



北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.*

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

Stock code: 1858

ANNUAL REPORT 2017



* For identification purpose only



CONTENTS

Corporate Information	2
Five Year Financial Summary	4
Chairman's Statement	5
Management Discussion and Analysis	7
Biography of Directors, Supervisors and Senior Management	14
Report of the Directors	20
Report of the Board of Supervisors	30
Corporate Governance Report	31
Independent Auditor's Report	41
Consolidated Balance Sheet	46
Parent Company's Balance Sheet	49
Consolidated Income Statement	51
Parent Company's Income Statement	53
Consolidated Cash Flow Statement	55
Parent Company's Cash Flow Statement	57
Consolidated Statement of Changes in Equity	59
Parent Company's Statement of Changes in Equity	61
Notes to Financial Statements	63

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. Tong Xiaobo
Mr. Ge Changyin (joined on 29 June 2017)
Mr. Ho Wai Ip (joined on 16 March 2018)
Ms. Xu Hong (resigned on 29 June 2017)
Mr. Cheung Ying Kwan (resigned on 16 March 2018)

SUPERVISORS

Mr. Zhang Jinyong (*Chairman*)
Ms. Pei Xiaohui
Ms. Zhang Lanlan

AUDIT COMMITTEE

Mr. Ge Changyin (*Chairman*) (joined on 29 June 2017)
Ms. Xu Hong (*Chairman*) (resigned on 29 June 2017)
Mr. Tong Xiaobo
Mr. Lin Yiming
Mr. Ho Wai Ip (joined on 16 March 2018)

REMUNERATION COMMITTEE

Mr. Tong Xiaobo (*Chairman*)
Ms. Xu Hong (resigned on 29 June 2017)
Mr. Shi Chunbao
Mr. Ge Changyin (joined on 29 June 2017)

NOMINATION COMMITTEE

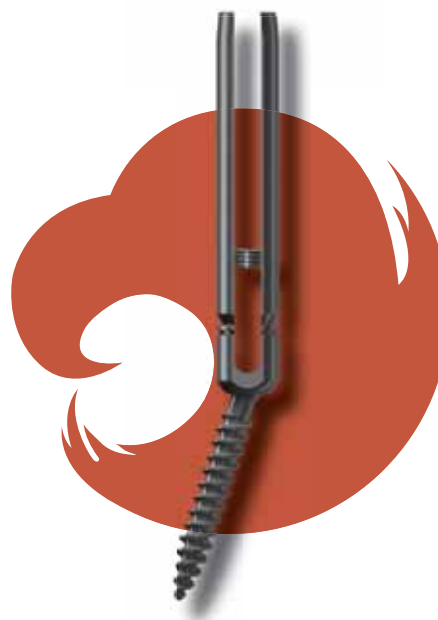
Mr. Shi Chunbao (*Chairman*)
Ms. Xu Hong (resigned on 29 June 2017)
Mr. Cheung Ying Kwan (resigned on 16 March 2018)
Mr. Ge Changyin (joined on 29 June 2017)
Mr. Ho Wai Ip (joined on 16 March 2018)

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)



CORPORATE INFORMATION

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

<http://www.clzd.com>

AUDITORS

Pan-China Certified Public Accountants LLP
Certified Public Accountants

LEGAL ADVISOR AS TO HONG KONG LAW

Zhong Lun Law Firm

H SHARE REGISTRAR

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

PRINCIPAL BANK

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



FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Total current assets	132,704	162,501	379,578	439,426	530,212
Total non-current assets	67,929	77,355	98,463	100,703	103,449
Total assets	200,633	239,856	478,041	540,129	633,661
Total current liabilities	15,071	26,310	37,654	41,992	77,619
Total non-current liabilities	5,673	7,626	16,831	17,227	17,570
Total liabilities	20,744	33,936	54,485	59,219	95,189
Total shareholder's equity	179,889	205,920	423,556	480,910	538,472
Net current assets	117,633	136,191	341,924	397,434	452,593
Total assets less current liabilities	185,562	213,546	440,388	498,137	556,042
Revenue	110,546	134,534	177,368	207,926	300,317
Operating profit	37,709	42,248	43,496	70,813	78,981
Profit before tax for the year	38,116	42,913	43,494	73,744	78,796
Net profit for the year	32,665	37,031	37,866	63,441	68,284

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the Board (the “**Board**”) of Directors of **Beijing Chunlizhengda Medical Instruments Co., Ltd.** (the “**Company**”), I am pleased to propose the annual report of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2017 (“**during the year**”).

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

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

As one of the leading orthopedic medical device companies in China, leveraging on the diversified implantable orthopedic medical device products, powerful research and development capability as well as a constantly expanding sales network, the Company has captured the opportunities of the industry growth and achieved healthy and stable development during the year. The Company recorded revenue of approximately RMB300.3 million in 2017, which represents a year-on-year increase of 44.4% (2016: RMB207.9 million). The profit attributable to the equity holders of the Company recorded a year-on-year increase of 7.7% to approximately RMB68.3 million (2016: approximately RMB63.4 million). Basic earnings per share amounted to RMB0.99, which represents a year-on-year increase of 7.6% (2016: RMB0.92). The Company proposed the payment of 2017 Final Dividend to shareholders of RMB0.231 per share (including tax charge) (2016: RMB0.155 per share (including tax charge)).

During the reporting period, the Company has gradually optimized its product structure and devoted strenuous efforts in promoting high-end products such as ceramic joints, XN new knee joint system and DAMIS (Direct Anterior Minimally Invasive Surgery), which further enhanced our brand image as well as market development and expansion.



CHAIRMAN'S STATEMENT

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

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

Shi Chunbao

Chairman

28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

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

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

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

II. BUSINESS REVIEW

We are a reputable orthopedic medical device company in China which focuses on research and development, production and sales of implantable orthopedic medical devices, including joint prosthesis products and spinal products. Our Group's revenue was mainly derived from our sales to distributors in both China and overseas, whereas remaining revenue was derived from other sales channels including sales to ODM and OEM customers overseas and direct sales to hospitals in China. For the year ended 31 December 2017, we recorded a revenue of RMB300.3 million, representing an increase of 44.4% compared with that of the previous year (2016: RMB207.9 million). The gross profit was RMB216.3 million, representing an increase of 35.4% compared with that of the previous year (2016: RMB159.7 million). The profit attributable to equity holders of the Company was RMB68.3 million, representing an increase of 7.7% compared with that of the previous year (2016: RMB63.4 million). Basic earnings per share was RMB0.99, representing a year-on-year increase of 7.6% (2016: RMB0.92).

According to the domestic joint products registration index (國產關節類產品註冊檢索) of the China Food and Drug Administration, we are one of the domestic enterprises that hold the most comprehensive medical device registration certificates for joint prosthesis products in China in terms of number and types of certificates. As at 31 December 2017, we held 16 medical device registration certificates in China for the production of medical devices which cover joint prosthesis products for the four major joints and spinal products, of which 10 are Class III medical device registration certificates and 6 are Class I medical device registration certificates. As China adopts a strict product registration system for medical devices manufacturers, enterprises with complete product registrations are more competitive in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Diversified product portfolio

Being one of the earliest domestic enterprises in China to engage in research and development as well as production of joint prosthesis products, we have established a broad portfolio comprising various joint prosthesis products and spinal products. Our joint prosthesis products cover four major joints of human bodies (namely hip, knee, shoulder and elbow) while our spinal products comprise a full-range product portfolio of spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic and lumbar vertebrae. In addition, our joint prosthesis products are also divided into standard joint prosthesis products and custom joint prosthesis products. The standard joint prosthesis products mainly include hip joint prosthesis products and knee joint prosthesis products, while the custom joint prosthesis products are also divided into two categories, namely conventional custom joint prosthesis products and custom (modular) joint prosthesis products. The custom joint prosthesis products are applicable to the four major joints of human bodies, and are specifically designed and produced to cater for clinical needs.

Strong research and development capabilities

We are a state-level high and new technology enterprise (國家級高新技術企業) and are capable of developing innovative products and continuously improving our research and development. Currently, our research and development team consists of members including professionals who possess Master's degree, Bachelor's degrees with over 10 years of know-hows and experiences. Meanwhile, the Company attaches great importance to the combination of production, academics, research and development and clinical studies while conducting research and development. During the course of our research and development of new products and product improvement, we obtained advice from experts in relevant fields and interacted with experts, thereby ensuring that those products under research and development will meet the market demands and fulfill the requirement of clinical practicality.

The Company was named the "Beijing Engineering Laboratory of Joint Prosthesis" (人工關節北京市工程實驗室) by Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會). The laboratory will take up major research and development projects of the PRC and Beijing, and will actively participate in science popularization campaigns throughout the PRC and in Beijing.

Advanced ceramic joint prosthesis products

In April 2015, the Company became the first enterprise in China to obtain a medical device registration certificate for the fourth generation of BIOLOX® ceramic joint prosthesis products, covering both half-ceramics and full-ceramics joint prosthesis products. The Company is also one of the earliest domestic enterprises to manufacture advanced joint prosthesis products. BIOLOX®, being the latest ceramic product of CeramTec, which is a German company, has the clinical advantages of lower abrasion rate and better strength and durability, and can be widely used in hip joint replacement surgeries.

Prior to and after the launch of ceramic joint prosthesis products to the market, we held numerous interactive activities such as academic conferences, doctor training sessions and distributor training sessions across the PRC, so that our clients (including doctors and distributors) are able to familiarize with the usage of our ceramic products.

As the tender offerings, re-tenderings or registrations with hospitals for our ceramic joint prosthesis products in various provinces proceed gradually, there will be more hospitals in China using the Company's ceramic joints prosthesis products.

MANAGEMENT DISCUSSION AND ANALYSIS

New products and new technologies

The Company has continued to promote DAMIS (Direct Anterior Minimally Invasive Surgery) and has yielded significant results, which in turn stimulated the sales of our minimal invasive products. The training centres for DAMIS have been set up in numerous hospitals across the PRC and a national project called “DAMIS Thousand Talents Program” has been launched to provide training for the application of DAMIS techniques in the next three years to a thousand doctors, who specialised in joint-related surgeries.

During the reporting period, the Company is devoted to the continuous promotion of medium-to-high-end products, such as the new XN series knee joint and ceramic joint prosthesis products, the growth of which contributed to the sales amount and enhanced the Company’s brand as a whole.

Custom joint prosthesis product series

The Group’s custom (modular) joint prosthesis products for patients suffering from bone tumors and comminuted fractures are one of the Group’s products with higher competitiveness, which account for nearly half of the market share in terms of the domestic market in tumor-related joint prosthesis products.

Meanwhile, the Company has been designing and developing customized and personalized prosthesis which has been applied for clinical purposes. Along with the 3D-printed products, joint prosthesis products can be tailored for individual patients, including but not limited to those who suffer from bone defects, bony deformities and those who have special need. This would further expand the coverage and market of the Group’s customized products.

Extensive distribution and sales network

We have built an extensive distribution network covering all provinces, municipalities and autonomous regions in China (excluding Hong Kong, Macau and Taiwan), and our sales network has covered numerous hospitals located in these regions through our distributors. Most of our products are sold in China and some are exported to 32 countries and regions 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.

FINANCIAL REVIEW

Revenue

Our revenue increased by 44.4% from approximately RMB207.9 million for the year ended 2016 to approximately RMB300.3 million for the year ended 2017. The growth in revenue was mainly attributable to the growth in sales of our joint prosthesis products and spinal products. The revenue of our major products compared with that of the previous year is as follows:

Product category	Year ended 31 December		Growth over corresponding period
	2017 (RMB'000)	2016 (RMB'000)	
Standard joint prosthesis products	257,128	172,343	49.2%
Custom joint prosthesis products	35,776	30,755	16.3%
Spinal products	7,413	4,828	53.5%
Total	300,317	207,926	44.4%

Joint prosthesis products

Standard joint prosthesis products increased by 49.2% from approximately RMB172.3 million for the year ended 2016 to approximately RMB257.1 million for the year ended 2017, of which primary high-end products, such as ceramic joint prosthesis products, XN series knee joint prosthesis products and minimal invasive hip joint prosthesis products, achieved a fast growth in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

We are the first enterprise in China to obtain a medical device registration certificate for the fourth generation of ceramic joint covering both half-ceramics and full-ceramics joint prosthesis products. The Company is also one of the earliest domestic enterprises to manufacture advanced joint prosthesis products. As the tender offerings, re-tenderings or registrations with hospitals for our ceramic joint prosthesis products in various provinces proceed gradually, the proportion of ceramic joint prosthesis products within the product portfolio in terms of sales volume has growth rapidly in 2017.

In addition, the Company is the first and the sole domestic enterprise to introduce advanced minimal invasive techniques from Europe in relation to DAMIS (Direct Anterior Minimally Invasive Surgery) products and techniques. The Company also put a lot of efforts into the promotion and application of DAMIS products and techniques, which in turn drove the increase in sales volume of minimal invasion related products, of which minimal invasive hip joint products recorded growth of over 100% as compared to the same period last year.

Gross profits

Our gross profit increased by 35.4% from approximately RMB159.7 million for the year ended 2016 to approximately RMB216.3 million for the year ended 2017, which was mainly attributable to the increase in sales of primary joint prosthesis products such as custom joint prosthesis products, ceramic joint prosthesis products and XN knee joint prosthesis products, which are medium-to-high-end products with relatively higher unit prices.

Our gross profit margin decreased from 76.8% for the year ended 2016 to 72.0% for the year ended 2017, which was mainly attributable to the adoption of advanced spraying techniques, materials and craftsmanship from foreign countries, while engaging renowned factory owners overseas to produce quality joint prosthesis products with higher competitiveness.

Selling expenses

Our selling expenses increased from approximately RMB52.2 million for the year ended 2016 to approximately RMB88.9 million for the year ended 2017. The increase in selling expenses was mainly attributable to the hierarchical diagnosis policy introduced by the PRC government, which led to a sharp increase in patients undergoing surgeries and diagnoses in low-ranked hospitals. As a result, we recruited more sales staff to offer training sessions and orientations regarding clinical surgeries on joints and spines for doctors from hospitals in provinces, prefecture-level cities and counties; we also organized academic exchanges for renowned orthopedic surgeons from across the country, clinical trainings for surgeries as well as publicity, promotion and trainings with respect to new products.

Administrative expenses

Our administrative expenses increased by 25.9% from approximately RMB35.2 million for the year ended 2016 to approximately RMB44.3 million for the year ended 2017, which was primarily due to the increased number of staffs for research and development, the engagement of domestic and foreign experts to improve our Chinese skeleton database (中國國民骨骼數據庫) through clinical trials, and the research and development of new products compatible with physical conditions of the domestic population. Meanwhile, significant progress was achieved for sample production of new products, clinical testings, product registrations, etc.

Impairment loss of assets

Our impairment loss of assets increased by 31.9% from approximately RMB4.7 million for the year ended 2016 to approximately RMB6.2 million for the year ended 2017, which was mainly attributable to the increase in impairment losses of our trade receivable and inventory in accordance with the impairment policy of the Company.

Non-operating income

Our non-operating income decreased by 99.8% from approximately RMB3.8 million for the year ended 2016 to approximately RMB0.03 million for the year ended 2017, which was mainly attributable to the decrease in income from the government grants in connection with daily activities to be included in "Other Gains" under the Accounting Standards for Business Enterprises No. 16 "Government Grants" (Amended).

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

Our income tax expenses increased by 1.9% from approximately RMB10.3 million for the year ended 2016 to approximately RMB10.5 million for the year ended 2017, which was mainly attributable to the increase in profits from operations in 2017.

Net profit for the year

Our net profit for the year increased by 7.7% from approximately RMB63.4 million for the year ended 2016 to approximately RMB68.3 million for the year ended 2017. The increase in net profit was mainly attributable to the increase in our revenue.

Liquidity and capital resources

Our liquidity increased by 25.0% from approximately RMB297.3 million for the year ended 2016 to approximately RMB371.6 million for the year ended 2017, which was mainly attributable to the increase in proceeds from the sales of orthopedic implant products.

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

Inventory

Our inventory decreased by 1.2% from approximately RMB59.6 million for the year ended 2016 to approximately RMB58.9 million for the year ended 2017, which was mainly attributable to the optimization of inventory management in 2017.

Fixed Assets and Construction in Progress

Our fixed assets and construction in progress decreased by 2.4% from approximately RMB62.3 million for the year ended 31 December 2016 to approximately RMB60.8 million for the year ended 31 December 2017, which was mainly attributable to the increase in accrued depreciation of fixed assets.

Net current assets

Our net current assets increased by 13.9% from approximately RMB397.4 million for the year ended 31 December 2016 to approximately RMB452.6 million for the year ended 31 December 2017. The increase in net current assets was mainly attributable to our strict control management of credit term and the increase in sales rebates.

Intangible assets

Our intangible assets decreased by 2.4% from approximately RMB33.9 million for the year ended 31 December 2016 to approximately RMB33.1 million for the year ended 31 December 2017. The decrease in intangible assets was mainly attributable to the amortization of land use rights and software.

WORKING CAPITAL AND FINANCIAL RESOURCES

Cash flow analysis

As at 31 December 2017, our net cash inflows generated from operating activities was RMB89.8 million, which was mainly due to the sales of goods; our net cash outflows generated from investing activities was RMB3.5 million, which was mainly due to the acquisition of fixed assets and construction in progress; our net cash outflows from financing activities was RMB10.7 million, which was mainly due to the payment of dividends; and our cash and cash equivalents increased by RMB74.3 million as compared to the end of last year.

Capital expenditure

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

Contingent liabilities or guarantees

As at 31 December 2017, we did not have any significant contingent liabilities or guarantees.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitment

As at 31 December 2017, our total capital commitment was approximately RMB408 million, which mainly comprised the expenses incurred due to the construction of new plants in Daxing New Production Base and the acquisition of equipment.

SUBSEQUENT EVENTS

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

As at 31 December 2017, approximately RMB34.8 million out of the proceeds from the global offering has been used by the Company, of which approximately RMB7.4 million was used for the first instalment expense for the development of Daxing New Production Base; approximately RMB0.8 million was used for research and development activities; approximately RMB7.6 million was used for expansion of our existing marketing and distribution network, in order to enhance our market penetration with coverage of more distributors and hospitals for increment of market share; and approximately RMB19.0 million was used for working capital and other general corporate purposes.

