp; equity</b>		<b>580,214,882.68</b>	540,128,827.94



# PARENT COMPANY BALANCE SHEET

As at June 30, 2017  
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
<b>Current assets:</b>			
Cash and bank balances		307,718,086.37	297,193,825.81
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		17,960,237.20	12,207,859.40
Accounts receivable	1	85,052,756.19	68,472,003.04
Advances paid		2,035,463.04	829,678.43
Interest receivable		998,810.47	
Dividend receivable			
Other receivables	2	938,416.22	863,240.69
Inventories		65,364,928.73	59,591,366.45
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>480,068,698.22</b>	439,157,973.82
<b>Non-current assets:</b>			
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		49,592,830.41	51,072,819.44
Construction in progress		12,206,873.42	11,284,911.93
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets		33,452,561.04	33,892,975.08
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets		1,513,406.00	1,450,856.95
Other non-current assets		2,940,705.00	2,978,555.00
<b>Total non-current assets</b>		<b>100,371,638.87</b>	101,345,381.40
<b>Total assets</b>		<b>580,440,337.09</b>	540,503,355.22

## PARENT COMPANY BALANCE SHEET

As at June 30, 2017

(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance (Unaudited)	Opening balance (Audited)
<b>Current liabilities:</b>			
Short-term borrowings			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable		24,904,485.78	19,030,101.28
Advances received		6,503,031.94	4,953,824.06
Employee benefits payable		3,888,553.67	2,989,533.99
Taxes and rates payable		5,126,547.29	8,741,879.96
Interest payable			
Dividend payable		10,721,412.00	
Other payables		8,045,941.63	7,775,188.69
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>59,189,972.31</b>	43,490,527.98
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income		15,929,444.13	16,805,269.13
Deferred tax liabilities		581,895.38	422,167.33
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>16,511,339.51</b>	17,227,436.46
<b>Total liabilities</b>		<b>75,701,311.82</b>	60,717,964.44
<b>Equity:</b>			
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	23,774,980.13
Undistributed profit		181,754,465.13	156,800,830.64
<b>Total equity</b>		<b>504,739,025.27</b>	479,785,390.78
<b>Total liabilities &amp; equity</b>		<b>580,440,337.09</b>	540,503,355.22

# CONSOLIDATED INCOME STATEMENT

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
<b>I. Total operating revenue</b>		<b>124,239,007.80</b>	111,072,693.48
Including: Operating revenue	1	<b>124,239,007.80</b>	111,072,693.48
Interest proceeds			
Premium earned			
Revenue from handling charges and commission			
<b>II. Total operating cost</b>		<b>83,996,523.31</b>	69,739,558.72
Including: Operating cost	1	<b>30,892,188.66</b>	27,690,636.13
Interest expenses			
Handling charges and commission expenditures			
Surrender value			
Net payment of insurance claims			
Net provision of insurance reserve			
Premium bonus expenditures			
Reinsurance expenses			
Taxes & surcharge for operations	2	<b>1,929,050.54</b>	1,227,531.56
Selling expenses	3	<b>31,870,159.27</b>	26,371,931.66
Administrative expenses	4	<b>21,833,401.36</b>	15,290,319.87
Financial expense	5	<b>(2,952,425.05)</b>	(2,882,477.41)
Assets impairment loss	6	<b>424,148.53</b>	2,041,616.91
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)			
Other income	7	<b>875,825.00</b>	
<b>III. Operating profit (or less: losses)</b>		<b>41,118,309.49</b>	41,333,134.76
Add: Non-operating revenue	8	<b>100,000.00</b>	886,159.55
Including: Gains on disposal of non-current assets			7,500.00
Less: Non-operating expenditures	9	<b>1,700.00</b>	6,303.50
Including: losses on disposal of fixed assets			4,903.50
<b>IV. Profit before tax (or less: total loss)</b>		<b>41,216,609.49</b>	42,212,990.81
Less: income tax	10	<b>5,781,231.74</b>	5,984,519.04

## CONSOLIDATED INCOME STATEMENT

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
V. <b>Net profit (or less: net loss)</b>		<b>35,435,377.75</b>	36,228,471.77
Net profit attributable to owners of the parent company		<b>35,435,377.75</b>	36,228,471.77
Non-controlling interest			
VI. <b>Other comprehensive income after tax</b>			
Items attributable to the owners of the parent company			
(I) Not reclassified subsequently to profit or loss			
1. Changes in re-measurement on the net defined benefit liability/asset			
2. Items attributable to investees under equity method that will not reclassified to profit or loss			
(II) To be reclassified subsequently to profit or loss			
1. Items attributable to investees under equity method that may be reclassified to profit or loss			
2. Profit or loss from changes in fair value of available-for-sale financial assets			
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets			
4. Profit or loss on cash flow hedging			
5. Translation reserve			
6. Others			
Items attributable to non-controlling shareholders			
VII. <b>Total comprehensive income</b>		<b>35,435,377.75</b>	36,228,471.77
Items attributable to owners of the parent company		<b>35,435,377.75</b>	36,228,471.77
Items attributable to non-controlling interest			
VIII. <b>Earnings per share (EPS):</b>			
(I) Basic EPS (yuan per share)		<b>0.51</b>	0.52
(II) Diluted EPS (yuan per share)		<b>0.51</b>	0.52

# PARENT COMPANY INCOME STATEMENT

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
I. <b>Operating revenue</b>	1	<b>124,073,304.03</b>	111,072,693.48
Less: Operating cost	1	<b>30,892,188.66</b>	27,632,010.58
Taxes & surcharge for operations		<b>1,929,050.54</b>	1,227,531.56
Selling expenses		<b>31,870,159.27</b>	26,371,931.66
Administrative expenses		<b>21,433,568.31</b>	15,205,077.07
Financial expense		<b>(2,952,598.35)</b>	(2,882,648.75)
Assets impairment loss		<b>416,993.65</b>	2,041,616.91
Add: Gain on changes of fair value (or less: losses)			
Investment income (or less: losses)			
Including: investment income from associates and joint ventures			
Other income		<b>875,825.00</b>	
II. <b>Operating profit (or less: losses)</b>		<b>41,359,766.95</b>	41,477,174.45
Add: Non-operating revenue		<b>100,000.00</b>	886,159.55
Including: Gains on disposal of non-current assets			7,500.00
Less: Non-operating expenditures		<b>1,700.00</b>	6,303.50
Including: losses on disposal of non-current assets			4,903.50
III. <b>Profit before tax (or less: total loss)</b>		<b>41,458,066.95</b>	42,357,030.50
Less: income tax		<b>5,783,020.46</b>	5,984,519.04

## PARENT COMPANY INCOME STATEMENT

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
IV. <b>Net profit (or less: net loss)</b>		<b>35,675,046.49</b>	36,372,511.46
V. <b>Other comprehensive income after tax</b>			
(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. <b>Total comprehensive income</b>		<b>35,675,046.49</b>	36,372,511.46
VII. <b>Earnings per share (EPS):</b>			
(I) Basic EPS (yuan per share)			
(II) Diluted EPS (yuan per share)			

# CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods or rendering of services		<b>120,738,840.58</b>	69,798,441.15
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	<b>100,000.00</b>	138,191.33
Subtotal of cash inflows from operating activities		<b>120,838,840.58</b>	69,936,632.48
Cash payments for goods purchased and services received		<b>26,119,632.24</b>	16,422,010.75
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payments for insurance indemnities of original insurance contracts			
Cash payments for interest, handling charges and commission			
Cash payments for policy bonus			
Cash paid to and on behalf of employees		<b>21,146,313.12</b>	19,363,954.52
Cash payments for taxes and rates		<b>26,413,385.83</b>	17,141,537.96
Other cash payments related to operating activities	2	<b>36,401,458.07</b>	23,267,119.23
Subtotal cash outflows from operating activities		<b>110,080,789.26</b>	76,194,622.46
Net cash flows from operating activities		<b>10,758,051.32</b>	(6,257,989.98)

## CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended June 30, 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
<b>II. Cash flows from investing activities:</b>			
Cash receipts from return of investments			
Cash receipts from return on investments			
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets			7,500.00
Net cash receipts from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities	3	<b>2,670,092.37</b>	9,571,876.20
Subtotal of cash inflows from investing activities		<b>2,670,092.37</b>	9,579,376.20
Cash payments for acquiring fixed assets, intangible assets and other long-term assets		<b>2,272,617.94</b>	5,409,431.84
Cash payments for acquiring investments			
Net increase of pledged loans			
Net cash payments for acquiring subsidiaries & other business units			
Other cash payments related to investing activities			
Subtotal of cash outflows from investing activities		<b>2,272,617.94</b>	5,409,431.84
Net cash flows from investing activities		<b>397,474.43</b>	4,169,944.36
<b>III. Cash flows from financing activities:</b>			
Cash receipts from investment by others			
Including: cash received by subsidiaries from non-controlling shareholders as investments			
Cash receipts from borrowings			
Cash receipts from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			
Cash payments for the repayments of borrowings			
Cash payments for distribution of dividends or profits and for interest expenses			
Including: cash paid for distribution of dividends or profits by subsidiaries to minority owners			
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities			
Net cash flows from financing activities			



## CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended June 30, 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
IV. <b>Effect of foreign exchange rate changes on cash &amp; cash equivalents</b>		<b>(680,668.89)</b>	463,831.34
V. <b>Net increase in cash and cash equivalents</b>		<b>10,474,856.86</b>	(1,624,214.28)
<b>Add: Opening balance of cash and cash equivalents</b>		<b>297,285,790.16</b>	235,039,491.78
VI. <b>Closing balance of cash and cash equivalents</b>		<b>307,760,647.02</b>	233,415,277.50

# PARENT COMPANY CASH FLOW STATEMENT

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods and rendering of services		120,738,840.58	69,798,441.15
Receipts of tax refund			
Other cash receipts related to operating activities		100,000.00	138,191.33
Subtotal of cash inflow from operating activities		120,838,840.58	69,936,632.48
Cash payments for goods purchased and services received		26,119,632.24	16,136,030.53
Cash paid to and on behalf of employees		21,144,501.19	19,355,361.97
Cash payments of taxes and rates		26,413,385.83	17,141,537.96
Other cash payments related to operating activities		36,353,789.60	23,574,629.11
Subtotal of cash outflows from operating activities		110,031,308.86	76,207,559.57
Net cash flows from operating activities		10,807,531.72	(6,270,927.09)
<b>II. Cash flows from investing activities:</b>			
Cash receipts from return of investments			
Cash receipts from investments gains			
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets			7,500.00
Net cash receipts from disposals of subsidiaries and other business units			
Other cash receipts related to investing activities		2,670,015.67	9,571,797.54
Subtotal of cash inflow from investing activities		2,670,015.67	9,579,297.54
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		2,272,617.94	5,409,431.84
Cash payments for investments			
Net cash payments for acquisitions of subsidiaries and other business units			
Other cash payments related to investing activities			
Subtotal of cash outflows from investing activities		2,272,617.94	5,409,431.84
Net cash flows from investing activities		397,397.73	4,169,865.70

## PARENT COMPANY CASH FLOW STATEMENT

For the Six Months Ended June 30, 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
<b>III. Cash flows from financing activities:</b>			
Cash receipts from absorbing investment			
Cash receipts from borrowings			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			
Cash payments for the repayment of borrowings			
Cash payments for distribution of dividends or profit or interest expenses			
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities			
Net cash flows from financing activities			
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>(680,668.89)</b>	463,831.34
<b>V. Net increase in cash and cash equivalents</b>		<b>10,524,260.56</b>	(1,637,230.05)
<b>Add: Opening balance of cash and cash equivalents</b>		<b>297,193,825.81</b>	235,012,594.74
<b>VI. Closing balance of cash and cash equivalents</b>		<b>307,718,086.37</b>	233,375,364.69

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Other equity instruments							Current period cumulative (Unaudited)						
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Non-controlling interest	Total equity	
I. Balance at the end of prior year	69,170,400.00				230,039,180.01		23,774,980.13		23,774,980.13		157,925,043.22		480,909,603.36	
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		23,774,980.13		23,774,980.13		157,925,043.22		480,909,603.36	
III. Current period increase (or less: decrease)														
(I) Total comprehensive income														
(II) Capital contributed or withdrawn by owners														
1. Capital contributed by owners														
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others														
(III) Profit distribution														
1. Appropriation of surplus reserve														
2. Appropriation of general risk reserve														
3. Appropriation of profit to owners														
4. Others														
(IV) Internal carry-over within equity														
1. Transfer of capital reserve to capital														
2. Transfer of surplus reserve to capital														
3. Surplus reserve to cover losses														
4. Others														
(V) Special reserve														
1. Appropriation of current period														
2. Application of current period														
(VI) Others														
IV. Balance at the end of current period	69,170,400.00				230,039,180.01		23,774,980.13		23,774,980.13		182,639,008.97		505,623,569.11	

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2017

(Expressed in Renminbi Yuan)

Items	Other equity instruments				Equity attributable to parent company				Total equity				
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve		Surplus reserve	General risk reserve	Undistributed profit	Non-controlling interest
I. <b>Balance at the end of prior year</b>	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. <b>Balance at the beginning of current year</b>	69,170,400.00				230,039,180.01				17,376,350.74		106,970,076.99		423,556,007.74
III. <b>Current period increase (or decrease)</b>													
(I) Total comprehensive income													
(II) Capital contributed or withdrawn by owners													
1. Capital contributed by owners													
2. Capital contributed by holders of other equity instruments													
3. Amount of share-based payment included in equity													
4. Others													
(III) Profit distribution													
1. Appropriation of surplus reserve													
2. Appropriation of general risk reserve													
3. Appropriation of profit to owners													
4. Others													
(IV) Internal carry-over within equity													
1. Transfer of capital reserve to capital													
2. Transfer of surplus reserve to capital													
3. Surplus reserve to cover losses													
4. Others													
(V) Special reserve													
1. Appropriation of current period													
2. Application of current period													
(VI) Others													
IV. <b>Balance at the end of current period</b>	69,170,400.00				230,039,180.01				17,376,350.74		137,111,553.56		453,697,484.31

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2017  
(Expressed in Renminbi Yuan)

Items	Other equity instruments				Current period cumulative (Unaudited)					Total equity	
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve		Undistributed profit
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				23,774,980.13	156,800,830.64	479,785,390.78
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				23,774,980.13	156,800,830.64	479,785,390.78
III. Current period increase (or less: decrease)											
(I) Total comprehensive income											
(II) Capital contributed or withdrawn by owners											
1. Capital contributed by owners											
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution											
1. Appropriation of surplus reserve										(10,721,412.00)	(10,721,412.00)
2. Appropriation of profit to owners										(10,721,412.00)	(10,721,412.00)
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	181,754,465.13	504,739,025.27

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2017

(Expressed in Renminbi Yuan)