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 for 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:

Diversification of our product portfolio and development of advanced customized joint prosthesis products

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthening our innovation ability and increasing research and development resources

In the future, we shall continue to 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 Chinese and overseas medical institutes in order to enhance our professional and technological knowledge and competitiveness.

Expand our brand influence

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

Retention of talents

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

EMPLOYEES

As at 31 December 2017, our Group had approximately a total of 472 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. As at 31 December 2017, the total salary and related cost paid to our employees were approximately RMB45.3 million. Our Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither our Company, nor its subsidiary purchased, redeemed or sold any of our Company's listed securities for the year ended 31 December 2017.

FINAL DIVIDEND

2017 Final dividend

The Board proposed the declaration of final dividend of RMB0.231 per share (including tax charge) for the year ended 31 December 2017 (2016: RMB0.155 per share (including tax charge)). The declaration of the final dividend is subject to the shareholders' approval in the forthcoming annual general meeting.

The final dividend will be payable to the shareholders of H shares in Hong Kong Dollars, with the applicable exchange rate being the average mid-point rate of the relevant foreign currencies published by the People's Bank of China on its website for the period of seven working days immediately prior to the date of the declaration of dividend and other payments. An additional announcement regarding the dates of the annual general meeting, closure of registration of members as well as the dividend payments will be issued by our Company as soon as practicable.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Shi Chunbao (史春寶), aged 48, is our executive Director, chairman of our Board, general manager and sales and marketing director. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

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

Ms. Yue Shujun (岳術俊), aged 46, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

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

Mr. Wang Jianliang (王建良), aged 39, is currently executive Director and the domestic sales director of the Company who is principally responsible for domestic sales of the Company in the People's Republic of China. Mr. Wang joined the Company on 9 June 2000 and held the position of sales for the Hebei region from June 2000 to July 2003. He acted as the manager for the Hunan, Guangxi, Guangdong and Hainan regions from August 2003 to October 2011 and worked as the manager for the Southern region (provinces south to the Qinling-Huaihe Line) from November 2011 to October 2013. He was then appointed as the domestic sales director of the Company since November 2013.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Director

Mr. Lin Yiming (林一鳴), aged 49, is our non-executive Director. He is responsible for providing advice on the management as well as the strategic development of our Group. Mr. Lin became our Director on 17 September 2010 and has been our non-executive Director since 16 April 2014. Prior to joining our Group, Mr. Lin held the position of chairman of Beijing Shidai Kewei Education Consulting Co., Ltd. (北京時代柯維教育諮詢有限公司) from August 2009 to August 2012, the principal activities of which are providing education, consulting and trainings, and was the dean of School of Tourism, the dean of School of Business and an assistant to the principal at Beijing Geely University (北京吉利學院) from January 2010 to June 2014. Mr. Lin has been the executive principle of Beijing Geely University since June 2014. Mr. Lin obtained a Master degree in Business Administration from Concordia University – Wisconsin, USA in September 2011.

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

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

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Tong Xiaobo (佟小波), aged 58, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Mr. Tong worked as a quality supervisor at the Beijing Medical Devices Testing Center (北京醫療器械檢測中心) of CFDA (Center for Quality Supervision and Testing of Medical Devices (醫療器械產品質檢站)) from 1985 to 1991. Mr. Tong then worked as the chief officer of the research center of Beijing Institute of Medical Devices (北京醫療器械研究所研究室), an institute engaging in medical devices testing apparatus and equipment research and development from 1993 to 1998, responsible for the research of the testing technologies of medical devices. Mr. Tong has been the director and chief engineer of Beijing Fuluke Measuring Technology Research Institute (北京福祿克測量技術研究所), an institute engaging in testing medical devices and consulting, since 2000 and is currently its authorised representative, responsible for testing the standards of medical devices and consultations. Mr. Tong has been the chief engineer of Beijing Tefan Medical Devices Laboratory (北京特凡醫療器械實驗室), an institute engaging in medical devices research, development, testing and consulting since 2007 and is currently its authorised representative, responsible for the consultation of medical devices. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience. Mr. Tong has been a shareholder of Beijing Tefan Medical Devices Laboratory since May 2004. Mr. Tong obtained a diploma in Electronics, the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University in August 1985.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ge Changyin (葛長銀), became the independent non-executive director of the Group on 29 June 2017. Mr. Ge, aged 54, has been a lecturer and an assistant professor at China Agricultural University College of Economics & Management since July 1986. He has been the independent director of Cofco Tunhe Sugar Co., Ltd (中糧屯河糖業股份有限公司), a listed company on the Shanghai Stock Exchange (stock code: 600737) mainly engaged in sugar production, sugar trading, and sugar refining since June 2014. Since April 2015, Mr. Ge has also been the independent director of China Camc Engineering Co Ltd (中工國際工程股份有限公司), a listed company on the Shenzhen Stock Exchange (stock code: 002051) mainly engaged in contract projects consisting of industrial projects, water projects, electric power projects, transportation projects, domestic and overseas trading business and asset management business. Mr. Ge obtained a bachelor degree in industrial accounting from Anhui Finance and Trade College (安徽財貿學院) (now known as Anhui University of Finance and Economics (安徽財經大學)) in July 1986. Mr. Ge obtained a graduation certificate for a training course as an independent director of listed companies from the Securities Association of China and Tsinghua University School of Economics and Management in June 2004. Mr. Ge obtained a graduation certificate for a training course as a senior manager of listed companies from the Shenzhen Stock Exchange in August 2009. Mr. Ge obtained a graduation certificate for a continuous training course as an independent director of listed companies from the Shanghai Stock Exchange in March 2016.

Mr. Ho Wai Ip (何偉業先生), became the independent non-executive director of the Group on 16 March 2018. Mr. Ho, aged 54, is currently a partner of Alliance & Associates, Certified Public Accountants (“**Alliance & Associates**”). He possesses over 30 years of experience in financial advisory, taxation and business management. Mr. Ho worked in PricewaterhouseCoopers from July 1990 to December 2000, and his last position was senior manager. In January 2002, he started his private practice by establishing Alliance & Associates, Certified Public Accountants and has been acting as a partner of Alliance & Associates since then. Mr. Ho is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Society of Chinese Accountants & Auditors, and the Taxation Institute of Hong Kong. During the period between April 2007 and January 2011, Mr. Ho was the independent non-executive director and a member of the audit committee and remuneration committee of China Seven Star Shopping Limited (stock code: 245), which shares are listed on the main board of the Stock Exchange.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Zhang Jinyong (張金勇), aged 49, is currently the president of Dacheng Rongzhi (Beijing) Technology Co., Ltd (大成融智(北京)科技有限公司). Mr. Zhang joined Dacheng Rongzhi (Beijing) Technology Co., Ltd. in January 2009. Prior to joining Dacheng Rongzhi (Beijing) Technology Co., Ltd., Mr. Zhang held the position of general manager of Beijing Dacheng Zhibo Technology Development Center (北京大成智博科技發展中心) from January 2002 to December 2008. He obtained a junior college degree in electronic technology and applied computer science from Changzhou Electronics Industry Worker University (常州市電子工業職工大學), Jiangsu in July 1996 and a Master degree in Business Administration from Concordia University Wisconsin, the USA in July 2011. Mr. Zhang is currently studying for a Master degree in Executive Master of Business Administration in Peking University, Beijing.

Ms. Pei Xiaohui (裴曉輝), aged 45, is currently the general secretary of the Stomatology Special Committee of China Association for Medical Devices Industry (中國醫療器械行業協會口腔專委會) (the “SSC”) and the director of training and consultation department of China Association for Medical Devices Industry (中國醫療器械行業協會). Ms. Pei joined the SSC in August 2014 and China Association for Medical Devices Industry in October 2006. Prior to joining the SSC and China Association for Medical Devices Industry, Ms. Pei worked as the general office administrative of Beijing Jianxiang Construction Group (北京建雄建築集團) from July 1995 to October 1998. Ms. Pei then served as the assistant to manager of quality control department and the director of system department of Beijing Wanzhong Air Conditioning and Refrigeration Equipment Company (北京萬眾空調製冷設備公司) from November 1998 to April 2001. She worked in Beijing Kake Benitez Enterprise Management Consultants, LLC. (北京卡克斯企業管理顧問有限責任公司) and held the position of the manager of marketing and consultation departments from May 2001 to April 2002. From April 2002 to October 2006, she worked in Beijing Manager Management Consulting Co., Ltd. (北京曼尼格爾企業管理顧問有限公司) as the manager of consultation department. Ms. Pei obtained the Certificate of qualification of internal auditor of quality control by China Quality Mark Certification Committee (方圓標誌認證委員會質量體系內部審核員) in 1997. She became the auditor of China National Registration Board for Auditors (中國認證人員國家註冊委員會審核員) and the consultant of China National Auditor and Training Accreditation Board (中國認證人員培訓機構國家認可委員會諮詢師) in 2002 and 2004 respectively, and was admitted as the Corporate Human Resources Management Practitioner (企業人力資源管理師) in 2005. Ms. Pei obtained her junior college degree in human resources from Northern Jiaotong University (北方交通大學) (now known as Beijing Jiaotong University (北京交通大學)), Beijing in 1995 and a bachelor degree in administrative management from Peking University, Beijing in 2005. She obtained a Master degree in biomedical engineering from Beihang University, Beijing in 2010.

Ms. Zhang Lanlan (張蘭蘭), aged 29, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since 17 September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

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

Ms. Xu Yanping (徐艷萍), aged 42, is the chief financial officer of the Company. She joined the Company in July 2015 and was then appointed as the financial manager of the Company. She is responsible for the financial management matters of the Company. Prior to joining the Company, Ms. Xu worked as the financial manager in Beijing Topcon Business and Trade Co., Ltd.* (北京拓普康商貿有限公司) from September 2004 to June 2015, and was responsible for handling financial process and systems establishing, and internal auditing to its branch office. Ms. Xu obtained an associate diploma in accounting in Institute of Management, the Chinese Academy of Sciences (中國科學院管理幹部學院) in July 1998. Ms. Xu is a qualified intermediate accountant of the PRC (accredited by Beijing Municipal Human Resources and Social Security Bureau (北京市人力資源和社會保障局) in November 2010). Ms. Xu obtained her Master degree in Business Administration from China University of Political Science and Law in June 2017.

JOINT COMPANY SECRETARIES

Mr. Yuan Rui (袁瑞) is the secretary to the Board of the Company, and has become one of our joint company secretaries since 31 August 2015. Mr. Yuan, aged 35, is currently secretary to the Board and the marketing director of the Company. Apart from the business and duties of the Board, he is also responsible for brand planning and management as well as organizing marketing campaigns of the Company. Mr. Yuan joined the Company on 20 February 2012 and held the position of the sales manager of overseas department from February 2012 to December 2013. He was the marketing director of the Company since 1 January 2014. Prior to joining the Company, Mr. Yuan was the external assistant of the President Office and America regional sales manager of Naton Medical Group, which mainly engaged in production and sales of medical products, from November 2008 to January 2012. Mr. Yuan obtained a bachelor’s degree in English Language and Literature from Shandong University in June 2006. He also obtained his Master degree in Business Administration from Beijing Institute of Technology in June 2013.

Mr. Ip Pui Sum (葉沛森), aged 58, has become one of our joint company secretaries since 11 March 2015. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statements audit, accounting and company secretary services. Mr. Ip has been appointed as the company secretary of companies listed on the Main Board of the Hong Kong Stock Exchange including Tingyi (Cayman Islands) Holding Corp. (stock code: 0322), Luoyang Glass Company Limited (stock code: 1108), National Agricultural Holdings Limited (stock code: 1236) and Orient Victory China Holdings Limited (stock code: 0265) since 12 January 1996, 6 August 2008, 1 December 2011 and 10 March 2014 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master degree in Business Administration from Henley Management School and Brunel University, United Kingdom in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregated sales of the Group to the largest customer and the top five customers amounted to 5.53% (2016: 6.30%) and 23.99% (2016: 22.90%), respectively, of the total income of the Group for the year.

For the year ended 31 December 2017, the aggregated purchases of the Group to the largest supplier and the top five suppliers amounted to 21.92% (2016: 11.58%) and 55.3% (2016: 38.78%), respectively, of the total purchases of the Group.

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

FIVE YEAR FINANCIAL SUMMARY

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2017 and the affair of the Company and the Group as at that date are set out in the consolidated financial statements on page 46 to page 54 of this annual report.

ADDITIONAL INFORMATION OF BUSINESS REVIEW

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

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in properties, plants and equipment for the year ended 31 December 2017 are set out in note V.8, 9 to the consolidated financial statements.

RESERVES

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

REPORT OF THE DIRECTORS

DIVIDEND

The Board proposed the payment of final dividend for the year ended 31 December 2017 as to RMB0.231 per share (including tax charge) and RMB15,978,362 (including tax charge) in aggregate (“**2017 Final Dividend**”). Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (“**AGM**”) to be held on 28 June 2018, the 2017 final Dividend will be paid on or before 28 September 2018. Dividend on domestic shares will be paid in RMB whereas dividend on H shares will be paid in Hong Kong dollars.

Under the China Enterprise Income Tax Law and its implementation regulations and other relevant rules, where the Company distributes the proposed 2017 Final Dividend to non-resident enterprise shareholders whose names appear on the register of member for H shares of the Company, it is required to withhold enterprise income tax at the generally applicable tax rate of 10%. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, or trustees or other groups or organizations, will be treated as shares being held by the non-resident enterprise shareholders, and consequently will be subject to the withholding of the enterprise income tax

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

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

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

REPORT OF THE DIRECTORS

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

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

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled to attend the 2017 Annual General Meeting, the Company's register of Shareholders of H Shares will be closed from Monday, 28 May 2018 to Thursday, 28 June 2018 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified to attend and vote at the 2017 Annual General Meeting, Shareholders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 25 May 2018.

Shareholders whose names appear on the Company's register of members at the close of business on Thursday, 28 June 2018 are entitled to attend and vote at the Annual General Meeting.

In order to ascertain the Shareholders who are entitled to receive the final dividend for the year ended 31 December 2017, the Register of Members of the Company will be closed from Thursday, 5 July 2018 to Wednesday, 11 July 2018 (both days inclusive), during which period no transfers of shares shall be effected. In order to be qualified for receiving the final dividend of the year 2017, any holders of H Shares whose transfers have not been registered have to lodge all transfers of shares accompanied by the relevant share certificates with the Company's H Share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 4 July 2018.

Shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 11 July 2018 are entitled to receive the final dividend for the year ended 31 December 2017.

SUFFICIENT OF THE PUBLIC FLOAT

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

PURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2017, neither of the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Name	Age	Position	Appointment date
Mr. Shi Chunbao (史春寶)	48	Executive Director, chairman of the Board, general manager and sales and marketing director	September 2010
Ms. Yue Shujun (岳術俊)	46	Executive Director and deputy general manager	September 2010
Mr. Wang Jianliang (王建良)	39	Executive Director and domestic sales director	November 2016
Mr. Lin Yiming (林一鳴)	49	Non-executive Director	September 2010
Mr. Tong Xiaobo (佟小波)	58	Independent non-executive Director	September 2010
Mr. Zhang Jinyong (張金勇)	49	Chairman of the Board of Supervisors	July 2016
Ms. Pei Xiaohui (裴曉輝)	45	Supervisor	July 2016
Ms. Zhang Lanlan (張蘭蘭)	29	Employee Supervisor	September 2010
Ms. Xu Hong (徐泓)	63	Independent non-executive Director	September 2010 (resigned on 29 June 2017)
Mr. Cheung Ying Kwan (張應坤)	58	Independent non-executive Director	May 2014 (resigned on 16 March 2018)
Mr. Ge Changyin (葛長銀)	54	Independent non-executive Director	June 2017
Mr. Ho Wai Ip (何偉業)	54	Independent non-executive Director	March 2018

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the directors, supervisors and senior management of the Company are set out on page 14 to page 19 in this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

REMUNERATION OF DIRECTORS AND SUPERVISORS

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

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2017.

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

As at 31 December 2017, the interests or short positions of the directors, supervisors and the chief executive officer in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), will be as follows:

INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	24,237,087 (long position)	Beneficial owner	48.47%	35.04%
		19,589,580 (long position)	Interest of Spouse	39.18%	28.32%
Ms. Yue Shujun	Domestic shares	19,589,580 (long position)	Beneficial owner	39.18%	28.32%
		24,237,087 (long position)	Interest of Spouse	48.47%	35.04%
Mr. Lin Yiming	Domestic shares	1,160,000 (long position)	Beneficial owner	2.32%	1.67%

Notes:

- The calculation is based on the number of 50,000,000 domestic shares of the Company in issue as at 31 December 2017.
- The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2017.