Items	Other equity instruments				Preceding period comparative (Unaudited)				Total equity		
	Paid-in capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve		Surplus reserve	Undistributed profit
I. <b>Balance at the end of prior year</b>	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. <b>Balance at the beginning of current year</b>	69,170,400.00				230,039,180.01				17,376,350.74	105,300,161.29	421,886,092.04
III. <b>Current period increase (or less: decrease)</b>											
(I) Total comprehensive income											
(II) Capital contributed or withdrawn by owners											
1. Capital contributed by owners											
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution											
1. Appropriation of surplus reserve										(6,086,995.20)	(6,086,995.20)
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. <b>Balance at the end of current period</b>	69,170,400.00				230,039,180.01				17,376,350.74	135,585,677.55	452,171,608.30

**Shi Chunbao**

Legal representative  
(Signature and stamp)

**Xu Yanping**

Officer in charge of accounting  
(Signature and stamp)

**Xu Yanping**

Head of accounting department  
(Signature and stamp)

# NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

## I. COMPANY PROFILE

Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”) is established by 史春寶先生 (Mr. Shi Chunbao) and 岳術俊女士 (Ms. Yue Shujun) under the approval of Beijing Administration for Industry and Commerce. The Company registered at Beijing Administration for Industry and Commerce, Tongzhou Sub-bureau on February 12, 1998 and acquired a business license with unified social credit code of 91110000633737758W. The Company is headquartered in Beijing. Its current registered capital is 69.1704 million yuan, and total shares are 69.1704 million shares (each with par value of one yuan), of which, 50 million shares are restricted shares, and 19.1704 million shares are outstanding shares. The Company’s shares were listed at the Stock Exchange of Hong Kong 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 23rd meeting of the second session of the Board of Directors dated August 31, 2017.

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

## II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

### (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 Six Months Ended June 30, 2017

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. The accounting period for these interim financial statements is from January 1, 2017 to June 30, 2017.

**(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 Six Months Ended June 30, 2017

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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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*

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

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

The Company measures its financial liabilities at the amortized costs using effective interest method, with the exception of those under the following circumstances: (1) for the financial liabilities at fair value through profit or loss, they are measured at fair value, and none of the transaction expenses may be deducted, which may occur when the financial liabilities are settled in the future; (2) for the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by the delivery of the equity instrument, they are measured at their costs; (3) for the financial guarantee contracts which are not designated as a financial liability at fair value through profit or loss, and for the commitments to grant loans which are not designated as at fair value through profit or loss and which will enjoy an interest rate lower than that of the market, they are measured subsequent to initial recognition at the higher of the following two items 1) The amount as determined according to "CASBE 13 – Contingencies"; 2) the surplus after accumulative amortization as determined according to "CASBE 14 – 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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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)*

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

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

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

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

4. *Fair value determination method of financial assets and liabilities*

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

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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)

- 2) Evidence indicating that available-for-sale equity instrument investment may be impaired includes the fair value of equity instrument investment is suffered from significant or non-temporary decline and the technical, market, economic, or legal environment in which the investee operates has significant adverse changes under which the Company may not be able to recover its investment cost.

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

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

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

#### (X) Receivables

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

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.
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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.
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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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

#### (X) Receivables (Continued)

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

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

#### (XI) Inventories

1. *Classification of inventories*

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

2. *Accounting method for dispatching inventories:*

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

3. *Basis for determining net realizable value*

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

4. *Inventory system*

Perpetual inventory method is adopted.



## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

#### (XI) Inventories (Continued)

5. *Amortization method of low-value consumables and packages*

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

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

1. *Judgment of joint control and significant influence*

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

2. *Determination of investment cost*

- (1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included in 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 in 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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

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

##### 2. Determination of investment cost (Continued)

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

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

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

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

- (3) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “CASBE 12 – Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “CASBE 7 – 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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

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

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

###### (1) Stand-alone financial statements

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

###### (2) Consolidated financial statements

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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

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

#### (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 Six Months Ended June 30, 2017

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
Financial software	5.00

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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 Six Months Ended June 30, 2017

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 Six Months Ended June 30, 2017

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 Six Months Ended June 30, 2017

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 included in profit or loss on a systematic basis 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. For assets sold, transferred, disposed or damaged within the useful lives, balance of unamortized deferred income is transferred into profit or loss of the year in which the disposal occurred.

2. *Government grants related to income*

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

#### (XXII) Government grants (Continued)

3. *Policy interest subvention*

- (1) In the circumstance that government appropriates interest subvention to lending bank, who provides loans for the Company with a policy subsidised interest rate, borrowings are carried at the amount received, with relevant borrowings cost computed based on the principal and the policy subsidised interest rate./borrowings are carried at the fair value, with relevant borrowings cost computed under effective interest method. The difference between amount received and fair value of borrowings is recognized as deferred income, which is amortized using effective interest method within the loan term and offsets relevant borrowing cost.
- (2) In the circumstance that government directly appropriates interest subvention to the Company, the subsidised interest shall offset relevant borrowing cost.

#### (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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

#### (XXIV) Operating leases

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

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

#### (XXV) Critical accounting judgments and estimates

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

Key sources of estimation uncertainty are:

1. *Recognition of deferred tax assets*

As stated in deferred tax assets/liabilities under section 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 section 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.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

#### (XXV) Critical accounting judgments and estimates (Continued)

3. *Provision for inventory write-down*

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

#### (XXVI) Significant changes in accounting policies and estimates

*Significant changes in accounting policies*

Changes in accounting policies arose from changes in CASBEs

The Company has adopted "CASBE 42 – Non-current Assets and Disposal Groups Held for Sale and Discontinued Operations" promulgated by Ministry of Finance of PRC since May 28, 2017, and has adopted "CASBE 16 – Government Grants" revised by Ministry of Finance of PRC since June 12, 2017.

The change has been deliberated and approved by the 23rd meeting of the second session of the Board of Directors, and is applicable to prospective application method.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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, 17% refund for artificial joints; and 17% refund for other medical instruments which are not listed on the Tax Document 90.18.

2. Enterprise income tax

The Company passed the hi-tech enterprise review on November 24, 2015 and obtained the Hi-Tech 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 Hi-Tech Enterprises and the Enterprise Income Tax Law of the People's Republic of China and other relevant regulations and rules, the Company is entitled to enjoy the preferential enterprise income tax rate of 15% for the following three years (from 2015 to 2017) since the date of certificate.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Remarks: "Opening balance" in this report refers to balances as at January 1, 2017, while "closing balance" refers to balances as at June 30, 2017; and "current period" refers to the period from January 1, 2017 to June 30, 2017, while "preceding period" refers to the period from January 1, 2016 to June 30, 2016. This is also applicable to that of the parent company.