Saved as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	48.47%	35.04%
		(long position)			
Ms. Yue Shujun	Domestic shares	19,589,580	Interest of Spouse	39.18%	28.32%
		(long position)			
Or Ching Han, Helen (Note 3)	H shares	19,589,580	Beneficial owner	39.18%	28.32%
		(long position)			
Citigroup Inc.	H shares	24,237,087	Interest of Spouse	48.47%	35.04%
		(long position)			
Taiping Assets Management (HK) Company Limited	H shares	1,350,000	Beneficial owner	7.04%	1.95%
		(long position)			
Taiping Trustees Limited	H shares	1,500,000	Person having a security interest	7.82%	2.17%
		(long position)			
Winning Beauty Limited	H shares	1,148,600	Investment manager	5.99%	1.66%
		(long position)			
Orchid Asia VI, L.P. (Note 4)	H shares	1,148,600	Trustee	5.99%	1.66%
		(long position)			
Oavi Holdings, L.P. (Note 4)	H shares	1,127,000	Beneficial owner	5.87%	1.63%
		(long position)			
Orchid Asia VI GP, Limited (Note 4)	H shares	997,600	Beneficial owner	5.20%	1.44%
		(long position)			
Orchid Asia V Group Management, Limited (Note 4)	H shares	997,600	Interest in a controlled corporation	5.20%	1.44%
		(long position)			
Areo Holdings Limited (Note 4)	H shares	997,600	Interest in a controlled corporation	5.20%	1.44%
		(long position)			
Li Gabriel (Note 4)	H shares	997,600	Interest in a controlled corporation	5.20%	1.44%
		(long position)			
Lam Lai Ming (Note 4)	H shares	1,050,000	Interest in a controlled corporation	5.48%	1.52%
		(long position)			

REPORT OF THE DIRECTORS

Notes:

1. The calculation is based on the number of 50,000,000 domestic shares and 19,170,400 H shares of the Company in issue as at 31 December 2017, respectively.
2. The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2017.
3. Orchid China Master Fund Limited directly holds 1,350,000 H shares of the Company. Orchid China Management (Cayman) Limited holds 100% equity interest of Orchid China Master Fund Limited. Honest City Investments Limited holds 63% equity interest of Orchid China Management (Cayman) Limited. Explorer Associates Limited respectively holds 30% equity interest of Orchid China Management (Cayman) Limited and 100% equity interest of Honest City Investments Limited. Or Ching Han, Helen holds 100% interest of Explorer Associates Limited. Accordingly, Or Ching Han, Helen is deemed to be interested in the 1,350,000 shares held by Orchid China Master Fund Limited.
4. Orchid Asia VI, L.P. directly holds 997,600 H shares of the Company. Oavi Holdings, L.P. holds 100% equity interest of Orchid Asia VI, L.P.. Orchid Asia VI GP, Limited holds 100% equity interest of Oavi Holdings, L.P.. Orchid Asia V Group Management, Limited holds 100% equity interest of Orchid Asia VI GP, Limited. Orchid Asia V Group, Limited holds 100% equity interest of Orchid Asia V Group Management, Limited. Orchid Asia V Co-Investment, Limited directly holds 52,400 H shares of the Company. Areo Holdings Limited holds 100% equity interest of Orchid Asia V Group, Limited and Orchid Asia V Co-Investment, Limited. Mr. Gabriel Li and Ms. Lam Lai Ming are directors of Areo Holdings Limited. Accordingly, Mr. Gabriel Li and Ms. Lam Lai Ming are deemed to be interested in the 1,050,000 H shares held by Areo Holdings Limited.

Save as disclosed above, as at 31 December 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.

CONTINUING CONNECTED TRANSACTIONS

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

Related Party	Details of the connected transactions	Amount for the current period	Amount for the corresponding period in the last year
Beijing Gaoyang Materials Centre	Sales of goods	12,819,153.84	13,094,646.36

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

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

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

REPORT OF THE DIRECTORS

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

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

The Extraordinary General Meeting held on 3 March 2017

To confirm and approve the proposed annual caps of RMB22 million, RMB30 million and RMB35 million respectively (equivalent to approximately HK\$25.1 million, HK\$34.2 million and HK\$39.9 million respectively), being the maximum aggregate annual value in respect of the continuing connected transactions under the Renewed Distribution Framework Contract for the three years ending 31 December 2019.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE

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

COMPETING BUSINESS

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

RETIREMENT SCHEMES

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

DONATIONS

Donation made by the Group during the year amounted to approximately RMB215,000.

PROPERTIES

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

TBD: to be determined

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2017, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

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

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, which includes, the review of the Group's consolidated annual results for the year ended 31 December 2017.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 has been audited by Pan-China Certified Public Accountants LLP, who shall be retired and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Pan-China Certified Public Accountants LLP as the auditor of the Group is to be proposed at the AGM.

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

Beijing, PRC, 28 March 2018

REPORT OF THE BOARD OF SUPERVISORS

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

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

The Board of Supervisors have reviewed earnestly and approved the report of the Directors, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2017 AGM. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up till now, none of the directors, chief executive nor senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the shareholders of the Company.

The Board of Supervisors is satisfied with the various tasks carried out by the Company in 2017 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Board of Supervisors

Zhang Jinyong

Beijing, PRC, 28 March 2018

CORPORATE GOVERNANCE REPORT

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

1. BOARD OF DIRECTORS

1.1 Composition of the Board of Directors

As at the date of this annual report, the Board of Directors comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The members of the board of directors of the Company are set out as follows:

Name	Position
Mr. Shi Chunbao	Chairman, Executive Director and general manager
Ms. Yue Shujun	Executive Director
Mr. Wang Jianliang	Executive Director
Mr. Lin Yiming	Non-executive Director
Ms. Xu Hong (resigned on 29 June 2017)	Independent non-executive Director
Mr. Tong Xiaobo	Independent non-executive Director
Mr. Cheung Ying Kwan (resigned on 16 March 2018)	Independent non-executive Director
Mr. Ge Changyin (effective from 29 June 2017)	Independent non-executive Director
Mr. Ho Wai Ip (effective from 16 March 2018)	Independent non-executive Director

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

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

The details of the Directors' resumes are set out on pages 14 to 19 of this report. The relationship of the Chairman and general manager Mr. Shi Chunbao and executive Director Ms. Yue Shujun is husband and wife. Other than that, other Members of the Board of Directors do not have any relations between each other (including financial, business, family or other material or related relations). The Board of Directors is well-balanced in structure and each of its members is knowledgeable, richly experienced and talented in the business operation and development of the Company. All the Directors understand their joint and several responsibilities for Shareholders of the Company.

CORPORATE GOVERNANCE REPORT

1.2 Board Meetings

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

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

During the year ended 31 December 2017 the Board of Directors held 4 meetings in total, with details of the attendance of Directors specified as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman, Executive Director and general manager	4/4	100%
Ms. Yue Shujun	Executive Director	4/4	100%
Mr. Wang Jianliang ⁽²⁾	Executive Director	4/4	100%
Mr. Lin Yiming	Non-executive Director	4/4	100%
Ms. Xu Hong ⁽¹⁾	Independent non-executive Director	3/3	100%
Mr. Tong Xiaobo	Independent non-executive Director	4/4	100%
Mr. Cheung Ying Kwan ⁽³⁾	Independent non-executive Director	4/4	100%
Mr. Ge Changyin ⁽²⁾	Independent non-executive Director	1/1	100%
Mr. Ho Wai Ip ⁽⁴⁾	Independent non-executive Director	N/A	N/A

Notes:

1. Ms. Xu Hong retired on 29 June 2017.
2. Mr. Ge Changyin was appointed on 29 June 2017.
3. Mr. Cheung Ying Kwan resigned on 16 March 2018.
4. Mr. Ho Wai Ip was appointed on 16 March 2018.

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

1.4 Chairman and Chief Executive Officer

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

1.5 Directors' Appointment and Re-election

Mr. Ge Changyin was appointed in the 2016 annual general meeting with the term of office of three years commenced on 29 June 2017 and will expire on 28 June 2020.

Pursuant to article 100 of the Articles of Association, the term of office of directors is three years and is subject to re-election and reappointment. The term of office of Mr. Shi Chunbao, Ms. Yue Shujun, Mr. Lin Yiming and Mr. Tong Xiaobo expired on 16 April 2017 and renewed with effect commencing from 17 April 2017 to 16 April 2020. They were re-elected and reappointed in 2016 annual general meeting in accordance with article 100.

Pursuant to article 101 of the Articles of Association, any Directors appointed by the Board to fill a temporary vacancy of the Board shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election. Mr. Wang Jianliang was appointed by the Board as an executive Director on 18 November 2016 with the term of office of three years which will be expired on 17 November 2019. Mr. Wang Jianliang was re-elected and reappointed in the 2016 annual general meeting in accordance with article 101.

Mr. Ho Wai Ip was appointed by the Board as an independent non-executive Director on 16 March 2018 with the term of office of three years which will be expired on 15 March 2021. Accordingly, Mr. Ho Wai Ip shall be re-elected in the forthcoming 2017 annual general meeting in accordance with article 101.

The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board of Directors, subject to the approval by the general meeting.

CORPORATE GOVERNANCE REPORT

1.6 Board Diversity Policy

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

1.7 Training for Directors

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

1.8 Directors' Insurance

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

2. BOARD COMMITTEES

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

2.1 Audit Committee

The Audit Committee consists of three Directors including Mr. Lin Yiming (non-executive Director), Ms. Xu Hong (independent non-executive Director and former chairman of the Audit Committee) (resigned on 29 June 2017), Mr. Tong Xiaobo (independent non-executive Director), Mr. Ge Changyin (independent non-executive Director) (appointed on 29 June 2017) and Mr. Ho Wai Ip (independent non-executive Director) (appointed on 16 March 2018). Mr. Ge Changyin is the new chairman of the Audit Committee. The principal duties of the Audit Committee are making recommendations on the appointment, re-appointment and removal of the external auditors; reviewing and monitoring the independence and objectiveness of the external auditors and the effectiveness of the audit procedure in accordance with applicable standards; reviewing the preparation and disclosure of financial information of the Company; overseeing the financial reporting system and internal control procedure of the Company; and enhancing the communication between internal auditors and external auditors. During the year ended 31 December 2017, the Audit Committee held three meetings, the details of which are as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Lin Yiming	Non-executive Director	3/3	100%
Ms. Xu Hong	Independent non-executive Director	2/2	100%
Mr. Tong Xiaobo	Independent non-executive Director	3/3	100%
Mr. Ge Changyin	Independent non-executive Director	1/1	100%

CORPORATE GOVERNANCE REPORT

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

1. Considered the reappointment of the external auditors;
2. Reviewed the consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practices;
3. Reviewed and confirmed the continuing connected transactions;
4. Reviewed the interim results for the six months ended 30 June 2017.

2.2 Nomination Committee

The Nomination Committee consists of three Directors including Mr. Shi Chunbao (Chairman and general manager), Ms. Xu Hong (independent non-executive Director) (resigned on 29 June 2017), Mr. Ge Changyin (independent non-executive Director) (appointed on 29 June 2017), Mr. Cheung Ying Kwan (independent non-executive Director) (resigned on 16 March 2018) and Mr. Ho Wai Ip (independent non-executive Director) (appointed on 16 March 2018). Mr. Shi Chunbao is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee are reviewing the selection requirements and procedures, structure, number, composition and diversity of the directors and senior management; identifying and selecting qualified candidates to be nominated as directors and senior management or making recommendations to the Board; making recommendations to the Board on the appointment or reappointment of and the succession planning for directors and senior management; reviewing, at its discretion, the board diversity policy; reviewing the independence of independent non-executive directors; and carrying out other duties as authorized by the Board. During the year ended 31 December 2017, the Nomination Committee held one meeting, the details of which are as follows:

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

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

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

CORPORATE GOVERNANCE REPORT

2.3 Remuneration Committee

The Remuneration Committee consists of three Directors including Mr. Shi Chunbao (Chairman and general manager), Ms. Xu Hong (independent non-executive Director) (resigned on 29 June 2017), Mr. Ge Changyin (independent non-executive Director) (appointed on 29 June 2017) and Mr. Tong Xiaobo (independent non-executive Director). Mr. Tong Xiaobo is the chairman of the Remuneration Committee.

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

The principal duties of the Remuneration Committee are evaluating the appointment, remuneration policies and assessment criteria for the directors and senior management, conducting such assessment and providing advice. It shall include setting the overall remuneration policy and structure for the directors and senior management of the Company and to propose to the Board in respect of establishing remuneration policy through a formal and transparent procedure; reviewing and approving the remuneration proposals for the management with reference to the corporate goals and objectives made by the Board; make recommendations to the Board on the remuneration packages of Directors and senior management; and carrying out other duties as authorized by the Board. During the year ended 31 December 2017, the Remuneration Committee held one meeting, the details of which are as follows:

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

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2017 is set out below:

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

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

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

CORPORATE GOVERNANCE REPORT

3. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing the annual financial statements of the Company for the year ended 31 December 2017.

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

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

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

4. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

5. JOINT COMPANY SECRETARIES

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

6. INTERNAL CONTROL

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

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

CORPORATE GOVERNANCE REPORT

7. AUDITOR'S REMUNERATION

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

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

During the year ended 31 December 2017, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

8. GENERAL MEETINGS

During the year ended 31 December 2017, the Company convened two general meetings, as detailed below:

The Extraordinary General Meeting held on 3 March 2017:

Ordinary Resolutions 1. "THAT the renewed distribution framework contract ("**Renewed Distribution Framework Contract**") (the details of which are set out in the circular to be despatched by the Company to its shareholders in due course and a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) dated 29 November 2016 and entered into between the Company and Beijing Gaoyang Materials Centre (北京高陽物資中心) ("**Gaoyang Materials**") in relation to the Company agreeing to sell its joint prosthesis products and spinal products to Gaoyang Materials for distribution and Gaoyang Materials being authorized to act as a distributor of the Company and the transactions contemplated thereunder be and are hereby ratified, approved and confirmed." 2. "THAT the proposed annual caps of RMB22 million, RMB30 million and RMB35 million respectively (equivalent to approximately HK\$25.1 million, HK\$34.2 million and HK\$39.9 million respectively), being the maximum aggregate annual value in respect of the continuing connected transactions under the Renewed Distribution Framework Contract for the three years ending 31 December 2019, be and are hereby approved and confirmed." 3. "THAT the execution of the Renewed Distribution Framework Contract by Mr. Wang Jianliang for and on behalf of the Company be and is hereby ratified, approved and confirmed and that Mr. Wang Jianliang be and is hereby authorized to make any amendment to the Renewed Distribution Framework Contract as he thinks desirable and necessary and to do all such further acts and things and execute such further documents and take all such steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such transactions."

The Annual General Meeting for the year 2016 held on 28 June 2017: (i) To consider and approve the annual report for the year 2016; (ii) to consider and approve the report of the Directors for the year 2016; (iii) to consider and approve the report of the Board of Supervisors for the year 2016; (iv) to consider and approve the reappointment of the auditor and to authorise the Board of Directors to determine the auditor's remuneration for the year 2017; (v) to consider and approve the financial report for the year 2016; (vi) to consider and approve the dividend distribution plan for the year 2016; and (vii) to consider and approve the election and re-election of Directors.

CORPORATE GOVERNANCE REPORT

9. COMMUNICATIONS WITH SHAREHOLDERS

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

9.1 Shareholders' Rights to Propose Resolutions

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

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

9.2 Shareholders' Right to Requisite a Meeting

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

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

CORPORATE GOVERNANCE REPORT

9.3 Inquiry and Communication of Shareholders

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

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

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

10. ARTICLES OF ASSOCIATION AND AMENDMENTS

There were no significant changes in the Articles of Association of the Company during the year. The Articles of Association of the Company are available on the websites of the Stock Exchange for information disclosure and the Company

11. NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

INDEPENDENT AUDITOR'S REPORT



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 PCCPAAR [2018]
 No. 8-139

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

I. AUDIT OPINION

We have audited the financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as "Chunlizhengda Company"), which comprise the consolidated and parent company's balance sheets as at December 31, 2017, the consolidated and parent company's profit statements, the consolidated and parent company's cash flow statements and the consolidated and parent company's statement of changes in Equity in 2017, and notes to the relevant financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and parent company's financial positions of Chunlizhengda Company as at December 31, 2017, and of its consolidated and parent company's operating results and cash flows in 2017 in accordance with the requirements of the Accounting Standards for Business Enterprises.

II. BASIS OF FORMING AUDIT OPINIONS

We have conducted our audit in accordance with the requirements of Auditing Standards for Certified Public Accountants of China. Our responsibilities under those standards are further described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of this audit report. We are independent from Chunlizhengda Company in accordance with China Code of Ethics for Certified Public Accountants, and we have fulfilled our other responsibilities on professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

(I) Revenue recognition

1. Key Audit Matters

Chunlizhengda Company mainly adopted distributorship mode in the sale of artificial organ implants. In 2017, the operating revenue recognized by Chunlizhengda Company under distributorship mode amounted to 262.9584 million yuan, which accounted for 87.56% of total operating revenue. As described in Notes III (XXI) and V (II)1 of the financial statements, under such mode, the management determined that the significant risks and rewards of ownership of the goods are transferred immediately when products have been delivered to the distributors based on their analysis and judgement towards the terms of distribution agreements. As the recognition of operating revenue under this mode involves the management's judgements and estimates, we consider this matter as a key audit matter.

2. Method of audit

During the audit, the audit procedures we implemented mainly comprise:

- (1) Understanding, assessing and testing the internal controls in connection with the recognition of sales revenue under the distributorship mode of Chunlizhengda Company;
- (2) Obtaining the distribution agreements that Chunlizhengda Company entered into with distributors and paying attention to the key terms of the contracts, including but not limited to the rights and obligations, selling prices, payment and settlement, transfer of goods ownership, and making assessment on whether the management has reasonably determined when the significant risks and rewards of ownership of the goods are transferred;
- (3) checking new and major distributors' business registration information to understand the situations of their equity structure, operating scope and foreign investment;
- (4) Visiting new and major distributors to examine the implementation of the distribution agreements, including but not limited to the reasonable inventory of distributors and sales to ultimate users;
- (5) Selecting sample of trade and checking information of distributors like purchase orders, delivery notes, logistic receipts, accounting records, payment receipts and regular letters of reconciliation, and also confirming with distributors of the receivables balance at the end of the year and sales amount for current period.

INDEPENDENT AUDITOR'S REPORT

(II) Bad debt provision for receivables

1. Key Audit Matters

As described in Notes III (X), (XXV)2 and V(I)3 of the financial statements, the original value of receivables of Chunlizhengda Company was 85,334,866.72 yuan and the balance of bad debt provision was 11,678,871.99 yuan as at December 31, 2017. As the balance of receivables accounted for a relatively large proportion of assets, the estimation on expected recoverable amount of receivables involves significant judgement and estimation of the management. When receivables cannot be recovered on time or at all and causes bad debt that significantly influence the financial statements, we consider this matter as a key audit matter.

2. Method of audit

During the audit, the audit procedures we implemented mainly comprise:

- (1) Understanding, assessing and testing the internal controls in connection with the management of receivables of Chunlizhengda Company;
- (2) Understanding the credit policy of Chunlizhengda Company, and comparing and assessing provision policy for bad debt of receivables of Chunlizhengda Company by paying attention to the basis of recognizing a portfolio of receivables, judgements of significant amounts, and the estimation of bad debt provision ratio under ageing analysis of comparable listed companies in the industry;
- (3) Selecting samples to conduct confirmation process of receivables and checking subsequent payment;
- (4) Checking the ageing division of receivables, understanding and assessing the significant judgement and estimation of the estimated recoverable amount the management adopted when making provision for bad debt, as well as reviewing and re-measuring the amount of bad debt provision for receivables;
- (5) Checking the presentation and disclosure of information in relation to bad debt provision for receivables in the financial statement.

IV. OTHER INFORMATION

The management of Chunlizhengda Company (hereinafter as “**Management**”) is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our audit report. The annual report is expected to be made available to us after the date of this audit report.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

In preparing the financial statements, Management is responsible for assessing Chunlizhengda Company's ability to continue as a going concern, disclosing matters related to going concern, as applicable, and using the going concern assumption unless intending to liquidate, to cease operations, or has no other realistic alternative but to do so.

Those charged with governance of Chunlizhengda Company (hereinafter as the "**Governance**") are responsible for overseeing Chunlizhengda Company's financial reporting process.

VI. CERTIFIED PUBLIC ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with the auditing standards, we exercise professional judgement and maintain professional skepticism. At the same time, we also conducted the following works:

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

INDEPENDENT AUDITOR'S REPORT

- (IV) Conclude on the appropriateness of Management' use of the going concern assumption. At the same time, based on the audit evidence obtained, conclude on whether a material uncertainty related to events or conditions that may cast significant doubt on Chunlizhengda Company's ability to continue as a going concern exists. If we conclude that a material uncertainty exists, the auditing standards required us to draw the attention of the users of statements in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, we should issue the non-unqualified opinions. Our conclusions are based on the information that could obtained up to the date of our audit report. However, future events or conditions may cause Chunlizhengda Company to cease to continue as a going concern.
- (V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and evaluate whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (VI) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within Chunlizhengda Company to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit and bear sole responsibility for our audit opinion.

We communicate with the Governance regarding the planned audit scope, timing arrangement and significant audit findings, including any deficiencies in internal control that we identify during our audit and worth concerning.

We also provide the Governance with a statement in relation to our compliance with relevant professional ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Pan-China Certified Public Accountants LLP
(special general partnership)
Hangzhou · China

Chinese Certified Public Accountant:
(The engagement partner of the project)

Chinese Certified Public Accountant:

March 28, 2018

CONSOLIDATED BALANCE SHEET

December 31, 2017

(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Monetary capital	1	371,618,428.62	297,285,790.16
Settlement funds			
Loans to other banks			
Financial assets at fair value through current profit or loss			
Derivative financial assets			
Notes receivable	2	23,339,770.10	12,207,859.40
Accounts receivable	3	73,655,994.73	68,472,003.04
Prepayment	4	1,618,077.61	829,678.43
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable			
Dividend receivable			
Other receivables	5	915,826.53	863,240.69
Reverse-REPO financial assets			
Inventories	6	58,947,158.89	59,591,366.45
Assets held-for-sale			
Non-current assets due within one year			
Other current assets	7	116,686.21	176,195.81
Total current assets		530,211,942.69	439,426,133.98
Non-current assets:			
Entrusted loans and advances paid			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments			
Investment property			
Fixed assets	8	47,580,889.11	51,074,794.44
Construction in progress	9	13,193,700.06	11,284,911.93
Construction materials			
Fixed assets clearance			
Productive biological assets			
Oil & gas assets			
Intangible assets	10	33,126,892.76	33,892,975.08
Development expenditures			
Goodwill			
Long-term prepayments	11	1,008,333.35	
Deferred income tax assets	12	2,699,036.67	1,471,457.51
Other non-current assets	13	5,840,781.71	2,978,555.00
Total non-current assets		103,449,633.66	100,702,693.96
Total assets		633,661,576.35	540,128,827.94

CONSOLIDATED BALANCE SHEET

December 31, 2017

(Expressed in Renminbi Yuan)

Liabilities & Equity (or shareholder interest)	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Central bank loans			
Absorbing deposit and interbank deposit			
Loans from other banks			
Financial liabilities at fair value through current profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable	14	25,316,462.14	19,030,101.28
Advances received	15	15,891,150.69	4,953,824.06
Amount from sale of repurchase financial assets			
Handling fee and commission payable			
Employee remuneration payable	16	4,503,817.95	2,989,533.99
Taxes payable	17	14,285,556.35	8,741,879.96
Interest payable			
Dividend payable			
Other payables	18	17,621,821.89	6,276,448.83
Reinsurance accounts payable			
Insurance contract reserve			
Amount for agency security transaction			
Amount for agency security underwriting			
Liabilities held-for-sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		77,618,809.02	41,991,788.12

CONSOLIDATED BALANCE SHEET

December 31, 2017

(Expressed in Renminbi Yuan)

Liabilities & Equity (or shareholder interest)	Note No.	Closing balance	Opening balance
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee remuneration payable			
Special payables			
Estimated liabilities	19	1,994,981.90	
Deferred income	20	14,822,497.59	16,805,269.13
Deferred income tax liabilities	12	753,109.62	422,167.33
Other non-current liabilities			
Total non-current liabilities		17,570,589.11	17,227,436.46
Total liabilities		95,189,398.13	59,219,224.58
Equity (or shareholder interest):			
Paid-in capital (or share capital)	21	69,170,400.00	69,170,400.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	22	230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	23	30,599,186.14	23,774,980.13
General risk reserve			
Undistributed profit	24	208,663,412.07	157,925,043.22
Total equity attributable to the parent company		538,472,178.22	480,909,603.36
Non-controlling shareholders interest			
Total equity		538,472,178.22	480,909,603.36
Total liabilities & equity		633,661,576.35	540,128,827.94

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

PARENT COMPANY'S BALANCE SHEET

December 31, 2017

(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Monetary capital		371,601,738.39	297,193,825.81
Financial assets at fair value through current profit or loss			
Derivative financial assets			
Notes receivable		23,339,770.10	12,207,859.40
Accounts receivable	1	73,340,910.88	68,472,003.04
Prepayment		1,618,077.61	829,678.43
Interest receivable			
Dividend receivable			
Other receivables	2	915,826.53	863,240.69
Inventories		58,947,158.89	59,591,366.45
Assets held-for-sale			
Non-current assets due within one year			
Other current assets			
Total current assets		529,763,482.40	439,157,973.82
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	3	665,263.00	665,263.00
Investment property			
Fixed assets		47,578,914.11	51,072,819.44
Construction in progress		13,193,700.06	11,284,911.93
Construction materials			
Fixed assets clearance			
Productive biological assets			
Oil & gas assets			
Intangible assets		33,126,892.76	33,892,975.08
Development expenditures			
Goodwill			
Long-term prepayments		1,008,333.35	
Deferred income tax assets		2,673,316.53	1,450,856.95
Other non-current assets		5,840,781.71	2,978,555.00
Total non-current assets		104,087,201.52	101,345,381.40
Total assets		633,850,683.92	540,503,355.22

PARENT COMPANY'S BALANCE SHEET

December 31, 2017

(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Financial liabilities at fair value through current profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable		25,314,390.97	19,030,101.28
Advances received		15,891,150.69	4,953,824.06
Employee remuneration payable		4,503,817.95	2,989,533.99
Taxes payable		14,285,556.35	8,741,879.96
Interest payable			
Dividend payable			
Other payables		18,979,139.98	7,775,188.69
Liabilities held-for-sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		78,974,055.94	43,490,527.98
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee remuneration payable			
Special payables			
Estimated liabilities		1,994,981.90	
Deferred income		14,822,497.59	16,805,269.13
Deferred income tax liabilities		753,109.62	422,167.33
Other non-current liabilities			
Total non-current liabilities		17,570,589.11	17,227,436.46
Total liabilities		96,544,645.05	60,717,964.44
Equity (or shareholder interest):			
Paid-in capital (or share 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		30,599,186.14	23,774,980.13
Undistributed profit		207,497,272.72	156,800,830.64
Total equity		537,306,038.87	479,785,390.78
Total liabilities & equity		633,850,683.92	540,503,355.22

Legal representative:

Person in charge of
accounting work:Person in charge
of the accounting
agency:

CONSOLIDATED INCOME STATEMENT

For the year 2017
(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
I. Total operating revenue		300,317,298.79	207,926,096.34
Including: operating revenue	1	300,317,298.79	207,926,096.34
Interest proceeds			
Premium earned			
Revenue from handling charges and commission			
II. Total operating cost		223,467,851.82	137,108,056.19
Including: operating cost	1	84,062,884.30	48,261,494.80
Interest expenses			
Handling charges and commission expenditures			
Surrender value			
Net payment of insurance claims			
Net provision for insurance contract reserve			
Policy bonus expenditures			
Reinsurance expenses			
Taxes and surcharge	2	4,098,588.47	2,545,293.61
Selling expenses	3	88,947,859.28	52,228,116.53
Administrative expenses	4	44,328,265.40	35,190,372.34
Financial expense	5	-4,144,972.53	-5,835,148.95
Assets impairment loss	6	6,175,226.90	4,717,927.86
Add: gains on changes of fair value (losses are presented as “-”)			
Net profit or loss on hedging exposure (losses are presented as “-”)			
Investment income (losses are presented as “-”)			
Including: investment income from associates and joint ventures			
Gains on disposal of assets (losses are presented as “-”)	7		-4,903.50
Gains on foreign exchange (losses are presented as “-”)			
Other gains	8	2,131,772.05	
III. Operating profit (losses are presented as “-”)		78,981,219.02	70,813,136.65
Add: Non-operating income	9	31,723.78	3,776,449.78
Less: Non-operating expenses	10	217,295.57	845,606.55
IV. Gross profit (total losses are presented as “-”)		78,795,647.23	73,743,979.88
Less: income tax expenses	11	10,511,660.37	10,303,389.06
V. Net profit (net losses are presented as “-”)		68,283,986.86	63,440,590.82
(I) Classified by continuity of operation:			
1. Net profit for continuing operation (net losses are presented as “-”)		68,283,986.86	63,440,590.82
2. Net profit for ceased operation (net losses are presented as “-”)			
(II) Classified by ownership:			
1. Net profit attributable to the owners of the parent company (net losses are presented as “-”)		68,283,986.86	63,440,590.82
2. Non-controlling shareholders’ interest (net losses are presented as “-”)			

CONSOLIDATED INCOME STATEMENT

For the year 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
VI. Net other comprehensive income after tax			
Net other comprehensive income after tax attributable to the owners of the parent company			
(I) Other comprehensive income that cannot be reclassified subsequently to profit or loss			
1. Changes in re-measurement on the net defined benefit liability/asset			
2. Share of other comprehensive income of the investees which cannot be reclassified into profit or loss under equity method			
(II) Other comprehensive income to be reclassified subsequently to profit or loss			
1. Share of other comprehensive income of the investees which can be reclassified subsequently into profit or loss under equity method			
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 financial assets			
4. Effective part of profit or loss on cash flow hedging			
5. Translation difference of foreign currency financial statements			
6. Others			
Net other comprehensive income after tax attributable to non-controlling shareholders			
VII. Total comprehensive income		68,283,986.86	63,440,590.82
Total comprehensive income attributable to the owners of the parent company		68,283,986.86	63,440,590.82
Total comprehensive income attributable to non-controlling shareholders			
VIII. Earnings per share:			
(I) Basic EPS (yuan per share)		0.99	0.92
(II) Diluted EPS (yuan per share)		0.99	0.92

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

PARENT COMPANY'S INCOME STATEMENT

For the year 2017
(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
I. Operating revenue	1	300,041,246.24	207,926,096.34
Less: Operating cost	1	84,060,813.13	48,261,494.80
Taxes and surcharge		4,098,057.17	2,545,293.61
Selling expenses		88,947,859.28	52,225,440.53
Administrative expenses		44,112,325.67	34,660,048.93
Financial expense		-4,145,097.39	-5,835,492.32
Assets impairment loss		6,154,748.60	4,701,447.41
Add: Gain on changes of fair value (losses are presented as "-")			
Net profit or loss on hedging exposure (losses are presented as "-")			
Investment income (losses are presented as "-") Including: investment income from associates and joint ventures			
Gains on disposal of assets (losses are presented as "-")			-4,903.50
Other gains		2,131,772.05	
II. Operating profit (losses are presented as "-")		78,944,311.83	71,362,959.88
Add: Non-operating income		31,723.78	3,776,449.78
Less: Non-operating expenses		217,195.57	845,606.55
III. Gross profit (total losses are presented as "-")		78,758,840.04	74,293,803.11
Less: income tax expenses		10,516,779.95	10,307,509.17
IV. Net profit (net losses are presented as "-")		68,242,060.09	63,986,293.94
(I) Net profit for continuing operation (net losses are presented as "-")		68,242,060.09	63,986,293.94
(II) Net profit for ceased operation (net losses are presented as "-")			

PARENT COMPANY'S INCOME STATEMENT

For the year 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
V. Net other comprehensive income after tax			
(I) Other comprehensive income that cannot be reclassified subsequently to profit or loss			
1. Changes in re-measurement on the net defined benefit liability/asset			
2. Share of other comprehensive income of the investees which cannot be reclassified into profit or loss under equity method			
(II) Other comprehensive income to be reclassified subsequently to profit or loss			
1. Share of other comprehensive income of the investees which can be reclassified subsequently into profit or loss under equity method			
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. Effective part of profit or loss on cash flow hedging			
5. Translation difference of foreign currency financial statements			
6. Others			
VI. Total comprehensive income		68,242,060.09	63,986,293.94
VII. Earnings per share:			
(I) Basic EPS (yuan per share)			
(II) Diluted EPS (yuan per share)			

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

CONSOLIDATED CASH FLOW STATEMENT

For the year 2017
(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		335,950,972.34	217,537,183.35
Net increase of client deposit and interbank deposit			
Net increase of central bank loans			
Net increase of loans from other financial institutions			
Cash receipts of original insurance contract premium			
Net cash receipts from reinsurance			
Net increase of policy-holder deposit and investment			
Net increase from disposal of financial assets at fair value through current 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	1,824,142.01	2,408,278.10
Subtotal of cash inflows from operating activities		337,775,114.35	219,945,461.45
Cash payments for goods purchased and services received		65,725,993.33	30,621,583.14
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payment of insurance indemnities of original insurance contracts			
Cash payment of interest, handling charges and commission			
Cash payment of policy bonus			
Cash paid to and on behalf of employees		45,279,492.61	38,495,528.57
Taxes paid		47,934,107.77	30,374,393.69
Other cash payments related to operating activities	2	89,002,406.22	55,508,683.71
Subtotal cash outflows from operating activities		247,941,999.93	155,000,189.11
Net cash flows from operating activities		89,833,114.42	64,945,272.34
II. Cash flows from investing activities:			
Cash received from disinvestments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities	3	5,495,618.81	10,053,273.71
Subtotal of cash inflows from investing activities		5,495,618.81	10,053,273.71
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		8,982,590.99	8,357,557.55
Cash payments for investments			
Net increase of pledged loans			
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		8,982,590.99	8,357,557.55
Net cash flows from investing activities		-3,486,972.18	1,695,716.16

CONSOLIDATED CASH FLOW STATEMENT

For the year 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
III. Cash flows from financing activities:			
Cash received from investment			
Including: cash received by subsidiaries from non-controlling shareholders' investments			
Cash received from borrowings			
Cash received from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			
Cash repayments of debt			
Cash paid for distribution of dividends, profits or for interest expenses		10,721,412.00	6,086,995.20
Including: cash paid for distribution of dividends and profits by subsidiaries to non-controlling shareholders			
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities		10,721,412.00	6,086,995.20
Net cash flows from financing activities		-10,721,412.00	-6,086,995.20
IV. Effect of foreign exchange rate changes on cash & cash equivalents		-1,292,091.78	1,692,305.08
V. Net increase in cash and cash equivalents		74,332,638.46	62,246,298.38
Add: Opening balance of cash and cash equivalents		297,285,790.16	235,039,491.78
VI. Closing balance of cash and cash equivalents		371,618,428.62	297,285,790.16

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

PARENT COMPANY'S CASH FLOW STATEMENT

For the year 2017
(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		335,950,972.34	217,537,183.35
Receipts of tax refund			
Other cash receipts related to operating activities		1,819,519.51	2,408,278.10
Subtotal of cash inflow from operating activities		337,770,491.85	219,945,461.45
Cash payments for goods purchased and services received		65,003,288.27	30,335,602.92
Cash payments to and on behalf of employees		45,275,308.12	38,494,715.74
Taxes paid		47,934,107.77	30,374,393.69
Other cash payments related to operating activities		89,649,274.01	55,860,387.44
Subtotal of cash outflows from operating activities		247,861,978.17	155,065,099.79
Net cash flows from operating activities		89,908,513.68	64,880,361.66
II. Cash flows from investing activities:			
Cash received from disinvestments			
Cash received from return on investments			
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets			
Net cash receipts from disposals of subsidiaries and other business units			
Other cash receipts related to investing activities		5,495,493.67	10,053,117.08
Subtotal of cash inflow from investing activities		5,495,493.67	10,053,117.08
Cash payments to acquire fixed assets, intangible assets and other long-term assets		8,982,590.99	8,357,557.55
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		8,982,590.99	8,357,557.55
Net cash flows from investing activities		-3,487,097.32	1,695,559.53

PARENT COMPANY'S CASH FLOW STATEMENT

For the year 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Amount for current period	Amount for the corresponding period of last year
III. Cash flows from financing activities:			
Cash received from investment			
Cash received from borrowings			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			
Cash repayments of debts			
Cash paid for distribution of dividends, profit or for interest expenses		10,721,412.00	6,086,995.20
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities		10,721,412.00	6,086,995.20
Net cash flows from financing activities		-10,721,412.00	-6,086,995.20
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-1,292,091.78	1,692,305.08
V. Net increase in cash and cash equivalents		74,407,912.58	62,181,231.07
Add: Opening balance of cash and cash equivalents		297,193,825.81	235,012,594.74
VI. Closing balance of cash and cash equivalents		371,601,738.39	297,193,825.81