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

##### 1. Cash and bank balances

Items	Closing balance (Unaudited)	Opening balance (Audited)
Cash on hand	124,042.09	267,926.27
Cash in bank	307,636,604.93	297,017,863.89
Total	307,760,647.02	297,285,790.16

##### 2. Notes receivable

###### (1) Details

Categories	Closing balance (Unaudited)			Opening balance (Audited)		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance	17,960,237.20		17,960,237.20	11,337,529.40		11,337,529.40
Trade acceptance				870,330.00		870,330.00
Total	17,960,237.20		17,960,237.20	12,207,859.40		12,207,859.40

###### (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	1,393,644.00	1,850,000.00
Trade acceptance		124,000.00

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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	Closing balance (Unaudited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	92,010,979.38	98.58	7,058,786.61	7.67	84,952,192.77
Receivable of individually insignificant amount but with provision made on an individual basis	1,327,618.19	1.42	995,713.65	75.00	331,904.54
<b>Total</b>	<b>93,338,597.57</b>	<b>100.00</b>	<b>8,054,500.26</b>	<b>8.63</b>	<b>85,284,097.31</b>

Categories	Book balance		Opening balance (Audited)		Carrying amount
			Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	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
<b>Total</b>	<b>77,294,413.36</b>	<b>100.00</b>	<b>8,822,410.32</b>	<b>11.41</b>	<b>68,472,003.04</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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 (Unaudited)		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 1 year	64,897,124.42	1,946,913.73	3.00
1-2 years	22,131,829.12	1,770,546.33	8.00
2-3 years	1,688,736.34	337,747.27	20.00
3-4 years	382,662.05	191,331.03	50.00
4-5 years	491,896.00	393,516.80	80.00
Over 5 years	2,418,731.45	2,418,731.45	100.00
Subtotal	92,010,979.38	7,058,786.61	7.67

###### (2) Age analysis

Age analysis of accounts receivable based on the month when receivables recognized is as follows:

Ages	Closing balance (Unaudited)		Provision proportion (%)
	Book balance	Provision for bad debts	
Within 3 months	33,036,190.89	991,085.73	3.00
3-6 months	16,831,160.21	504,934.81	3.00
6-12 months	15,152,601.51	543,014.34	3.58
Over 1 year	28,318,644.96	6,015,465.38	21.24
Total	93,338,597.57	8,054,500.26	8.63

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

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

Provision for bad debts made in current period totaled (767,910.06) yuan, and no provision for bad debts were collected or reversed in the current period.



## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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	16,584,145.22	17.77	607,799.21
Party A	5,339,477.00	5.72	338,001.66
Party B	4,729,300.00	5.07	169,439.00
Party C	2,856,874.63	3.06	85,706.24
Party D	2,500,421.80	2.68	75,012.65
Subtotal	32,010,218.65	34.30	1,275,958.76

##### 4. Advances paid

##### (1) Age analysis

Ages	Book balance	Closing balance (Unaudited)		Carrying amount	Book balance	Opening balance (Audited)		Carrying amount
		% to total	Provision for bad debts			% to total	Provision for bad debts	
Within 1 year	1,894,517.48	93.08		1,894,517.48	667,984.34	80.51		667,984.34
1-2 years	140,945.56	6.92		140,945.56	158,056.41	19.05		158,056.41
2-3 years					3,637.68	0.44		3,637.68
Total	2,035,463.04	100.00		2,035,463.04	829,678.43	100.00		829,678.43

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

Debtors	Book balance	Proportion to the total balance of advances paid (%)
Party E	346,633.12	17.03
Party F	331,770.00	16.30
Party G	327,260.35	16.08
Party H	236,121.79	11.60
Party I	200,000.00	9.83
Subtotal	1,441,785.26	70.84

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

5. *Interest receivable*

Categories	Closing balance (Unaudited)	Opening balance (Audited)
Time deposits	998,810.47	
Subtotal	998,810.47	

6. *Other receivables*

(1) Details

1) Details on categories

Categories	Book balance		Closing balance (Unaudited)		Carrying amount
	Amount	% to total	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	1,210,693.12	100.00	272,276.90	22.49	938,416.22
Receivable of individually insignificant amount but with provision made on an individual basis					
Total	1,210,693.12	100.00	272,276.90	22.49	938,416.22

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 6. Other receivables (Continued)

##### (1) Details (Continued)

##### 1) Details on categories (Continued)

Categories	Book balance		Opening balance (Audited)		Carrying amount
	Amount	% to total	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	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					
<b>Total</b>	<b>1,173,410.48</b>	<b>100.00</b>	<b>310,169.79</b>	<b>26.43</b>	<b>863,240.69</b>

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

Ages	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	776,599.61	23,297.99	3.00
1-2 years	108,961.52	8,716.92	8.00
2-3 years	103,525.00	20,705.00	20.00
3-4 years	4,100.00	2,050.00	50.00
Over 5 years	217,506.99	217,506.99	100.00
<b>Subtotal</b>	<b>1,210,693.12</b>	<b>272,276.90</b>	<b>22.49</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 6. Other receivables (Continued)

(2) Provisions made, collected or reversed in current period  
Provisions for bad debts made in current period totaled (37,892.89) 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 (Unaudited)	Opening balance (Audited)
Petty cash	511,188.18	456,606.97
Guarantee deposit	577,505.79	514,794.36
Others	121,999.15	202,009.15
<b>Total</b>	<b>1,210,693.12</b>	<b>1,173,410.48</b>

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

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Party J	Guarantee deposit	200,000.00	Within 1 year	16.52	6,000.00
Party K	Guarantee deposit	128,828.00	Over 5 years	10.64	128,828.00
Party I	Petty cash	114,500.00	Within 1 year	9.46	3,435.00
Party L	Guarantee deposit	97,151.52	1-2 years	8.02	7,772.12
Party M	Petty cash	91,631.00	Within 1 year	7.57	2,748.93
<b>Subtotal</b>		<b>632,110.52</b>		<b>52.21</b>	<b>148,784.05</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 7. Inventories

##### (1) Details

Items	Closing balance (Unaudited)			Opening balance (Audited)		
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw materials	24,056,773.41	989,039.91	23,067,733.50	20,213,614.59	213,304.43	20,000,310.16
Work in progress	10,741,777.46	366,337.62	10,375,439.84	9,531,130.45	8,807.35	9,522,323.10
Finished goods	32,418,531.12	496,775.73	31,921,755.39	30,468,823.19	400,090.00	30,068,733.19
Total	67,217,081.99	1,852,153.26	65,364,928.73	60,213,568.23	622,201.78	59,591,366.45

##### (2) Provision for inventory write-down

Items	Opening balance (Audited)	Increase		Decrease		Closing balance (Unaudited)
		Provision	Others	Reversal or written-off	Others	
Raw materials	213,304.43	775,735.48				989,039.91
Work in progress	8,807.35	357,530.27				366,337.62
Finished goods	400,090.00	96,685.73				496,775.73
Total	622,201.78	1,229,951.48				1,852,153.26

##### 8. Other current assets

Items	Closing balance (Unaudited)	Opening balance (Audited)
VAT to be deducted	141,542.54	176,195.81
Total	141,542.54	176,195.81

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 9. Fixed assets

Items	Buildings and structures	Mechanical equipment	Transport facilities	Other equipment	Total
<b>Cost</b>					
Opening balance (Audited)	20,379,712.55	50,494,439.59	1,696,653.53	844,191.90	73,414,997.57
Increase		347,350.42	950,132.48	21,581.20	1,319,064.10
1) Acquisition		347,350.42	950,132.48	21,581.20	1,319,064.10
Decrease					
1) Disposal/scrap					
Closing balance (Unaudited)	20,379,712.55	50,841,790.01	2,646,786.01	865,773.10	74,734,061.67
<b>Accumulated depreciation</b>					
Opening balance (Audited)	2,534,209.97	18,013,062.58	1,219,881.53	573,049.05	22,340,203.13
Increase	348,299.52	2,318,174.81	84,936.27	47,642.53	2,799,053.13
1) Accrual	348,299.52	2,318,174.81	84,936.27	47,642.53	2,799,053.13
Decrease					
1) Disposal/scrap					
Closing balance (Unaudited)	2,882,509.49	20,331,237.39	1,304,817.80	620,691.58	25,139,256.26
<b>Carrying amount</b>					
Closing balance (Unaudited)	17,497,203.06	30,510,552.62	1,341,968.21	245,081.52	49,594,805.41
Opening balance (Audited)	17,845,502.58	32,481,377.01	476,772.00	271,142.85	51,074,794.44