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2017
(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Items	Amount for current period												Non-controlling interest	Total equity
	Equity attributable to parent company													
	Paid-in capital/ Share capital	Other equity instruments				Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit		
Preferred shares		Perpetual bonds	Others	Others										
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				23,774,980.13		157,925,043.22		480,909,603.36	
Add: 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		157,925,043.22		480,909,603.36	
III. Amount of current period increase or decrease (decreases are presented as "-")									6,824,206.01		50,738,368.85		57,562,574.86	
(i) Total comprehensive income											68,283,988.86		68,283,988.86	
(ii) Capital contributed and withdrawn by owners														
1. Ordinary shares contributed by shareholders														
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others														
(iii) Profit distribution									6,824,206.01		-17,545,618.01		-10,721,412.00	
1. Appropriation of surplus reserve									6,824,206.01		-6,824,206.01			
2. Appropriation of general risk reserve														
3. Distribution to owners (or shareholders)											-10,721,412.00		-10,721,412.00	
4. Others														
(iv) Internal carry-over within equity														
1. Transfer of capital reserve to capital (or share capital)														
2. Transfer of surplus reserve to capital (or share 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				30,599,186.14		208,663,412.07		538,472,178.22	

Legal representative:

Person in charge for
accounting work:

Person in charge
of the accounting
agency:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2017

(Expressed in Renminbi Yuan)

Items	Amount for the corresponding period of last year												Total equity	
	Equity attributable to parent company											Non-controlling interest		
	Paid-in capital/ Share capital	Other equity instruments				Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve			Undistributed profit
Preferred shares		Perpetual bonds	Others	Others										
I. Balance at the end of prior year	69,170,400.00				230,039,180.01					17,376,350.74		106,970,076.99		423,556,007.74
Add: changes of accounting policies														
Error correction of prior period														
Business combination under common control														
Others														
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01					17,376,350.74		106,970,076.99		423,556,007.74
III. Amount of current period increase or decrease (decreases are presented as "-")										6,398,629.39		50,954,966.23		57,353,595.62
(I) Total comprehensive income												63,440,590.82		63,440,590.82
(II) Capital contributed and withdrawn by owners														
1. Ordinary shares contributed by shareholders														
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others														
(III) Profit distribution										6,398,629.39		-12,485,624.59		-6,086,995.20
1. Appropriation of surplus reserve										6,398,629.39		-6,398,629.39		
2. Appropriation of general risk reserve														
3. Distribution to owners (or shareholders)														
4. Others														
(IV) Internal carry-over within equity														
1. Transfer of capital reserve to capital (or share capital)														
2. Transfer of surplus reserve to capital (or share capital)														
3. Surplus reserve to cover losses														
4. Others														
(V) Special reserve														
1. Appropriation of current period														
2. Application of current period														
(VI) Others														
IV. Balance at the end of current period	69,170,400.00				230,039,180.01					23,774,980.13		157,925,043.22		480,909,603.36

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2017
(Expressed in Renminbi Yuan)

Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Items	Amount for current period												Non-controlling interest	Total equity
	Equity attributable to parent company													
	Paid-in capital/ Share capital	Other equity instruments				Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit		
Preferred shares		Perpetual bonds	Others	Others										
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: 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		156,800,830.64		479,785,390.78	
III. Amount of current period increase or decrease (decreases are presented as "-")									6,824,206.01		50,696,442.08		57,520,648.09	
(i) Total comprehensive income											68,242,060.09		68,242,060.09	
(ii) Capital contributed and withdrawn by owners														
1. Ordinary shares contributed by shareholders														
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others														
(iii) Profit distribution									6,824,206.01		-17,545,618.01		-10,721,412.00	
1. Appropriation of surplus reserve									6,824,206.01		-6,824,206.01			
2. Appropriation of general risk reserve														
3. Distribution to owners (or shareholders)											-10,721,412.00		-10,721,412.00	
4. Others														
(iv) Internal carry-over within equity														
1. Transfer of capital reserve to capital (or share capital)														
2. Transfer of surplus reserve to capital (or share 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				30,599,186.14		207,497,272.72		537,306,038.87	

Legal representative:

Person in charge for
accounting work:

Person in charge
of the accounting
agency:

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2017

(Expressed in Renminbi Yuan)

Items	Amount for the corresponding period of last year												Total equity	
	Equity attributable to parent company											Non-controlling interest		
	Paid-in capital/ Share capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit			
Preferred shares		Perpetual bonds	Others											
I. Balance at the end of prior year	69,170,400.00				230,039,180.01						17,376,350.74	105,300,161.29		421,886,092.04
Add: changes of accounting policies														
Error correction of prior period														
Business combination under common control														
Others														
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01						17,376,350.74	105,300,161.29		421,886,092.04
III. Amount of current period increase or decrease (decreases are presented as "-")											6,398,629.39	51,500,669.35		57,899,298.74
(I) Total comprehensive income												63,986,293.94		63,986,293.94
(II) Capital contributed and withdrawn by owners														
1. Ordinary shares contributed by shareholders														
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others														
(III) Profit distribution											6,398,629.39	-12,485,624.59		-6,086,995.20
1. Appropriation of surplus reserve											6,398,629.39	-6,398,629.39		
2. Appropriation of general risk reserve														
3. Distribution to owners (or shareholders)														
4. Others														
(IV) Internal carry-over within equity														
1. Transfer of capital reserve to capital (or share capital)														
2. Transfer of surplus reserve to capital(or share capital)														
3. Surplus reserve to cover losses														
4. Others														
(V) Special reserve														
1. Appropriation of current period														
2. Application of current period														
(VI) Others														
IV. Balance at the end of current period	69,170,400.00				230,039,180.01						23,774,980.13	156,800,830.64		479,785,390.78

Legal representative:

Person in charge for
accounting work:Person in charge
of the accounting
agency:

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

I. COMPANY PROFILE

Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as the “**Company**”) is established by Mr. Shi Chunbao (史春寶先生) and Ms. Yue Shujun (岳術俊女士) under the approval of Beijing Administration for Industry and Commerce. The Company registered at Beijing Administration for Industry and Commerce, Tongzhou Sub-bureau on February 12, 1998 and its headquarters is located in Beijing. The Company acquired a business license with unified social credit code of 91110000633737758W and its 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 and traded on Hong Kong Stock Exchanges on March 11, 2015.

The Company belongs to medical device industry. The business scopes of the Company include production of Class III medical devices: III-6846-1 implants, III-6846-2 artificial organ implants (joint prosthesis, custom joint prosthesis and stabler in spine); sales of Class III medical devices: implants materials and artificial organs, medical knitwear and adhesive; sales of Class II medical devices: physiotherapy and rehabilitation equipment and orthopaedic surgery (orthopedics surgery) devices; sales of Class I medical devices: basic surgery devices, as well as imports and exports of goods and technology promotion. (For projects which can only be operated under permissions by laws, the Company conducts such businesses and operations with permission of relevant departments for permitted aspects.)

The financial statements were approved for issue publicly by the Twenty-sixth Meeting of the Second Session of the Board of Directors dated March 28, 2018.

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

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 assumption of continuing as a going concern within the 12 months after the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important note: The Company has set up specific 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 with Accounting Standards for Business Enterprises

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

(II) Accounting period

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

(III) Operating cycle

The Company has a relatively short operating cycle for its business and 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 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 share of 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 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 share of fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the share of fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed and if the reviewed combination cost is still lower than the share of fair value of identifiable net assets obtained from the acquiree, the difference is recognized in profit or loss of the current period.

(VI) Preparation method of consolidated financial statements

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING 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 enterprise's 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 business translation

Transactions denominated in foreign currency are translated into RMB yuan at the spot exchange rate at the date of transaction 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 date of transaction, 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.

(IX) Financial instruments

1. Classification of financial assets and financial liabilities

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

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

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

When the Company becomes a party to a financial instrument, it is recognized as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through current profit or loss, the transaction expenses thereof are directly included in current 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 as well as loans and receivables are measured at amortized costs using effective interest method; (2) the equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by the delivery of the said equity instrument are measured at their costs.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

The Company measures its financial liabilities at the amortized costs using effective interest method, with the exception of those under the following circumstances: (1) for the financial liabilities at fair value through profit or loss, they are measured at fair value, and none of the transaction expenses may be deducted, which may occur when the financial liabilities are settled in the future; (2) for the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by the delivery of the equity instrument, they are measured at their costs; (3) for the financial guarantee contracts which are not designated as a financial liability at fair value through current profit or loss, or for the commitments to grant loans which are not designated as at fair value through current 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 “ASBE13 – Contingencies”; 2) the surplus after accumulative amortization as determined according to “ASBE14 – 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 when investee announces to declare dividend; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the carrying amount deducting the accumulative amount of changes in fair value originally included in other comprehensive.

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset to the transferee, it derecognizes the financial asset. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset, and the consideration received is recognized as a financial liability. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the control over the financial asset has been given up, it derecognizes the financial asset; (2) if the control over the financial asset has not been given up, 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 of derecognition, the entire carrying amount 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 carrying amount 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 uses valuation techniques that are appropriate under the prevailing circumstances and are supported by sufficient available data and other information to recognize fair value of relevant financial assets and liabilities. The inputs to valuation techniques 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 of similar assets or liabilities in active markets; quoted prices of 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 relevant asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company's own data, etc.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

5. *Impairment test and provision for impairment 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 current 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 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:
 - ① significant financial difficulties of the debtor;
 - ② breach of contract by the debtor, such as default or overdue of principal or interest payment;
 - ③ concessions made to debtors with financial difficulties considering economic and legal factors;
 - ④ it is highly probable that the debtor is going to dissolve or going through other terms of financial restructuring;
 - ⑤ owing to significant financial difficulties of the debtor, the debt instrument is no longer available to trade on active market;
 - ⑥ Other circumstances indicating that available-for-sale debt instrument may be impaired.
 - 2) Evidence indicating that available-for-sale equity instrument investment may be impaired includes the fair value of equity instrument investment is suffered from significant or nontemporary decline and the technical, market, economic, or legal environment in which the investee operates has significant adverse changes under which the Company may not be able to recover its investment cost.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

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

The Company performs review on available-for-sale equity instrument investment on an individual basis at the balance sheet date. For equity instrument investment at fair value, if the balance sheet date fair value is 50% (including 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 (including 12 months) or longer, it is determined that such equity instrument investment is impaired; if the balance sheet date fair value is 20% (including 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 (including 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 current 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 and the excess of its carrying amount over the present value of future cash flows discounted at the then market yield for a similar financial asset are recognized as impairment loss in current profit or loss. Such impairment loss is not reversed upon recognition.

(X) Receivables

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

Judgment basis or amount criteria of individually significant amount

Accounts receivable that are outstanding balances of individual customer which accounted for over 2% (inclusive) of the balance of accounts receivable and other receivables that accounted for over 10% (inclusive) of the balance of other receivables.

Provision method for individually significant amount and with bad debt provision made on an individual basis

Conduct impairment test on an individual basis while bad debt provisions are made based on the excess of the carrying amount over the present value of future cash flow.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)****(X) Receivables (Continued)**

2. *Receivables with bad debt provision made on a collective basis using portfolios with similar credit risk features*
(1) Specific portfolios and bad debt provision method

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

Portfolio grouped with age Age analysis method

Portfolio grouped with payment from related parties Conduct impairment test on an individual basis and no provision for bad debts is made for those which show no evidence of impairment in the test

- (2) Age analysis method

Ages	Proportion of provision for accounts receivable (%)	Proportion of provision for other receivables (%)
Within 1 year (inclusive, the same hereinafter)	5.00	5.00
1-2 years	15.00	15.00
2-3 years	50.00	50.00
Over 3 years	100.00	100.00

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

Reasons for bad debt provision made on an individual basis Significant differences between the present value of future cash flows and the present value of future cash flows of groups of receivables with aforesaid credit risk characteristics.

Provision method of bad debt provision Conduct impairment testing on an individual basis while bad debt provisions are made based on the excess of the carrying amount over the present value of future cash flow.

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 future cash flows

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories

1. *Classification of inventories*
Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or supplies etc. to be consumed in the production process or in the rendering of services.
2. *Accounting method for dispatching inventories*
Inventories delivered is determined using the weighted average method at the end of every month.
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 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 respectively.
4. *Inventory system*
Perpetual inventory method is adopted.
5. *Amortization method of low-value consumables and packages*
 - (1) Low-value consumables
Amortized with one-off method.
 - (2) Packages
Amortized with one-off method.

(XII) Long-term equity investments

1. *Judgment of joint control and significant influence*
Joint control is identified as 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 identified as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control with other parties of these policies.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. Determination of investment cost

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

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

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

- 1) In the case of stand-alone financial statements, investment cost measured using the cost method is recognized at the carrying amount of the previously held equity investments plus the aggregate of new investment cost.
- 2) In the case of consolidated financial statements, whether it is a “bundled transaction” is determined. 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 amount 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, for example, other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from re-measurement of defined benefit plan of the acquiree.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. Determination of investment cost (Continued)

(3) The initial investment cost obtained through ways other than business combination and 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 “ASBE12 – Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “ASBE7 – 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 associates and joint ventures, it is accounted for with equity method.

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

(1) Stand-alone financial statements

The difference between the carrying amount of the disposed equity and the consideration obtained thereof is recognized in profit or loss. If the disposal does not result in loss of significant influence or joint control, the remaining 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 remaining equity is reclassified as available-for-sale financial assets, and accounted for according to the relevant requirements of “ASBE 22 – Financial Instruments: Recognition and Measurement”.

(2) Consolidated financial statements

1) Disposal of a subsidiary in stages not qualified as “bundled transaction” and 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 remaining 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

Stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. However, 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 current profit or loss in the period when the Company loses control over such subsidiary.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)****(XIII) Fixed assets**1. *Recognition conditions 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 are 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 in 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)	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 it is probable that future economic benefits associated with the item will flow in, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designated usable conditions.
- Construction in progress is transferred into fixed assets at its actual cost when it reaches its designated usable conditions. For project that has reached its intended use but before final accounting for completion, 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 costs1. *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 are eligible for capitalization, they are capitalized and included in the costs of relevant assets; other borrowing costs are recognized as expenses on the basis of the amount incurred, and are included in current profit or loss.

2. *Borrowing costs capitalization period*

- The borrowing costs are not capitalized unless the 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.
- 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 until the acquisition and construction or production of the asset restarts.
- 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.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Borrowing costs (Continued)

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 amount of interests to be capitalized 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 amount of interests on the general borrowing to be capitalized by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the specific borrowing by the capitalization rate of the general borrowing used.

(XVI) Intangible assets

- Intangible asset includes land use right and software, etc. The initial measurement of intangible asset is based on its cost.
- 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 the specific terms as follows:

Items	Amortization term (years)
Land use rights	37.50, 49.00
Software	5.00

- Expenditure during the research stage of the internal research and development projects are charged to the current profit or loss as incurred. Expenditure during the development stage of the internal research and development projects is recognised as intangible assets when it fulfills the following requirements: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete, use or sell the intangible asset; (3) the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the products produced by the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (4) the availability of adequate technical, financial and other resources to complete the development of the intangible asset and the ability to use or sell the intangible asset; (5) the expenditure attributable to the development stage of the intangible asset can be reliably measured.

(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 provision for impairment of assets through current profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Long-term prepayments

Long-term prepayments are expenses that have been recognized but with amortization period of 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, the residual values of such items are included in current profit or loss.

(XIX) Employee remuneration

1. *Employee benefits include short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.*
2. *Accounting treatment for short-term remuneration*
The Company recognizes, during the accounting period in which an employee provides service, short-term remuneration actually incurred as liabilities, with a corresponding charge to current profit or loss or the cost of a relevant asset.
3. *Accounting treatments for post-employment benefits*
The Company classifies post-employment benefits as defined contribution plans and defined benefit plans.
 - (1) The Company recognizes during 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 current profit or loss or the cost of a relevant asset.
 - (2) Accounting treatment by the Company for defined benefit plans usually involves the following steps:
 - 1) In accordance with the projected unit credit method, unbiased and mutually compatible actuarial assumptions are adopted 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. Meanwhile, 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, we recognize 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 the period, the Company recognizes the employee remuneration cost arising from defined benefit plans as service cost, net interest on the net defined benefit plan liability (asset) and changes as a result of re-measurement of the net defined benefit liability (asset). Service cost and net interest on the net defined benefit plan liability (asset) are included in current profit or loss or the cost of a relevant asset. Changes as a result of re-measurement of the net defined benefit liability (asset) is included in other comprehensive income and is not to be reclassified to profit or loss during subsequent accounting period. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIX) Employee remuneration (Continued)

4. *Accounting Treatment of Termination benefits*

Termination benefits provided to employees are included as an employee remuneration liability arising from termination benefits, with a corresponding charge to current profit or loss at the earlier of the following dates: (1) when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; (2) when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

5. *Accounting Treatment of Other long-term employee benefits*

When other long-term employee benefits provided to the employees satisfied the conditions of defined contribution plans, those benefits are accounted for in accordance with the requirements relating to defined contribution plans. Other long-term benefits other than the above are accounted for in accordance with the requirements related to defined benefit plans. In order to simplify relevant accounting treatment, it recognizes the cost of employee remuneration arising as the net total of service cost, net interest on the net liabilities or net assets of other long-term employee benefits and changes as a result of re-measurement of the net liabilities or net assets of other long-term employee benefits in current profit or loss or included in the cost of a relevant asset.

(XX) Estimated liabilities

1. Estimated liabilities are recognized when fulfilling the present obligations of the Company arising from contingencies such as providing guarantee for other parties, litigation, product quality guarantee, onerous contract, sales return, etc., gives rise to the possibility of a outflow of economic benefit and such amounts of obligations can be reliably measured.
2. The initial measurement of estimated liabilities 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: 1) significant risks and rewards of ownership of the goods are transferred to the buyer; 2) the Company retains neither continuing managerial involvement of ownership nor effective control over the goods sold; 3) the amount of revenue can be measured reliably; 4) it is probable that the economic benefits of the transaction will flow in; 5) 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 in, 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 from rendering of services cannot be estimated reliably at the balance sheet date, revenue from rendering of services is recognized based on the amount of the costs incurred and the costs incurred from rendering of services are charged at the same amount when the costs incurred are expected to be recoverable; and no revenue from rendering of services is recognized and the costs incurred are included in profit or loss of the current period when the costs incurred are not expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXI) Revenue (Continued)

1. *Revenue recognition principles (Continued)*

(3) Use by others of assets

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

2. *Specific method for revenue recognition*

The Company mainly sells standard joint prosthesis products, custom joint prosthesis products and spinal 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 incurred from the relevant products can be measured reliably. Revenue from overseas sales is recognized if, and only if, the Company has declared goods to the customs based on contractual agreements; a bill of lading is obtained; sales revenue from products 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 in; and the costs incurred from the relevant products can be measured reliably.