##### 10. Construction in progress

###### (1) Details

Projects	Closing balance (Unaudited)			Opening balance (Audited)		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Expansion of new production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park ("Daxing New Production Base") – First stage construction work	11,876,873.42		11,876,873.42			11,284,911.93
Others	330,000.00		330,000.00			
<b>Total</b>	<b>12,206,873.42</b>		<b>12,206,873.42</b>			<b>11,284,911.93</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 10. Construction in progress (Continued)

##### (2) Changes in significant projects

Projects	Budgets (RMB'0,000)	Opening balance (Audited)	Increase	Transferred to fixed assets	Other decrease	Closing balance (Unaudited)
Daxing New Production Base – first stage construction work	18,429.65	11,284,911.93	591,961.49			11,876,873.42
Others			330,000.00			330,000.00
Subtotal	18,429.65	11,284,911.93	921,961.49			12,206,873.42

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	6.44	6.44				Self-generated funds and publicly raised fund
Others						Self-generated funds
Subtotal	6.44	6.44				

##### 11. Intangible assets

##### (1) Details

Items	Land use right	Software	Total
<b>Cost</b>			
Opening balance (Audited)	37,052,810.33	547,345.29	37,600,155.62
Increase			
Decrease			
Closing balance (Unaudited)	37,052,810.33	547,345.29	37,600,155.62
<b>Accumulated amortization</b>			
Opening balance (Audited)	3,441,801.19	265,379.35	3,707,180.54
Increase	385,679.58	54,734.46	440,414.04
Decrease			
Closing balance (Unaudited)	3,827,480.77	320,113.81	4,147,594.58
<b>Carrying amount</b>			
Closing balance (Unaudited)	33,225,329.56	227,231.48	33,452,561.04
Opening balance (Audited)	33,611,009.14	281,965.94	33,892,975.08

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 11. Intangible assets (Continued)

###### (2) Analysis of carrying amount of land use right

Items	Closing balance (Unaudited)	Opening balance (Audited)
Outside Hong Kong		
Including: Mid-term lease	33,225,329.56	33,611,009.14
Subtotal	33,225,329.56	33,611,009.14

##### 12. Deferred tax assets and deferred tax liabilities

###### (1) Deferred tax assets before offset

Items	Closing balance (Unaudited)		Opening balance (Audited)	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for impairment of assets	10,178,930.42	1,535,795.28	9,754,781.89	1,471,457.51
Total	10,178,930.42	1,535,795.28	9,754,781.89	1,471,457.51

###### (2) Deferred tax liabilities before offset

Items	Closing balance (Unaudited)		Opening balance (Audited)	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation of fixed assets	3,879,302.60	581,895.38	2,814,448.91	422,167.33
Total	3,879,302.60	581,895.38	2,814,448.91	422,167.33

##### 13. Other non-current assets

Items	Closing balance (Unaudited)	Opening balance (Audited)
Machinery equipment prepayments	2,940,705.00	2,978,555.00
Total	2,940,705.00	2,978,555.00



## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 14. Accounts payable

###### (1) Details

Items	Closing balance (Unaudited)	Opening balance (Audited)
Purchasing of materials	24,414,701.91	18,638,372.75
Purchasing of machinery and equipment	489,783.87	391,728.53
Total	24,904,485.78	19,030,101.28

###### (2) Age analysis

Ages	Closing balance (Unaudited)	Opening balance (Audited)
Within 1 year	24,081,114.79	16,546,978.29
1-2 years	623,373.00	2,283,125.00
2-3 years	65,032.50	65,032.50
Over 3 years	134,965.49	134,965.49
Total	24,904,485.78	19,030,101.28

##### 15. Advances received

Items	Closing balance (Unaudited)	Opening balance (Audited)
Goods payments	6,503,031.94	4,953,824.06
Total	6,503,031.94	4,953,824.06

##### 16. Employee benefits payable

###### (1) Details

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)
Short-term employee benefits	2,806,546.93	20,480,621.14	19,816,624.93	3,470,543.14
Post-employment benefits – defined contribution plan	182,987.06	1,564,711.66	1,329,688.19	418,010.53
Total	2,989,533.99	22,045,332.80	21,146,313.12	3,888,553.67

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 16. Employee benefits payable (Continued)

##### (2) Details of short-term employee benefits

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)
Wage, bonus, allowance and subsidy	2,427,076.94	17,552,445.33	17,217,401.96	<b>2,762,120.31</b>
Employee welfare fund		655,817.08	655,817.08	
Social insurance premium	129,473.42	1,337,755.41	1,135,671.96	<b>331,556.87</b>
Including: Medicare premium	108,559.32	1,165,836.48	991,493.82	<b>282,901.98</b>
Occupational injuries premium	10,457.05	91,451.38	77,775.36	<b>24,133.07</b>
Maternity premium	10,457.05	80,467.55	66,402.78	<b>24,521.82</b>
Housing provident funds	94,968.00	585,136.20	483,011.00	<b>197,093.20</b>
Trade union fund and employee education fund	155,028.57	349,467.12	324,722.93	<b>179,772.76</b>
Subtotal	2,806,546.93	20,480,621.14	19,816,624.93	<b>3,470,543.14</b>

##### (3) Details of defined contribution plan

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)
Basic endowment insurance premium	174,273.38	1,502,193.62	1,276,455.79	<b>400,011.21</b>
Unemployment insurance premium	8,713.68	62,518.04	53,232.40	<b>17,999.32</b>
Subtotal	182,987.06	1,564,711.66	1,329,688.19	<b>418,010.53</b>

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.

##### 17. Taxes and rates payable

Items	Closing balance (Unaudited)	Opening balance (Audited)
VAT	<b>2,394,109.80</b>	4,061,179.77
Enterprise income tax	<b>2,288,417.73</b>	4,116,041.82
Individual income tax withheld for tax authorities	<b>139,725.11</b>	202,256.68
Urban maintenance and construction tax	<b>146,538.04</b>	160,145.01
Education surcharge	<b>83,835.07</b>	121,354.01
Local education surcharge	<b>55,890.04</b>	80,902.67
Stamp duty	<b>18,031.50</b>	
Total	<b>5,126,547.29</b>	8,741,879.96

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 18. Dividend payable

Items	Closing balance (Unaudited)	Opening balance (Audited)
Dividend of ordinary shares	10,721,412.00	
Total	10,721,412.00	

##### 19. Other payables

Items	Closing balance (Unaudited)	Opening balance (Audited)
Sales rebate	6,207,624.15	5,363,284.43
Others	728,319.23	913,164.40
Total	6,935,943.38	6,276,448.83

##### 20. Deferred income

###### (1) Details

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)	Reasons for balance
Government grants	16,805,269.13		875,825.00	15,929,444.13	Government grants related to assets and income
Total	16,805,269.13		875,825.00	15,929,444.13	

###### (2) Details of government grants

Items	Opening balance (Audited)	Increase	Decrease	Other movements	Closing balance (Unaudited)	Related to assets/income
Fund on industrialization of ceramic femoral head on ceramic hip joint prostheses	4,651,747.59		283,500.00		4,368,247.59	Related to assets
Fund on clinical study of PEEK interbody fusion cage	1,863,400.00		99,825.00		1,763,575.00	Related to assets
Fund of innovation ability development on joint prosthesis of Beijing engineering laboratory	8,559,000.00		475,500.00		8,083,500.00	Related to assets
Fund on clinical trial research and pilot production capacity building of spine artificial vertebral body fixation system	1,731,121.54		17,000.00		1,714,121.54	Related to assets and income
Total	16,805,269.13		875,825.00		15,929,444.13	