(XXII) Government grants

1. *Basis of judgement and accounting treatment of asset-related government grant*

Asset-related government grants are government grants, with which the Company acquires, constructs or otherwise forms long-term assets. Asset-related government grant should be used to offset carrying amount of related assets or recognized as deferred income. Where the asset-related government grant is recognized as deferred income, it shall be recognized as the profit or loss by stages and appropriate and systematic method is used within the useful life of related assets. The government grant measured at a nominal amount shall be included in current profit or loss directly. Where the relevant assets are sold, transferred, discarded or damaged prior to the expiry of the useful life, the undistributed balance of relevant deferred income shall be transferred into the current profit or loss in which the disposal of assets occurs.

2. *Basis of judgement and accounting method of income-related government grant*

Government grants other than those related to assets are classified as income-related government grants. For government grants that include both asset-related component and income-related component, and are difficult to differentiate whether they are asset-related or income-related grants, they are categorized as income-related government grants as a whole. Income-related government grants that are compensation for related expenses or losses in the subsequent periods shall be recognized as deferred income, and included in the current profit or loss or used to offset related costs during the periods in which the related expenses or losses are recognized. Where the grant is a compensation for related expenses or loss already incurred, it shall be included in the current profit or loss directly or used to offset related costs.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Government grants (Continued)

3. Government grants related to daily operation activity of the Company are included in other income or used to offset related expenses based on the nature of business. Government grants not related to daily activity of the Company are included in non-operating income.
4. *Accounting treatment for policy-related loan interest discounts*
 - (1) Where the finance function allocates the interest discount funds to the lending bank, and the lending bank offers loans for the Company at a policy-related interest rate, the actual borrowing amount received is recognized as the value of borrowing and the relevant borrowing expenses are measured in accordance with the principal amount of the borrowing and such policy-related interest rate discount.
 - (2) Where the finance directly allocates the interest discount funds to the Company, the corresponding loan interest will be used to offset the relevant borrowing expenses.

(XXIII) Deferred income tax assets, deferred income tax liabilities

1. Deferred income tax assets or deferred income 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 income tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain to deduct 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 income tax assets is reviewed. The carrying amount of a deferred income 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 income 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 income tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (1) business combination; (2) the transactions or items directly recognized in equity.

(XXIV) Operating leases

When the Company is the lessee, lease payments are included in cost of relevant asset or recognized as current profit or loss with straight-line method over each periods of 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 actually incurred.

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXV) Critical accounting judgements and estimates

In the course of preparing financial statements, the Company is required to use estimates and assumptions, while such estimates and assumptions may have effects on the application of accounting policies and amount of assets, liabilities, income and expenses. The actual situation may differ from the estimates. The Company performs ongoing assessment on key assumptions and judgements on uncertainty of estimation. Effects arising from changes in accounting estimates are recognized in the period when such change occurs and subsequent period onwards.

Uncertainty of key estimated amount are listed as follow:

1. *Recognition of deferred income tax assets*

As stated in deferred income tax assets and deferred income tax liabilities under Note III (XXIII) of these financial statements, the Company recognized deferred income tax assets 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 income tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference.

2. *Provision for bad debts*

As stated in receivables under Note III (X), 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 carrying amount over the present value of future cash flow. 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 carrying amount over the present value of future cash flow.

3. *Provision for inventory write-down*

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

4. *Long-term Assets impairment*

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Changes in Critical Accounting Policies and Accounting Estimates

1. *Impacts on accounting policies caused by changes in Accounting Standards for Business Enterprises*
 - (1) The Company has implemented the “Accounting Standard for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Group and Termination of Operation” promulgated by the Ministry of Finance on 28 May 2017 and the revised “Accounting Standard for Business Enterprises No. 16 – Government Grants” on 12 June 2017. The changes of such accounting policies are subject to prospective application approach.
 - (2) The Company has prepared its 2017 annual statements in accordance with the Notice on Revised Format of General Financial Statements of Enterprises promulgated by the Ministry of Finance (Cai Kuai [2017] No. 30). Gain or loss from disposal of non-current assets and gain or loss from exchanging of non-monetary assets, which were originally recorded as “non-operating income” and “non-operating expense”, are now listed as ‘gains from disposal of assets’. Such change of accounting policy is subject to retrospective adjustment approach. Non-operating expense of 2016 was reduced by RMB4,903.50 and gain from disposal of assets was reduced by RMB4,903.50.
2. *Changes in Critical Accounting Estimates*
 - (1) Details and reasons for changes in accounting estimates

Details and reasons for change in accounting estimates	Review process	Commencement date
1. With the expansion of the Company’s business scale, in order to further strengthen the management of the receivables so as to make provision for bad debts in line with the collection of receivables and the credit risk profile, the Company change the receivables (account receivables and other receivables) according to “credit-characteristic combination aging analysis method provision proportion for bad debt”. The provision proportion is increased from 3% to 5% for receivables due within 1 year, 8% to 15% for 1-2 years, 20% to 50% for 2-3 years, 50% to 100% for 3-4 years and 80% to 100% for 4-5 years.	The change was considered and approved at the 24th meeting of the 2nd session of the Board of Directors of the Company.	Commencing from 1 July 2017
2. With the expansion of the Company’s business scale, in order to make the Company’s sales return more in line with the Company’s actual and risky situation, the Company determines the return loss according to the expected return rate in consideration of sales contracts, historical returns, and projected sales management.	The change was considered and approved at the 24th meeting of the 2nd session of the Board of Directors of the Company.	Commencing from 1 July 2017

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(Continued)****(XXVI) Changes in Critical Accounting Policies and Accounting Estimates (Continued)**

2. *Changes in Critical Accounting Estimates (Continued)*
 (2) Critically affected report items and amounts

Critically affected report items	Affected amounts
Balance Sheet items at December 31, 2017	
Accounts receivable	-4,032,159.71
Other receivables	-59,494.11
Deferred income tax assets	913,814.49
Estimated liabilities	1,994,981.90
Surplus reserve	-516,667.77
Undistributed profit	-4,656,153.46
Income statement items 2017	
Operating revenue	-2,695,306.12
Operating cost	-700,324.22
Assets impairment loss	4,091,653.82
Income tax expenses	-913,814.49
Net profit	-5,172,821.23

The above changes in accounting estimates are subject to prospective application method by the Company.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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) Preferential tax and official approval

- 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 in the Tax Document Number: 90.18.
- Enterprise income tax*

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes to items of the consolidated balance sheet

1. Monetary Funds

Items	Closing balance	Opening balance
Cash in treasury	39,859.89	267,926.27
Cash in bank	371,578,568.73	297,017,863.89
Total	371,618,428.62	297,285,790.16
Including: the total amount deposited overseas	163,728,662.16	159,257,127.93

2. Notes receivable

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance bills	21,281,588.10		21,281,588.10	11,337,529.40		11,337,529.40
Commercial acceptance bills	2,058,182.00		2,058,182.00	870,330.00		870,330.00
Total	23,339,770.10		23,339,770.10	12,207,859.40		12,207,859.40

(2) Endorsed or discounted and undue notes at the balance sheet date of the Company at the end of the period

Items	Closing balance derecognized	Closing balance not yet derecognized
Bank acceptance bills	2,687,104.00	
Subtotal	2,687,104.00	

Due to the fact that the acceptor of bank acceptance bills is commercial bank, which is of high credit rating, 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 promissory note. However, if any bank acceptance bill is not recoverable when it is due, the Company is still jointly liable to the holder of bank acceptance bill in accordance with the China Commercial Instrument Law.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Proportion (%)	
Individually significant amount and with provision made for bad debts on an individual basis					
Provision made for bad debts using portfolios with similar credit risk features	84,458,114.03	98.97	11,021,307.47	13.05	73,436,806.56
Individually insignificant amount but with provision made for bad debts on an individual basis	876,752.69	1.03	657,564.52	75.00	219,188.17
Total	85,334,866.72	100.00	11,678,871.99	13.69	73,655,994.73

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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 for bad debts with age analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	64,718,290.70	3,235,914.54	5.00
1-2 years	11,316,833.33	1,697,525.00	15.00
2-3 years	4,670,244.15	2,335,122.08	50.00
Over 3 years	3,752,745.85	3,752,745.85	100.00
Subtotal	84,458,114.03	11,021,307.47	13.05

(2) Age analysis

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	64,718,290.70	3,235,914.54	5.00
1-2 years	11,984,378.02	2,198,183.52	18.34
2-3 years	4,879,452.15	2,492,028.08	51.07
Over 3 years	3,752,745.85	3,752,745.85	100.00
Total	85,334,866.72	11,678,871.99	13.69

The aging analysis of accounts receivable is based on the month in which the amount actually occurs. The amount which occurs first has priority in settlement with respect to turnover.

(3) Provisions made, collected or reversed for bad debts during the current period

Provision for bad debts made in current period totaled 2,856,461.67 yuan, and no provision for bad debts were collected or reversed in the current period.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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 accounts receivable with largest balances

Name of debtor	Book balance	Proportion to the balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang Materials Centre	9,853,497.22	11.55	492,674.86
Party A	5,713,064.00	6.69	285,653.20
Party B	5,087,650.00	5.96	320,162.50
Party C	4,667,108.00	5.47	629,312.80
Party D	3,649,230.00	4.28	182,461.50
Subtotal	28,970,549.22	33.95	1,910,264.86

4. Prepayment

(1) Age analysis

1) Details

Ages	Closing balance			Opening balance		
	Book balance	Proportion (%)	Carrying amount	Book balance	Proportion (%)	Carrying amount
Within 1 year	1,537,227.61	95.00	1,537,227.61	667,984.34	80.51	667,984.34
1-2 years				158,056.41	19.05	158,056.41
2-3 years	80,850.00	5.00	80,850.00	3,637.68	0.44	3,637.68
Total	1,618,077.61	100.00	1,618,077.61	829,678.43	100.00	829,678.43

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

Name of party	Book balance	Proportion to the balance of Prepayment (%)
Party E	351,000.00	21.69
Party F	193,684.38	11.97
Party G	153,000.00	9.46
Party H	148,300.00	9.17
Party I	141,000.00	8.71
Subtotal	986,984.38	61.00

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

5. Other receivables

(1) Details

1) Details on categories

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made for bad debts on an individual basis					
Receivables with provision made for bad debts using portfolios with similar credit risk features	1,267,217.01	100.00	351,390.48	27.73	915,826.53
Receivable of individually insignificant amount but with provision made for bad debts on an individual basis					
Total	1,267,217.01	100.00	351,390.48	27.73	915,826.53

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

5. Other receivables (Continued)

(1) Details (Continued)

- 2) In portfolios, other receivables with provision made for bad debts with age analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	659,150.25	32,957.51	5.00
1-2 years	336,151.52	50,422.73	15.00
2-3 years	7,810.00	3,905.00	50.00
Over 3 years	264,105.24	264,105.24	100.00
Subtotal	1,267,217.01	351,390.48	27.73

- (2) Provisions made, collected or reversed in current period
Provisions for bad debts made in current period totaled 41,220.69 yuan, and no provision for bad debts were collected or reversed in the current period.

- (3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	491,938.82	456,606.97
Guarantee deposit	659,779.52	514,794.36
Others	115,498.67	202,009.15
Total	1,267,217.01	1,173,410.48

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

Name of party	Nature of receivables	Book balance	Age	Proportion to the balance of other receivables (%)	Provision for bad debts
Party J	Guarantee deposit	200,000.00	1-2 years	15.78	30,000.00
Party K	Guarantee deposit	128,828.00	Over 3 years	10.17	128,828.00
Party L	Guarantee deposit	120,000.00	Within 1 year	9.47	6,000.00
Party M	Petty cash	118,750.00	Within 1 year	9.37	5,937.50
Party N	Guarantee deposit	97,151.52	1-2 years	7.67	14,572.73
Subtotal		664,729.52		52.46	185,338.23

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

6. Inventories

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw materials	15,272,958.94	226,382.59	15,046,576.35	20,213,614.59	213,304.43	20,000,310.16
Work in progress	12,164,517.19	924,109.03	11,240,408.16	9,531,130.45	8,807.35	9,522,323.10
Stock inventory	31,361,741.30	2,749,254.70	28,612,486.60	29,044,552.05	400,090.00	28,644,462.05
Goods sold	4,047,687.78		4,047,687.78	1,424,271.14		1,424,271.14
Total	62,846,905.21	3,899,746.32	58,947,158.89	60,213,568.23	622,201.78	59,591,366.45

(2) Provision for inventory write-down

1) Details

Items	Opening balance	Increase in current period		Decrease in current period		Closing balance
		Provision	Others	Reversal or write-off	Others	
Raw material	213,304.43	13,078.16				226,382.59
Work in progress	8,807.35	915,301.68				924,109.03
Stock inventory	400,090.00	2,349,164.70				2,749,254.70
Subtotal	622,201.78	3,277,544.54				3,899,746.32

Note: Since the net realizable value of part of the inventory was lower than its carrying amount in the current period, provision for inventory write-down amounted to RMB3,277,544.54 was made.

For details of provision for inventory write-down in the current period please refer to “2) Determination basis of net realizable value and reasons for the reversal or the write-off of provision for inventory write-down in the current period”.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

6. Inventories (Continued)

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

- 2) Determination basis of net realizable value and reasons for the reversal or the write-off of provision for inventory write-down in the current period

Items	Methods for provision for inventory write-down	Basis for determination of net realizable value
Raw material	According to the inventory age and physical condition of the corresponding inventory, with provision for inventory write-down made on an individual basis	The amount of the selling price less the estimated expenses and relevant taxes and surcharges
Work in progress	According to the inventory age and physical condition of the corresponding inventory, with provision for inventory write-down made on an individual basis	The amount of the selling price less the estimated expenses and relevant taxes and surcharges
Stock inventory	According to the inventory age and physical condition of the corresponding inventory, with provision for inventory write-down made on an individual basis	The amount of the selling price less the estimated expenses and relevant taxes and surcharges

7. Other current assets

Items	Closing balance	Opening balance
VAT to be deducted	116,686.21	176,195.81
Total	116,686.21	176,195.81

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

8. Fixed assets

Items	Buildings and structures	Mechanical equipment	Transport facilities	Office equipment	Total
Carrying amount					
Opening balance	20,379,712.55	50,494,439.59	1,696,653.53	844,191.90	73,414,997.57
Increase in current period		982,606.86	950,132.48	192,017.12	2,124,756.46
1) Acquisition		982,606.86	950,132.48	192,017.12	2,124,756.46
Decrease in current period					
1) Disposal or retirement					
Closing balance	20,379,712.55	51,477,046.45	2,646,786.01	1,036,209.02	75,539,754.03
Accumulated depreciation					
Opening balance	2,534,209.97	18,013,062.58	1,219,881.53	573,049.05	22,340,203.13
Increase in current period	694,627.99	4,599,340.11	229,087.35	95,606.34	5,618,661.79
1) Provision	694,627.99	4,599,340.11	229,087.35	95,606.34	5,618,661.79
Decrease in current period					
1) Disposal or retirement					
Closing balance	3,228,837.96	22,612,402.69	1,448,968.88	668,655.39	27,958,864.92
Carrying amount					
Closing balance	17,150,874.59	28,864,643.76	1,197,817.13	367,553.63	47,580,889.11
Opening balance	17,845,502.58	32,481,377.01	476,772.00	271,142.85	51,074,794.44

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

9. Construction in progress

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – First stage construction work	13,193,700.06		13,193,700.06	11,284,911.93		11,284,911.93
Total	13,193,700.06		13,193,700.06	11,284,911.93		11,284,911.93

(2) Changes in significant projects of construction in progress in current period

Name of construction	Budgets (RMB'0,000)	Opening balance	Increase in current period	Transferred to fixed assets	Other decrease	Closing balance
Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – First stage construction work	18,429.65	11,284,911.93	1,908,788.13			13,193,700.06
Subtotal	18,429.65	11,284,911.93	1,908,788.13			13,193,700.06

Name of construction	Accumulated investment to budget of construction (%)	Completion progress (%)	Accumulated amount of interest capitalization	Amount of interest capitalization in current period	Interest capitalization rate in current period (%)	Fund source
Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – First stage construction work	7.16	7.16				Self-generated funds and publicly raised fund
Subtotal	7.16	7.16				

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

10. Intangible assets

(1) Details

Items	Land use right	Software	Total
Original carrying amount			
Opening balance	37,052,810.33	547,345.29	37,600,155.62
Increased amount in current period		122,941.88	122,941.88
1) Acquisition		122,941.88	122,941.88
Decreased amount in current period			
1) Disposal			
Closing balance	37,052,810.33	670,287.17	37,723,097.50
Accumulated amortization			
Opening balance	3,441,801.19	265,379.35	3,707,180.54
Increased amount in current period	712,548.26	176,475.94	889,024.20
1) Provision	712,548.26	176,475.94	889,024.20
Decreased amount in current period			
1) Disposal			
Closing balance	4,154,349.45	441,855.29	4,596,204.74
Carrying amount			
Closing balance of carrying amount	32,898,460.88	228,431.88	33,126,892.76
Opening balance of carrying amount	33,611,009.14	281,965.94	33,892,975.08

(2) Analysis of carrying amount of land use right

Items	Closing balance	Opening balance
Outside Hong Kong [Note]	32,898,460.88	33,611,009.14
Subtotal	32,898,460.88	33,611,009.14

Note: Land use rights in intangible assets are all located in the PRC. The remaining period of these land use rights is between 37.5 years and 49 years.

11. Long-term deferred expenses

Items	Opening balance	Increase in current period	Amortization in current period	Other decrease	Closing balance
Renovation costs		1,100,000.00	91,666.65		1,008,333.35
Total		1,100,000.00	91,666.65		1,008,333.35

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

12. *Deferred income tax assets and deferred income tax liabilities*

(1) Deferred income tax assets before offset

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax asset	Deductible temporary difference	Deferred income tax asset
Provision for impairment of assets	15,930,008.79	2,399,789.38	9,754,781.89	1,471,457.51
Expected liabilities	1,994,981.90	299,247.29		
Total	17,924,990.69	2,699,036.67	9,754,781.89	1,471,457.51

(2) Deferred income tax liabilities before offset

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax asset	Deductible temporary difference	Deferred income tax asset
Accelerated depreciation of fixed assets	5,020,730.85	753,109.62	2,814,448.91	422,167.33
Total	5,020,730.85	753,109.62	2,814,448.91	422,167.33

13. *Other non-current assets*

Items	Closing balance	Opening balance
Machinery and equipment prepayments	5,840,781.71	2,978,555.00
Total	5,840,781.71	2,978,555.00

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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	Opening balance
Material Payments	25,032,183.14	18,638,372.75
Construction equipment payments	284,279.00	391,728.53
Total	25,316,462.14	19,030,101.28

(2) Age analysis

Ages	Closing balance	Opening balance
Within 1 year	24,199,043.00	16,546,978.29
1-2 years	630,217.59	2,283,125.00
2-3 years	296,603.56	65,032.50
Over 3 years	190,597.99	134,965.49
Total	25,316,462.14	19,030,101.28

15. Advances received

Items	Closing balance	Opening balance
Goods payments	15,891,150.69	4,953,824.06
Total	15,891,150.69	4,953,824.06

16. Employee remuneration payable

(1) Details

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance
Short-term remuneration	2,806,546.93	43,598,376.29	42,357,601.55	4,047,321.67
Post-employment benefits – defined contribution plan	182,987.06	3,195,400.28	2,921,891.06	456,496.28
Total	2,989,533.99	46,793,776.57	45,279,492.61	4,503,817.95

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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 benefits

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Wage, bonus, allowance and subsidy	2,427,076.94	37,518,188.52	36,577,866.93	3,367,398.53
Employee welfare premium		1,164,052.04	1,164,052.04	
Social insurance premium	129,473.42	2,790,128.61	2,547,724.38	371,877.65
Including: Medicare premium	108,559.32	2,382,717.66	2,180,261.21	311,015.77
Occupational injuries premium	10,457.05	230,789.54	207,162.51	34,084.08
Maternity premium	10,457.05	176,621.41	160,300.66	26,777.80
Housing provident funds	94,968.00	1,378,949.19	1,372,622.19	101,295.00
Trade union fund and employee education fund	155,028.57	747,057.93	695,336.01	206,750.49
Subtotal	2,806,546.93	43,598,376.29	42,357,601.55	4,047,321.67

(3) Details of defined contribution plan

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Basic endowment insurance premium	174,273.38	3,068,157.54	2,805,630.72	436,800.20
Unemployment insurance premium	8,713.68	127,242.74	116,260.34	19,696.08
Subtotal	182,987.06	3,195,400.28	2,921,891.06	456,496.28

Pursuant to the Labor Law of the People's Republic of China and relevant laws and regulations, the Company and its subsidiaries paid the basic endowment insurance premium for employees. After the employees reach the retirement age set by the state or quit the work force due to other reasons, the social insurance agency pays the pension according to law. The Company and its subsidiaries no longer bear employee retirement benefits other than this.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

17. Taxes payable

Items	Closing balance	Opening balance
VAT	7,763,495.91	4,061,179.77
Enterprise income tax	5,460,873.41	4,116,041.82
Withholding and payment of individual income tax	215,935.34	202,256.68
Urban maintenance and construction tax	400,344.30	160,145.01
Education surcharge	240,206.58	121,354.01
Local education surcharge	164,980.51	80,902.67
Stamp duty	39,720.30	
Total	14,285,556.35	8,741,879.96

18. Other payables

Items	Closing balance	Opening balance
Sales rebate	8,136,969.09	5,363,284.43
Accruals	7,200,000.00	652,264.50
Guarantee deposits	1,641,880.00	
Others	642,972.80	260,899.90
Total	17,621,821.89	6,276,448.83

19. Expected liabilities

(1) Details

Items	Closing balance	Opening balance
Expected return losses	1,994,981.90	
Total	1,994,981.90	

(2) Other remarks

From July 1, 2017, the Company calculates the estimated liability for confirmed return loss according to the estimated return rate and the gross profit rate of product sales; when the return actually occurs, the estimated liability is reduced.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

20. Deferred income

(1) Details

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reasons
Government grants	16,805,269.13		1,982,771.54	14,822,497.59	Government grants related to assets/income
Total	16,805,269.13		1,982,771.54	14,822,497.59	

(2) Details of government grants

Items	Opening balance	Amount of grants increased for the period	Included in current profit or loss for the period	Closing balance	Related to assets/related to income
Grant for industrialization of ceramic femoral head on ceramic hip joint prostheses	4,651,747.59		567,000.00	4,084,747.59	Related to assets
Grant for PEEK interbody fusion cage	1,863,400.00		199,650.00	1,663,750.00	Related to assets
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	8,559,000.00		951,000.00	7,608,000.00	Related to assets
Grant for clinical study and construction project of pilot production capacity of spinal artificial vertebral fixation system	1,731,121.54		265,121.54	1,466,000.00	Related to assets/related to income
Subtotal	16,805,269.13		1,982,771.54	14,822,497.59	

Note: Government grants are included in the current profit or loss for the current period. For details, please refer to the remarks of other government grants to the notes to items of consolidated financial statements in the notes of this financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

21. Share capital

Items	Movements for the period (Decrease are represented by "-")						Closing balance
	Opening balance	Issue of new shares	Bonus shares	Reserve transferred to shares	Others	Subtotal	
Retricted shares	50,000,000.00						50,000,000.00
Held by domestic legal persons							
Held by domestic natural persons	50,000,000.00						50,000,000.00
Unrestricted shares	19,170,400.00						19,170,400.00
H shares	19,170,400.00						19,170,400.00
Total	69,170,400.00						69,170,400.00

22. Capital reserve

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Capital premium (share premium)	228,239,180.01			228,239,180.01
Other capital reserve	1,800,000.00			1,800,000.00
Total	230,039,180.01			230,039,180.01

23. Surplus reserve

(1) Details

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	23,774,980.13	6,824,206.01		30,599,186.14
Total	23,774,980.13	6,824,206.01		30,599,186.14

(2) Other remarks

Pursuant to the Company's articles of association, the increase for the period is due to the appropriation of statutory surplus reserve at 10% of the realized net profit of the parent company in current period.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

24. Undistributed profit

(1) Details

Items	Amount for the current period	Amount for the corresponding period of last year
Balance before adjustment at the end of preceding period	157,925,043.22	106,970,076.99
Total balance at the beginning of the adjustment (Increase+, decrease-)		
Balance after adjustment at the beginning of the period	157,925,043.22	106,970,076.99
Add: Net profit attributable to owners of the parent company for the current period	68,283,986.86	63,440,590.82
Less: Appropriation of statutory surplus reserve	6,824,206.01	6,398,629.39
Dividend payable on ordinary shares	10,721,412.00	6,086,995.20
Closing balance	208,663,412.07	157,925,043.22

(2) Other remarks

Pursuant to the resolution of the meeting of the Board of Directors on March 31, 2017 and the resolution of the annual general meeting for the year of 2016 on June 28, 2017, the Company declared and paid the 2016 final dividend to all shareholders of the Company at a cash dividend of RMB0.155 per share (including tax), amounting to a total cash dividend of RMB10,721,412.00 (including tax).

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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	Amount for the current period		Amount for the corresponding period of last year	
	Income	Cost	Income	Cost
Revenue from main operation	300,317,298.79	84,062,884.30	207,926,096.34	48,261,494.80
Total	300,317,298.79	84,062,884.30	207,926,096.34	48,261,494.80

2. Taxes and surcharge

Items	Amount for the current period	Amount for the corresponding period of last year
Urban maintenance and construction tax	1,802,346.14	1,219,900.22
Education surcharge	1,081,407.68	707,585.51
Local education surcharge	720,938.45	512,314.71
Stamp duty [Note]	309,440.90	1,150.00
Housing property tax [Note]	103,325.22	60,273.05
Land use tax [Note]	75,548.78	44,070.12
Vehicle and vessel tax [Note]	5,581.30	
Total	4,098,588.47	2,545,293.61

Note: According to the "Regulations for the Accounting Treatment of Value Added Tax" (Cai Hui[2016] No.22) and "Interpretation of Issues Concerning the 'Regulations for the Accounting Treatment of Value Added Tax'," issued by the Ministry of Finance, the Company listed the amount of housing property tax, land use tax and stamp duty arising from May to December 2016 and the year of 2017 in "Taxes and surcharge" item, and the amount before May 2016 is still listed in the "Administrative expenses" item.

3. Selling expenses

Items	Amount for the current period	Amount for the corresponding period of last year
Market development expenses	63,321,691.27	32,995,932.29
Employee benefits	11,283,448.95	10,087,811.35
Sales rebate	8,136,969.09	5,363,284.43
Office expenses	2,574,077.93	1,265,868.73
Transportation expenses	1,192,479.88	1,012,764.20
Others	2,439,192.16	1,502,455.53
Total	88,947,859.28	52,228,116.53

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

4. Administrative expenses

Items	Amount for the current period	Amount for the corresponding period of last year
Research and development expenses	21,216,267.23	14,281,599.38
Employee benefits	11,870,125.31	10,975,231.09
Agency fees	5,274,718.34	3,768,932.23
Depreciation and amortization expenses	1,864,087.67	1,826,588.37
Office and travelling expenses	1,379,630.37	1,300,385.93
Rentals and property expenses	1,110,303.08	1,311,782.99
Business entertainments expenses	340,258.23	448,184.45
Tax charges [Note]		74,530.83
Others	1,272,875.17	1,203,137.07
Total	44,328,265.40	35,190,372.34

Notes: For details, please refer to the remarks of taxes and surcharge in note V(II) 2 of these financial statements.

(2) Administrative expenses for the year include auditor's remuneration of RMB735,849.06 (2016: RMB735,849.06).

5. Financial expenses

Items	Amount for the current period	Amount for the corresponding period of last year
Interest expenses		
Less: Interest income	5,495,618.81	4,526,409.75
Less: Foreign exchange gains		1,373,322.25
Add: Foreign exchange losses	1,264,104.90	
Add: Handling fees	86,541.38	64,583.05
Total	-4,144,972.53	-5,835,148.95

6. Assets impairment loss

Items	Amount for the current period	Amount for the corresponding period of last year
Loss from bad debts	2,897,682.36	4,095,726.08
Inventory write-down loss	3,277,544.54	622,201.78
Total	6,175,226.90	4,717,927.86

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

V. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to items of the consolidated income statement (Continued)**7. *Assets disposal income*

Items	Amount for the current period	Amount for the corresponding period of last year
Profit or loss of non-current assets disposal		-4,903.50
Total		-4,903.50

8. *Other income*

Items	Amount for the current period	Amount for the corresponding period of last year
Government grants	2,131,772.05	
Total	2,131,772.05	

Details of government grants included in other income for the current period set out in the remarks of other government grants to the notes to items of consolidated financial statements in the notes of these financial statements.

9. *Non-operating income*(1) *Details*

Items	Amount for the current period	Amount for the corresponding period of last year
Government grants		3,593,173.41
Others	31,723.78	183,276.37
Total	31,723.78	3,776,449.78

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

9. *Non-operating income (Continued)*
 (2) Details of government grants

Subsidized items	Amount for the current period	Amount for the corresponding period of last year	Related to assets/related to income
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory		951,000.00	Related to assets
Grant for clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system		768,878.46	Related to income
Grant for clinical study of high crosslinked polyethylene knee prosthesis		600,000.00	Related to income
Grant for industrialisation of ceramic femoral head on ceramic hip prostheses		515,007.72	Related to assets
International market development fund for small and medium sized foreign trade enterprises		429,692.00	Related to income
Grant for PEEK interbody fusion cage		133,100.00	Related to income
Advanced enterprise award		100,000.00	Related to income
Subsidy for employment stabilization		86,995.23	Related to income
Subsidy for disposal vehicle		7,500.00	Related to income
Subsidy from Z-Park Credit Promotion Association		1,000.00	Related to income
Subtotal		3,593,173.41	

10. *Non-operating expenses*

Items	Amount for the current period	Amount for the corresponding period of last year
Losses on destruction and retirement of non-current assets		74,917.21
Including: Losses on destruction and retirement of fixed assets		74,917.21
External donation	215,195.57	710,507.34
Others	2,100.00	60,182.00
Total	217,295.57	845,606.55

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

11. Income tax expenses

(1) Details

Items	Amount for the current period	Amount for the corresponding period of last year
Current period income tax expenses	11,408,297.24	10,748,845.97
Deferred income tax expenses	-896,636.87	-445,456.91
Total	10,511,660.37	10,303,389.06

(2) Reconciliation between accounting profit and income tax expenses

Items	Amount for the current period	Amount for the corresponding period of last year
Total profit	78,795,647.23	73,743,979.88
Income tax expenses based on tax rate of the parent company	11,819,347.08	11,061,596.98
Effect of different tax rate applicable to subsidiaries	3,680.72	-54,982.32
Effect of prior income tax adjustment	136,021.63	139,242.27
Effect of non-deductible costs, expenses and losses	158,152.35	95,316.38
Effects of research and development expenses and other additional deductions	-1,591,220.04	-1,071,119.95
Effect of utilization of deductible losses not recognized as deferred income tax assets in prior periods	-14,321.37	
Effect of deductible temporary differences or deductible losses not recognized as deferred income tax assets in current period		133,335.70
Income tax expenses	10,511,660.37	10,303,389.06

(3) The Company and its subsidiaries have no profits generated in or derived from Hong Kong in 2017 and 2016, and they are not required to pay the Hong Kong profits tax.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

1. Other cash receipts related to operating activities

Items	Amount for the current period	Amount for the corresponding period of last year
Receipt of government grants	149,000.51	2,225,187.23
Receipt of guarantee deposits	1,641,880.00	
Other receipts	33,261.50	183,090.87
Total	1,824,142.01	2,408,278.10

2. Other cash payments related to operating activities

Items	Amount for the current period	Amount for the corresponding period of last year
Payment of market development expenses	56,121,691.27	32,995,932.29
Payment of research and development expenses	13,425,051.36	9,227,968.36
Payment of agency fees	5,274,718.34	3,768,932.23
Payment of office and travelling expenses	3,953,708.30	2,566,254.66
Other payments	10,227,236.95	6,949,596.17
Total	89,002,406.22	55,508,683.71

3. Other cash receipts related to investing activities

Items	Amount for the current period	Amount for the corresponding period of last year
Receipt of interest income	5,495,618.81	4,526,409.75
Receipt of deposit for L/C		4,026,863.96
Receipt of government grants relating to assets		1,500,000.00
Total	5,495,618.81	10,053,273.71

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

4. Supplemental information to the cash flow statement

(1) Supplemental information to the cash flow statement

Supplemental information	Amount for the current period	Amount for the corresponding period of last year
1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	68,283,986.86	63,440,590.82
Add: Provision for assets impairment	6,175,226.90	4,717,927.86
Depreciation of fixed assets, oil and gas assets, productive biological assets	5,618,661.79	5,131,959.84
Amortization of intangible assets	889,024.20	870,108.73
Amortization of long term prepayments	91,666.65	
Loss on disposal of fixed assets, intangible assets and other long term assets (Gain represented by “-”)		79,820.71
Fixed assets retirement loss (Gain represented by “-”)		
Losses on changes in fair value (Gain represented by “-”)		
Financial expenses (Gain represented by “-”)	-4,203,527.03	-5,899,732.00
Investments losses (Gain represented by “-”)		
Decrease of deferred income tax assets (Increase represented by “-”)	-1,227,579.16	-709,337.22
Increase of deferred income tax liabilities (Decrease represented by “-”)	330,942.29	263,880.31
Decrease in inventories (Increase represented by “-”)	-2,633,336.98	4,422,122.08
Decrease in operating receivables (Increase represented by “-”)	-20,031,241.52	-12,552,863.13
Increase of operating payables (Decrease represented by “-”)	36,539,290.42	5,180,794.34
Others		
Net cash flow from operating activities	89,833,114.42	64,945,272.34
2) Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into share capital		
Convertible corporate bonds due within one year		
Fixed assets rented under finance leases		
3) Net changes in cash and cash equivalents:		
Balance of cash at the end of the period	371,618,428.62	297,285,790.16
Less: Balance of cash at the beginning of the period	297,285,790.16	235,039,491.78
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase of cash and cash equivalents	74,332,638.46	62,246,298.38

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

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

4. *Supplemental information to the cash flow statement (Continued)*
 (2) Composition of cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	371,618,428.62	297,285,790.16
Including: Cash on hand	39,859.89	267,926.27
Cash in bank on demand for payment	371,578,568.73	297,017,863.89
2) Cash equivalents		
Including: Bond investments maturing within three months		
3) Balance of cash and cash equivalents at the end of the period	371,618,428.62	297,285,790.16
Including: Parent company or subsidiaries of the Group using restricted cash and cash equivalents		

- (3) Commercial bills amount transferable by endorsement not involving cash receipts and payments

Items	Amount for the current period	Amount for the preceding period
Commercial bills amount transferable by endorsement	8,228,760.10	10,535,337.80
Including: Loans payment	8,228,760.10	10,535,337.80
Payments for purchases of long term assets such as fixed assets		

(V) Others

1. *Monetary items in foreign currencies*

Items	Closing balance in foreign currencies	Exchange rate	Converted to RMB balance at the end of the period
Monetary capital			13,767,561.92
Including: USD	602,328.70	6.5342	3,935,736.19
EUR	290.50	7.8023	2,266.57
HKD	11,759,111.82	0.83591	9,829,559.16
Accounts receivable			4,424,393.86
Including: USD	677,113.32	6.5342	4,424,393.86
Accounts payable			2,082,520.55
Including: EUR	266,911.11	7.8023	2,082,520.55

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

(V) Others (Continued)

2. Government grants

(1) Details

- 1) Government grants related to assets
Gross method

Items	Deferred income at the beginning of the period	Additional grants for the period	Amortization for the period	Deferred income at the end of the period	Listed items for amortization for the period	Remarks
Grant for industrialisation of ceramic femoral head on ceramic hip prostheses	4,651,747.59		567,000.00	4,084,747.59	Other income	Notice of Beijing Science & Technology Commission on the releasing fund for "industrialisation of ceramic femoral head on ceramic hip prostheses"
Grant for PEEK interbody fusion cage	1,863,400.00		199,650.00	1,663,750.00	Other income	Notice of Beijing Science & Technology Commission on the releasing fund for "clinical study of PEEK interbody fusion cage"
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	8,559,000.00		951,000.00	7,608,000.00	Other income	Jing Fa Gai [2015] No.417 of the approval of grant for innovation ability development on joint prosthesis of Beijing engineering laboratory
Grant for clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system	1,500,000.00		34,000.00	1,466,000.00	Other income	Notice of Beijing Science & Technology Commission on the releasing fund for "clinical study on new species and upgrade of key technology - clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system"
Subtotal	16,574,147.59		1,751,650.00	14,822,497.59		

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

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

(V) Others (Continued)

2. Government grants (Continued)

(1) Details (Continued)

- 2) Government grants related to income and used to compensate related costs or losses that have occurred in the Company

Items	Amounts	Listed items	Remarks
Grant for clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system	231,121.54	Other income	Notice of Beijing Science & Technology Commission on the releasing fund for "clinical study on new species and upgrade of key technology – clinical study and construction of pilot production capacity of spinal artificial vertebral fixation system"
Financial subsidy for advanced units	100,000.00	Other income	Huofa [2017] No.1
Subsidy for employment stabilization	49,000.51	Other income	Jing Ren She Fu Fu[2017]No. 957
Subtotal	380,122.05		

- (2) The amount of government grants included in the current profit or loss of current period is RMB2,131,772.05.