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 21. Share capital

Items	Opening balance (Audited)	Issue of new shares	Bonus shares	Movements		Subtotal	Closing balance (Unaudited)
				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
<b>Total</b>	<b>69,170,400.00</b>						<b>69,170,400.00</b>

##### 22. Capital reserve

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 23. Surplus reserve

Items	Opening balance (Audited)	Increase	Decrease	Closing balance (Unaudited)
Statutory surplus reserve	23,774,980.13			23,774,980.13
Total	23,774,980.13			23,774,980.13

##### 24. Undistributed profit

###### (1) Details

Items	Current period cumulative (Unaudited)	Preceding period comparative (Audited)
Balance before adjustment at the end of preceding period	157,925,043.22	106,970,076.99
Opening balance after adjustment	157,925,043.22	106,970,076.99
Add: Net profit attributable to owners of the parent company	35,435,377.75	36,228,471.77
Less: Appropriation of statutory surplus reserve		
Dividend payable on ordinary shares	10,721,412.00	6,086,995.20
Closing balance	182,639,008.97	137,111,553.56

###### (2) Other remarks

Pursuant to the resolution of the meeting of the Board of Directors dated March 31, 2017 and the resolution of the General Meeting of 2017 dated June 28, 2017, the Company declared to distribute cash dividends of 10,721,412.00 yuan to shareholders at the rate of RMB0.155 per share (including tax).

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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/Operating cost*

Items	Current period cumulative (Unaudited)		Preceding period comparative (Unaudited)	
	Income	Cost	Income	Cost
Revenue from main operations	124,239,007.80	30,892,188.66	111,072,693.48	27,690,636.13
Total	124,239,007.80	30,892,188.66	111,072,693.48	27,690,636.13

2. *Taxes and surcharge for operations*

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Urban maintenance and construction tax	757,634.13	613,765.79
Education surcharge	454,580.47	368,259.46
Local education surcharge	303,053.64	245,506.31
Housing property tax	103,325.22	
Land use tax	75,548.78	
Stamp duty	231,008.30	
Vehicle and vessel use tax	3,900.00	
Total	1,929,050.54	1,227,531.56

3. *Selling expenses*

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Travelling & advertising expenses	21,505,463.19	15,068,565.09
Employee benefits	5,308,124.01	5,405,306.64
Sale rebates	2,094,013.23	4,112,523.02
Office expenses	1,319,969.61	716,060.98
Transportation expenses	540,173.04	455,376.35
Rentals	20,400.00	4,535.00
Others	1,082,016.19	609,564.58
Total	31,870,159.27	26,371,931.66

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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 (Unaudited)	Preceding period comparative (Unaudited)
Research and development expenses	9,757,400.60	5,279,990.00
Employee benefits	5,842,436.57	5,385,869.74
Other professional fees	2,152,371.37	1,353,354.20
Auditor's remuneration	566,037.74	566,037.74
Rentals and property maintenance fee	555,151.54	566,958.09
Depreciation	479,920.97	479,839.82
Amortization of intangible assets	440,414.04	427,999.53
Motor vehicle expenses	247,620.81	187,845.68
Office expenses	221,694.97	105,080.24
Entertainments	166,852.49	283,023.51
Other tax charges		178,874.00
Others	1,403,500.26	475,447.32
<b>Total</b>	<b>21,833,401.36</b>	<b>15,290,319.87</b>

##### 5. Financial expenses

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Interest expenditures		
Less: Interest income	3,668,902.84	2,445,012.24
Add: Foreign exchange losses	680,668.89	5,517.94
Less: Foreign exchange gains		471,097.49
Add: Bank charges	35,808.90	28,114.38
<b>Total</b>	<b>(2,952,425.05)</b>	<b>(2,882,477.41)</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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*

<b>Items</b>	<b>Current period cumulative (Unaudited)</b>	Preceding period comparative (Unaudited)
Bad debts	(805,802.95)	2,041,616.91
Inventory write-down loss	1,229,951.48	
<b>Total</b>	<b>424,148.53</b>	2,041,616.91

7. *Other income*

<b>Items</b>	<b>Current period cumulative (Unaudited)</b>	Preceding period comparative (Unaudited)
Government grants:		
Fund for industrialization of ceramic femoral head on ceramic hip joint prostheses	283,500.00	
Fund for clinical study of PEEK interbody fusion cage	99,825.00	
Fund for innovation ability development of joint prosthesis of Beijing engineering laboratory	475,500.00	
Fund for clinical trial research and pilot production capacity building of spine artificial vertebral body fixation system	17,000.00	
<b>Total</b>	<b>875,825.00</b>	

8. *Non-operating revenue*

(1) *Details*

<b>Items</b>	<b>Current period cumulative (Unaudited)</b>	Preceding period comparative (Unaudited)
Gains on disposal of non-current assets		7,500.00
Including: Gains on disposal of fixed assets		7,500.00
Government grants	100,000.00	878,474.05
Others		185.50
<b>Total</b>	<b>100,000.00</b>	886,159.55



## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

8. *Non-operating revenue (Continued)*

(2) Details of government grants

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

9. *Non-operating expenditures*

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Losses on disposal of non-current assets		4,903.50
Including: Losses on disposal of fixed assets		4,903.50
Others	1,700.00	1,400.00
Total	1,700.00	6,303.50

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 10. Income tax expenses

###### (1) Details

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Current period income tax expenses	5,685,841.46	6,177,662.13
Deferred income tax expenses	95,390.28	(193,143.09)
<b>Total</b>	<b>5,781,231.74</b>	5,984,519.04

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

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Profit before tax	41,216,609.49	42,212,990.81
Income tax expenses based on statutory/applicable tax rate	6,182,491.42	6,331,948.63
Effect of different tax rate applicable to subsidiaries	(24,145.75)	(14,403.97)
Effect of prior income tax reconciliation	136,021.63	(8,782.93)
Effect of non-deductible costs, expenses and losses	56,968.83	48,169.69
Others, such as tax effects on deductible research and development costs	(628,680.04)	(408,422.30)
Effect of deductible temporary differences or deductible losses not recognized	58,575.65	36,009.92
<b>Income tax expenses</b>	<b>5,781,231.74</b>	5,984,519.04

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

##### 1. Other cash receipts related to operating activities

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Government grants	100,000.00	138,191.33
<b>Total</b>	<b>100,000.00</b>	138,191.33

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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 (Unaudited)	Preceding period comparative (Unaudited)
Advertising expenses	21,505,463.19	15,068,565.09
Research and development expenses	6,146,924.17	2,877,239.72
Professional fees	2,718,409.11	1,919,391.94
Office expenses	1,541,664.58	821,141.22
Others	4,488,997.02	2,580,781.26
Total	36,401,458.07	23,267,119.23

3. *Other cash receipts related to investing activities*

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Interest proceeds	2,670,092.37	2,445,012.24
Fund on clinical trial research and pilot production capacity building of spine artificial vertebral body fixation system		2,500,000.00
Fund on clinical research project of highly cross-linked polyethylene knee joint prosthesis		600,000.00
Refund of L/C deposits		4,026,863.96
Total	2,670,092.37	9,571,876.20

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 4. Supplement information to the cash flow statement