VI. INTEREST IN OTHER ENTITIES

Interest in significant subsidiaries

Basic situation

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company aims to seek the balance between the risks and benefits from its risk management and to mitigate the adverse effects that the risks have on the Company's operating results, so as to maximize the benefit of shareholders and other equity investors. Based on such objectives, the basic strategies of the Company's risk management are 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 promptly and reliably.

The Company has exposure to the following risks from its daily use of financial instruments, which mainly include: credit risk, liquidity risk, and market risk. The Management has 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 to 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 respectively.

1. *Bank balances*

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

2. *Receivables*

The Company performs credit assessment on customers who use credit settlement on a continuous basis. The Company selects credible and well-reputed customers based on credit assessment result, and monitors its balance of receivables, to avoid significant risks in bad debts.

As the Company's credit risks fall into several business partners and customers, as at December 31, 2017, 33.95% (December 31, 2016: 33.06%) of the accounts receivable of the Company was due from the five largest customers. The Company has no significant concentration of credit risk.

(II) Liquidity risk

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

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

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(II) Liquidity risk (Continued)

Financial liabilities classified based on remaining time period till maturity

Items	Carrying amount	Closing balance			
		Contract amount not yet discounted	Within 1 year	1-3 years	Over 3 years
Accounts payable	25,316,462.14	25,316,462.14	25,316,462.14		
Other payable	17,621,821.89	17,621,821.89	17,621,821.89		
Subtotal	42,938,284.03	42,938,284.03	42,938,284.03		

Items	Carrying amount	Opening balance			
		Contract amount not yet discounted	Within 1 year	1-3 years	Over 3 years
Accounts payable	19,030,101.28	19,030,101.28	19,030,101.28		
Other payable	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. Market risk mainly comprises interest risk and foreign currency risk.

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 does not have interest-bearing borrowings, and the risk of changes in market interest rates is not significant.

2. Foreign currency risk

Foreign currency risk is the risk that an enterprise may encounter fluctuation in fair value of financial instrument or future cash flows 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 remarks of other foreign currency item of the notes to items of consolidated financial statements under the notes to these financial statements for details in the Company's foreign currency and liabilities at the end of the period.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(I) Related party

1. Actual controllers of the Company

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	Director and Deputy General Manager	28.32	28.32

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

2. Please refer to the remarks of interest in other entities of the notes to financial statements for details of the subsidiaries of the Company.

3. Other related party of the Company

Name of other related party	Relationships of other related party with the Company
Beijing Gaoyang Materials Centre	郭福祥(Guo Fuxiang), person in charge of Beijing Gaoyang Materials Centre, is the husband of Shi Chunbao's cousin.

(II) Related party transactions

1. Related party transactions for sale and purchase of goods and rendering and acceptance of services

(1) Details

1) Related party transactions for sale of goods and rendering services (excluding tax)

Related party	Content of related party transaction	Amount for the current period	Amount for the corresponding period of last year
Beijing Gaoyang Materials Centre	Sale of goods	12,819,153.84	13,094,646.36

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors

Items	Amount for the current period					Total
	Fees	Wage, bonus, allowance, and subsidy	Pension	Housing provident funds	Other social insurance premium	
Executive directors:						
Mr. Shi Chunbao		600,110.00	9,120.00	3,240.00	6,672.72	619,142.72
Ms. Yue Shujun		520,110.00	9,120.00	3,240.00	6,672.72	539,142.72
Mr. Wang Jianliang [Note 1]		225,119.10	6,744.24	3,240.00	6,672.72	241,776.06
Non-executive director						
Mr. Lin Yiming [Note 2]						
Independent non-executive director						
Ms. Xu Hong [Note 3]	50,000.00					50,000.00
Mr. Tong Xiaobo	100,000.00					100,000.00
Mr. Cheung Ying Kwan	100,000.00					100,000.00
Mr. Ge Changyin [Note 4]	50,000.00					50,000.00
Supervisors:						
Mr. Zhang Jinyong [Note 5]						
Ms. Pei Xiaohui [Note 5]						
Ms. Zhang Lanlan		94,946.01	6,744.24	3,240.00	6,572.70	111,502.95
Total	300,000.00	1,440,285.11	31,728.48	12,960.00	26,590.86	1,811,564.45

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

2. Emoluments of directors and supervisors (Continued)

Items	Fees	Amount for the corresponding period of last year				Total
		Wage, bonus, allowance, and subsidy	Pension	Housing provident funds	Other social insurance premium	
Executive directors:						
Mr. Shi Chunbao		600,000.00	9,280.00	2,880.00	6,159.44	618,319.44
Ms. Yue Shujun		330,000.00	9,280.00	2,880.00	6,159.44	348,319.44
Mr. Wang Jianliang [Note 1]		116,689.50	2,153.84	960.00	2,063.64	121,866.98
Mr. Zhang Zhendong [Note 6]		61,636.00	3,050.30	1,440.00	2,843.80	68,970.10
Non-executive director						
Mr. Lin Yiming [Note 2]						
Independent non-executive directors						
Ms. Xu Hong	100,000.00					100,000.00
Mr. Tong Xiaobo	100,000.00					100,000.00
Mr. Cheung Ying Kwan	100,000.00					100,000.00
Supervisors:						
Mr. Qi Yi [Note 7]		61,810.00				61,810.00
Mr. Xie Fengbao [Note 7]		72,079.60	3,588.76		5,039.71	80,708.07
Ms. Zhang Lanlan		74,014.97	6,281.06		8,819.26	89,115.29
Mr. Zhang Jinyong [Note 5]						
Ms. Pei Xiaohui [Note 5]						
Total	300,000.00	1,316,230.07	33,633.96	8,160.00	31,085.29	1,689,109.32

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

Note 2: Mr Lin Yiming's remuneration was not paid by the Company during his term of office.

Note 3: On 29 June 2017, Ms. Xu Hong resigned from the duties of directors of the Company.

Note 4: On 29 June 2017, Mr Ge Changyin was appointed as director of the Company.

Note 5: On 22 July 2016, Mr. Zhang Jinyong and Ms. Pei Xiaohui were appointed as supervisors of the Company, and their remuneration was not paid by the Company during their terms of office.

Note 6: On 27 June 2016, Mr Zhang Zhendong resigned from the duties of directors of the Company.

Note 7: On 22 July 2016, Mr Qi Yi and Mr Xie Fengbao resigned from the duties of supervisors of the Company.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

3. Five highest paid employees

The five highest paid employees for the year include two directors (2016: two), their emoluments details are set out in Note VIII (II) 3 in these financial statements, the emoluments of the remaining three highest paid non-director employees (2016: three) for the year are as follows:

Items	Amount for the current period	Amount for the corresponding period of last year
Wage, bonus, allowance, and subsidy	758,214.31	940,627.83
Pensions	52,248.48	60,543.54
Housing provident funds	30,960.00	50,400.00
Other social insurance premium	38,849.40	41,104.58
Total	880,272.19	1,092,675.95

Items	No. of employees for the period	No. of employees for the same period last year
Nil to HK\$1,000,000	3	3

(III) Receivables from or payable to related parties

Receivables from related parties

Items	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Bills receivables	Beijing Gaoyang Materials Centre	1,736,600.00		1,327,350.00	
Subtotal		1,736,600.00		1,327,350.00	
Accounts receivables	Beijing Gaoyang Materials Centre	9,853,497.22	492,674.86	8,862,197.22	265,865.92
Subtotal		9,853,497.22	492,674.86	8,862,197.22	265,865.92

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

IX. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

1. Leasing contracts that have been signed or are to be fulfilled and financial impacts

At the end of each reporting period, the gross future minimum payments under the irrevocable operating lease contract are as follows:

Items	Amount for the current period	Amount for the corresponding period of last year
Within 1 year	1,099,164.81	1,361,118.24
1-5 years	291,454.56	224,801.13
Total	1,390,619.37	1,585,919.37

2. Capital commitments

Items	Program	Amount for the current period	Amount for the corresponding period of last year
Large-sum contracts that have been signed or are to be fulfilled		4,661,974.01	7,466,660.68
Large-sum contracts that have been approved but not signed	Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – First stage construction work	143,185,886.56	145,843,623.38
	Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – Second stage construction work	260,112,700.00	260,112,700.00
Total		407,960,560.57	413,422,984.06

(II) Contingencies

As at the balance sheet date, the Company has no significant contingencies to be disclosed.

X. EVENTS AFTER THE BALANCE SHEET DATE

Profit distribution after the balance sheet date

Profit or dividend planned to be distributed	
Profit or dividend approved to be distributed	15,978,362.40

Save as mentioned above, as at the date of the approval of this financial statements, the Company has no other non-adjustment events that need to be disclosed after the significant balance sheet date.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

XI. OTHER SIGNIFICANT EVENTS

Segment information

The Company's revenue mainly derived from the manufacture and sale of surgical implants, instruments and related products. Based on the Company's internal organizational structure, management requirements, internal reporting policies, there is no diversification or cross-regional operation and so no segment information is prepared.

XII. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

(I) Notes to items of parent company's balance sheet

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

Categories	Book balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision for bad debts made on an individual basis					
Receivables with provision for bad debts made on a collective basis using portfolios with similar credit risk features	84,122,551.88	98.97	11,000,829.17	13.08	73,121,722.71
Receivables of individually insignificant amount but with provision for bad debts made on an individual basis	876,752.69	1.03	657,564.52	75.00	219,188.17
Total	84,999,304.57	100.00	11,658,393.69	13.72	73,340,910.88

Categories	Book balance		Opening balance		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision for bad debts made on an individual basis					
Receivables with provision for bad debts 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
Receivables of individually insignificant amount but with provision for bad debts made on an individual basis	3,110,800.74	4.02	2,333,100.56	75.00	777,700.18
Total	77,294,413.36	100.00	8,822,410.32	11.41	68,472,003.04

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**XII. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)****(I) Notes to items of parent company's balance sheet (Continued)**1. *Accounts receivables (Continued)*

(1) Details (Continued)

- 2) In portfolios, accounts receivable with provision for bad debts made with age analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	64,308,724.70	3,215,436.24	5.00
1-2 years	11,316,833.33	1,697,525.00	15.00
2-3 years	4,670,244.15	2,335,122.08	50.00
Over 3 years	3,752,745.85	3,752,745.85	100.00
Subtotal	84,048,548.03	11,000,829.17	13.09

- 3) In portfolios, accounts receivable with provision for bad debts made with other method

Portfolio	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Portfolio of related parties in consolidation	74,003.85		
Subtotal	74,003.85		

(2) Age analysis

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	64,382,728.55	3,215,436.24	4.99
1-2 years	11,984,378.02	2,198,183.52	18.34
2-3 years	4,879,452.15	2,492,028.08	51.07
Over 3 years	3,752,745.85	3,752,745.85	100.00
Total	84,999,304.57	11,658,393.69	13.72

The accounts receivables are based on the actual month of the account as the basis for the age analysis. The funds that occurred first will be settled first when the funds are revolved.

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**XII. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)****(I) Notes to items of parent company's balance sheet (Continued)**1. *Accounts receivables (Continued)*

(3) Provision for bad debts made, collected or reversed in current period
The provision for bad debts made in current period was RMB2,835,983.37, and no provision for bad debts were collected or reversed in the current period.

(4) Details of the top five account receivables

Name of unit	Book balance	Proportion to the balance of accounts receivable (%)	Provision for bad debts
Beijing Gaoyang Materials Centre	9,853,497.22	11.59	492,674.86
Party A	5,713,064.00	6.72	285,653.20
Party B	5,087,650.00	5.99	320,162.50
Party C	4,667,108.00	5.49	629,312.80
Party D	3,649,230.00	4.29	182,461.50
Subtotal	28,970,549.22	34.08	1,910,264.86

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**XII. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)****(I) Notes to items of parent company's balance sheet (Continued)**

2. Other receivables

(1) Details

1) Details on categories

Categories	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amounts	Proportion (%)	Amounts	Provision proportion (%)	
Receivables of individually significant amount and with provision for bad debts made on an individual basis					
Receivables with provision for bad debts made on a collective basis using portfolios with similar credit risk features	1,184,814.77	100.00	268,988.24	22.70	915,826.53
Receivables of individually insignificant amount but with provision for bad debts made on an individual basis					
Total	1,184,814.77	100.00	268,988.24	22.70	915,826.53

Categories	Book balance		Opening balance Provision for bad debts		Carrying amount
	Amounts	Proportion (%)	Amounts	Provision proportion (%)	
Receivables of individually significant amount and with provision for bad debts made on an individual basis					
Receivables with provision for bad debts 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
Receivables of individually insignificant amount but with provision for bad debts made on an individual basis					
Total	1,091,008.24	100.00	227,767.55	20.88	863,240.69

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

XII. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)**(I) Notes to items of parent company's balance sheet (Continued)**

2. Other receivables (Continued)

(1) Details (Continued)

- 2) In portfolios, other receivables with provision for bad debts made with age analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 1 year	659,150.25	32,957.51	5.00
1-2 years	336,151.52	50,422.73	15.00
2-3 years	7,810.00	3,905.00	50.00
Over 3 years	181,703.00	181,703.00	100.00
Subtotal	1,184,814.77	268,988.24	22.70

- (2) Provision for bad debts made, collected or reversed in current period
The provision for bad debts made in current period was RMB41,220.69, and no provision for bad debts was collected or reversed in the current period.
- (3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	491,938.82	456,606.97
Guarantee deposits	659,779.52	514,794.36
Others	33,096.43	119,606.91
Total	1,184,814.77	1,091,008.24

- (4) Details of the top five other receivables

Name of unit	Nature of receivables	Book balance	Ages	Proportion to the balance of other receivables (%)	Provision for bad debts
Party J	Guarantee deposit	200,000.00	1-2 years	16.88	30,000.00
Party K	Guarantee deposit	128,828.00	Over 3 years	10.87	128,828.00
Party L	Guarantee deposit	120,000.00	Within 1 year	10.13	6,000.00
Party M	Petty cash	118,750.00	Within 1 year	10.02	5,937.50
Party N	Guarantee deposit	97,151.52	1-2 years	8.20	14,572.73
Subtotal		664,729.52		56.10	185,338.23

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi Yuan

**XII. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)****(I) Notes to items of parent company's balance sheet (Continued)**

3. Long term equity investments

(1) Details

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

(2) Investments in subsidiaries

Investees	Opening balance	Increase for the period	Decrease for the period	Closing balance	Provision for	Closing
					impairment made in current period	balance of provision for impairment
Beijing Zhao Yi Te Medical Instrument Co., Ltd	665,263.00			665,263.00		
Subtotal	665,263.00			665,263.00		

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

1. Operating revenue/operating cost

Items	Amount for the current period		Amount for the corresponding period of last year	
	Revenue	Cost	Revenue	Cost
Revenue from main operations	300,041,246.24	84,060,813.13	207,926,096.34	48,261,494.80
Total	300,041,246.24	84,060,813.13	207,926,096.34	48,261,494.80

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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	13.40	0.99	0.99

2. Calculation process of weighted average RONA

Items	Symbols	Amount for the current period
Net profit attributable to shareholders of ordinary shares	A	68,283,986.86
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	C	
Number of months counting from the next month when the net assets were increased to the end of the reporting period	D	
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	6
Number of months in the reporting period	G	12
Weighted average net assets	$H = B + A \times 1/2 + C \times D / G - E \times F / G$	509,690,890.79
Weighted average RONA (%)	$I = A / H$	13.40

NOTES TO FINANCIAL STATEMENTS

For the year 2017

Monetary unit: Renminbi 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	Amount for the current period
Net profit attributable to shareholders of ordinary shares	A	68,283,986.86
Opening balance of total shares	B	69,170,400.00
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	C	
Number of shares increased due to offering of new shares or conversion of debts into shares	D	
Number of months counting from the next month when the share was increased to the end of the reporting period	E	
Number of shares decreased due to share repurchase	F	
Number of months counting from the next month when the share was decreased to the end of the reporting period	G	
Number of shares decreased in the reporting period	H	
Number of months in the reporting period	I	12
Weighted average of outstanding ordinary shares	$J = \frac{B+C+D \times E/I - F \times G/I}{H}$	69,170,400.00
Basic EPS	$K = A/J$	0.99

(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.

(III) Remarks on variance between financial reporting prepared under domestic and overseas accounting standards

The Company has prepared this financial report under ASBES. In 2017, pursuant to the "Consultation Conclusions on Acceptance of Mainland Accounting and Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by HKEX in December 2010, the Company has decided to prepare financial statements under ASBES for disclosure in HKEX.

Beijing Chunlizhengda Medical Instruments Co., Ltd.

March 28, 2018