##### (1) Supplement information to the cash flow statement

Supplement information	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	35,435,377.75	36,228,471.77
Add: Provision for assets impairment loss	424,148.53	2,041,616.91
Depreciation of fixed assets, oil and gas assets, productive biological assets	2,799,053.13	2,649,906.53
Amortization of intangible assets	440,414.04	427,999.53
Amortization of long-term prepayments		
Loss on disposal of fixed assets, intangible assets and other non-current assets (Less: gains)		(2,596.50)
Fixed assets retirement loss (Less: gains)		
Losses on changes in fair value (Less: gains)		
Financial expenses (Less: gains)	(2,988,233.95)	(2,882,477.41)
Investments losses (Less: gains)		
Decrease of deferred tax assets (Less: increase)	(64,337.77)	(306,242.53)
Increase of deferred tax liabilities (Less: decrease)	159,728.05	113,099.44
Decrease in inventories (Less: increase)	(7,003,513.76)	898,235.61
Decrease in operating receivables (Less: increase)	(22,872,131.57)	(50,136,644.59)
Increase of operating payables (Less: decrease)	4,427,546.87	4,710,641.26
Others		
Net cash flow from operating activities	10,758,051.32	(6,257,989.98)
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	307,760,647.02	233,415,277.50
Less: Cash at the beginning of the period	297,285,790.16	235,039,491.78
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	10,474,856.86	(1,624,214.28)

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 4. Supplement information to the cash flow statement (Continued)

##### (2) Cash and cash equivalents

Items	Closing balance (Unaudited)	Opening balance (Unaudited)
1) Cash	307,760,647.02	233,415,277.50
Including: Cash on hand	124,042.09	268,905.46
Cash in bank on demand for payment	307,636,604.93	233,146,372.04
2) Cash equivalents		
Including: Bond investments maturing within three months		
3) Cash and cash equivalents at the end of the period	307,760,647.02	233,415,277.50

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

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Commercial bills amount transferable by endorsement	2,989,978.00	5,261,337.80
Including: Payment for goods	2,989,978.00	5,261,337.80

#### (IV) Others

##### Monetary items in foreign currencies

Items	Closing balance in foreign currencies (Unaudited)	Exchange rate	RMB equivalent (Unaudited)
Cash and bank balances			
Including: USD	562,263.28	6.7744	3,808,996.36
EUR	295.50	7.7496	2,290.01
HKD	15,223,452.50	0.8679	13,212,738.89
Accounts receivable			
Including: USD	640,403.37	6.7744	4,338,348.59

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### VI. INTEREST IN OTHER ENTITIES

#### 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	100.00		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:

- Bank balances*  
The Company deposits its bank balances in financial institutions with relatively high credit levels, hence, its credit risk is relatively low.
- Receivables*  
The Company performs credit assessment on customers who uses credit settlement on a regular basis. The Company selects credible and well-reputed customers based on credit assessment result, and conducts ongoing monitoring on receivables, to avoid significant risks in bad debts.

As the Company's credit risks fall into several business partners and customers, as of June 30, 2017, 34.30% (December 31, 2016: 33.06%) of the total accounts receivable was due from the five largest customers of the Company. The Company has no significant central credit risk.

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

#### (II) Liquidity risk

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

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

*Financial instruments classified based on remaining time period till maturity*

Items	Closing balance (Unaudited)				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Accounts payable	24,904,485.78	24,904,485.78	24,904,485.78		
Other payables	6,935,943.38	6,935,943.38	6,935,943.38		
Subtotal	31,840,429.16	31,840,429.16	31,840,429.16		

  

Items	Opening balance (Audited)				
	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		

#### (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 Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

#### (III) Market risk (Continued)

1. *Interest risk (Continued)*

The Company has limited exposure to interest rate risk because apart from the interest bearing bank deposits and balances, it has no significant interest bearing financial assets and liabilities as at June 30, 2017. The future variations in interest rates will not have a significant impact on the results of the Company, as its bank deposits and balances with floating interest rate are all short-term in nature and at the prevailing market interest rates. The Company currently does not have an interest rate hedging policy. However, the directors responsible for the monitoring of interest rate risks will consider hedging tools when necessary. The directors of the Company considered the Company's exposure to interest rate risk is not material. Hence, no interest rate risks sensitivity analysis is implemented.

There are no bank borrowings during the six-month period ended June 30, 2017. The future increase in interest rates will have an impact on the interest expenses if the Company makes a bank borrowing in the future. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's gross profit and equity will not be significantly affected.

2. *Foreign currency risk*

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

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



## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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	28.09	28.09

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

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

3. *Other related parties of the Company*

Related parties	Relationships with the Company
Beijing Gaoyang Materials Centre	郭福祥 (Guo Fuxiang), the related party's legal 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 (Unaudited)	Preceding period comparative (Unaudited)
Beijing Gaoyang Materials Centre	Sale of goods	8,989,570.94	7,105,133.33

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

##### 2. Directors' and supervisors' emoluments

Items	Fees	Current period cumulative (Unaudited)			Total
		Wage, bonus, allowance, and subsidy	Endowment insurance premium	Other social insurance premium	
<b>Executive directors:</b>					
Mr. Shi Chunbao		300,050.00	4,560.00	4,591.44	309,201.44
Ms. Yue Shujun		210,050.00	4,560.00	4,591.44	219,201.44
Mr. Wang Jianliang		113,812.50	3,230.76	4,535.46	121,578.72
<b>Non-executive directors:</b>					
Mr. Lin Yiming					
<b>Independent non-executive directors</b>					
Ms. Xu Hong (Note 1)	50,000.00				50,000.00
Mr. Tong Xiaobo	50,000.00				50,000.00
Mr. Zhang Yingkun	50,000.00				50,000.00
Mr. Ge Changyin (Note 1)					
<b>Supervisors:</b>					
Mr. Zhang Jinyong (Note 2)					
Ms. Pei Xiaohui (Note 2)					
Ms. Zhang Lanlan		42,201.77	3,230.76	4,535.46	49,967.99
<b>Total</b>	150,000.00	666,114.27	15,581.52	18,253.80	849,949.59

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

##### 2. Directors' and supervisors' emoluments (Continued)

Items	Fees	Preceding period comparative (Unaudited)			Total
		Wage, bonus, allowance, and subsidy	Endowment insurance premium	Other social insurance premium	
<b>Executive directors:</b>					
Mr. Shi Chunbao		300,000.00	4,720.00	4,448.00	309,168.00
Ms. Yue Shujun		150,000.00	4,720.00	4,448.00	159,168.00
Mr. Zhang Zhendong		61,636.00	3,050.30	4,283.80	68,970.10
<b>Non-executive directors:</b>					
Mr. Lin Yiming					
<b>Independent non-executive directors</b>					
Ms. Xu Hong	50,000.00				50,000.00
Mr. Tong Xiaobo	50,000.00				50,000.00
Mr. Zhang Yingkun	50,000.00				50,000.00
<b>Supervisors:</b>					
Mr. Qi Yi		52,480.00			52,480.00
Mr. Xie Fengbao		61,102.00	3,050.30	4,283.80	68,436.10
Ms. Zhang Lanlan		33,853.76	3,050.30	4,283.80	41,187.86
<b>Total</b>	<b>150,000.00</b>	<b>659,071.76</b>	<b>18,590.90</b>	<b>21,747.40</b>	<b>849,410.06</b>

Note 1: On June 28, 2017, Ms. Xu Hong resigned from the independent non-executive director of the Company, and Mr. Ge Changyin was appointed as the independent non-executive director of the Company.

Note 2: On July 22, 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 Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

##### 2. Directors' and supervisors' emoluments (Continued)

- (2) Five highest paid individuals  
Number of five highest paid individuals including directors or supervisors and other employees are set out as follows:

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

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

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Salary and allowances	262,164.35	685,103.33
Social insurance housing funds and related pension costs	52,034.22	111,173.72
Subtotal	314,198.57	796,277.05

Numbers of the remaining highest paid individuals were as follows:

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

#### (III) Balance due to or from related parties

##### 1. Balance due from related parties

Items	Related parties	Closing balance (Unaudited)		Opening balance (Audited)	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Beijing Gaoyang Materials Centre	16,584,145.22	607,799.21	8,862,197.22	265,865.92
Subtotal		16,584,145.22	607,799.21	8,862,197.22	265,865.92

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

### IX. COMMITMENTS AND CONTINGENCIES

#### (I) Operating lease

As of June 30, 2017, the total minimum payments under irrevocable operating lease contracts are as follows:

Items	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Within 1 year	906,957.26	1,361,118.24
1-5 years		1,037,113.68
Total	906,957.26	2,398,231.92

#### (II) Capital commitments

Items	Program	Current period cumulative (Unaudited)	Preceding period comparative (Unaudited)
Contracted for but not yet recognized		5,151,229.85	5,665,638.12
Authorized but not yet contracted for	Production expansion of orthopedics medical instruments and first-stage project of headquarter construction	143,083,086.56	146,235,990.38
	Production expansion of orthopedics medical instruments and second-stage project of headquarter construction	260,112,700.00	260,112,700.00
Total		408,347,016.41	412,014,328.50

#### (III) Contingencies

As of June 30, 2017, the Company has no significant contingencies to be disclosed.

### X. EVENTS AFTER THE BALANCE SHEET DATE

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

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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

### XII. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

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

##### 1. Accounts receivable

##### (1) Details

##### 1) Details on categories

Categories	Closing balance (Unaudited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	91,772,483.38	98.57	7,051,631.73	7.68	84,720,851.65
Receivable of individually insignificant amount but with provision made on an individual basis	1,327,618.19	1.43	995,713.65	75.00	331,904.54
<b>Total</b>	<b>93,100,101.57</b>	<b>100.00</b>	<b>8,047,345.38</b>	<b>8.64</b>	<b>85,052,756.19</b>

Categories	Opening balance (Audited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% total	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	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
<b>Total</b>	<b>77,294,413.36</b>	<b>100.00</b>	<b>8,822,410.32</b>	<b>11.41</b>	<b>68,472,003.04</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 1. Accounts receivable (Continued)

##### (1) Details (Continued)

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

Ages	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	64,658,628.42	1,939,758.85	3.00
1-2 years	22,131,829.12	1,770,546.33	8.00
2-3 years	1,688,736.34	337,747.27	20.00
3-4 years	382,662.05	191,331.03	50.00
4-5 years	491,896.00	393,516.80	80.00
Over 5 years	2,418,731.45	2,418,731.45	100.00
Subtotal	91,772,483.38	7,051,631.73	7.68

##### (2) Age analysis

Age analysis of accounts receivable based on the month when receivables recognized is as follows:

Ages	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 3 months	32,797,694.89	983,930.85	3.00
3-6 months	16,831,160.21	504,934.81	3.00
6-12 months	15,152,601.51	543,014.34	3.58
Over 1 year	28,318,644.96	6,015,465.38	21.24
Total	93,100,101.57	8,047,345.38	8.64

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

1. *Accounts receivable (Continued)*

(3) Provisions made, collected or reversed in current period  
Provision for bad debts made in current period totaled (775,064.94) 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	Relationship with the Company	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang				
Materials Centre	Other related party	16,584,145.22	17.81	607,799.21
Party A	Non-related party	5,339,477.00	5.74	338,001.66
Party B	Non-related party	4,729,300.00	5.08	169,439.00
Party C	Non-related party	2,856,874.63	3.07	85,706.24
Party D	Non-related party	2,500,421.80	2.69	75,012.65
Subtotal		32,010,218.65	34.39	1,275,958.76



## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 2. Other receivables

##### (1) Details

##### 1) Details on categories of other receivables

Categories	Closing balance (Unaudited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	1,128,290.88	100.00	189,874.66	16.83	938,416.22
Receivable of individually insignificant amount but with provision made on an individual basis					
<b>Total</b>	<b>1,128,290.88</b>	<b>100.00</b>	<b>189,874.66</b>	<b>16.83</b>	<b>938,416.22</b>

Categories	Opening balance (Audited)				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	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					
<b>Total</b>	<b>1,091,008.24</b>	<b>100.00</b>	<b>227,767.55</b>	<b>20.88</b>	<b>863,240.69</b>

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 2. Other receivables (Continued)

##### (1) Details (Continued)

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

Ages	Closing balance (Unaudited)		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	776,599.61	23,297.99	3.00
1-2 years	108,961.52	8,716.92	8.00
2-3 years	103,525.00	20,705.00	20.00
3-4 years	4,100.00	2,050.00	50.00
Over 5 years	135,104.75	135,104.75	100.00
Subtotal	1,128,290.88	189,874.66	16.83

- (2) Provisions made, collected or reversed in current period  
Provisions for bad debts made in current period totaled (37,892.89) 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 (Unaudited)	Opening balance (Audited)
Petty cash	511,188.18	456,606.97
Guarantee deposit	577,505.79	514,794.36
Other	39,596.91	119,606.91
Total	1,128,290.88	1,091,008.24

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

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Party J	Guarantee deposit	200,000.00	Within 1 year	17.73	6,000.00
Party K	Guarantee deposit	128,828.00	Over 5 years	11.42	128,828.00
Party L	Petty cash	114,500.00	Within 1 year	10.15	3,435.00
Party M	Guarantee deposit	97,151.52	1-2 years	8.61	7,772.12
Party N	Petty cash	91,631.00	Within 1 year	8.12	2,748.93
Subtotal		632,110.52		56.03	148,784.05

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

Monetary unit: RMB Yuan

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

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

##### 3. Long-term equity investments

##### (1) Details

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

##### (2) Investments in subsidiaries

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

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

##### Operating revenue/Operating cost

Items	Current period cumulative (Unaudited)		Preceding period comparative (Unaudited)	
	Revenue	Cost	Revenue	Cost
Revenue from main operations	124,073,304.03	30,892,188.66	111,072,693.48	27,632,010.58
Total	124,073,304.03	30,892,188.66	111,072,693.48	27,632,010.58

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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	7.11	0.51	0.51

##### 2. Calculation process of weighted average RONA

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	35,435,377.75
Opening balance of net assets attributable to shareholders of ordinary shares	B	480,909,603.36
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	10,721,412.00
Number of months counting from the next month when the net assets were decreased to the end of the reporting period	F	
Number of months in the reporting period	G	6
Weighted average net assets	$H = B + A \times 1/2 + C1 \times D1/G + C2 \times D2/G - E \times F/G$	498,627,292.24
Weighted average RONA (%)	$I = A/H$	7.11

## NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017

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 (Unaudited)
Net profit attributable to shareholders of ordinary shares	A	35,435,377.75
Opening balance of total shares	B	69,170,400.00
Weighted average of outstanding ordinary shares	C=B	69,170,400.00
Basic EPS	$K=A/C$	0.51

##### (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 CASBEs and accounting standards accepted under other jurisdictions

The Company has prepared its financial reporting under CASBEs. Pursuant to the "Consultation Conclusions on Acceptance of Mainland Accounting and Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by Hong Kong Exchanges and Clearing Limited (HKEX) in December 2010, the Company has decided to prepare financial information under CASBEs for disclosure in HKEX for the six months ended June 30, 2017.

Beijing Chunlizhengda Medical Instruments Co., Ltd.  
August 31, 2017