

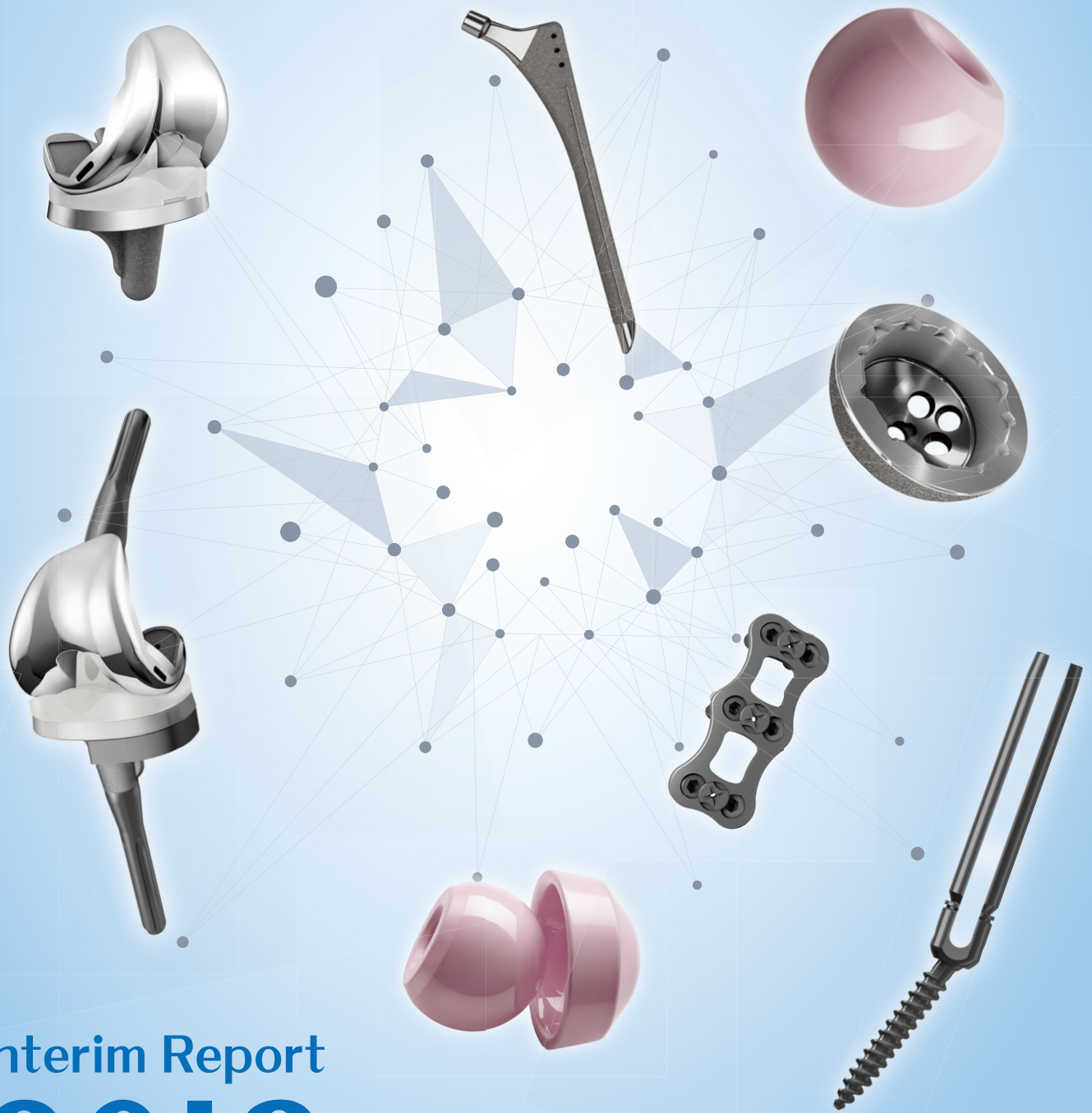


北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.\*

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

Stock code: 1858



Interim Report  
**2018**

\* For identification purpose only

# CONTENTS

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Corporate Information	2
Management Discussion and Analysis	3
Corporate Governance and Other Information	11
Review Report	14
Consolidated Balance Sheet	15
Parent Company's Balance Sheet	17
Consolidated Profit Statement	19
Parent Company's Consolidated Profit Statement	21
Consolidated Cash Flow Statement	23
Parent Company's Consolidated Cash Flow Statement	25
Consolidated Statement of Changes in Equity	27
Parent Company's Consolidated Statement of Changes in Equity	29
Notes to Financial Statements	31

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

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

### Non-executive Director

Mr. Lin Yiming

### Independent non-executive directors

Mr. Ge Changyin  
Mr. Tong Xiaobo  
Mr. Ho Wai Ip

## SUPERVISORS

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

## AUDIT COMMITTEE

Mr. Ge Changyin (*Chairman*)  
Mr. Lin Yiming  
Mr. Tong Xiaobo  
Mr. Ho Wai Ip

## REMUNERATION COMMITTEE

Mr. Tong Xiaobo (*Chairman*)  
Mr. Shi Chunbao  
Mr. Ge Changyin

## NOMINATION COMMITTEE

Mr. Shi Chunbao (*Chairman*)  
Mr. Ge Changyin  
Mr. Ho Wai Ip

## JOINT COMPANY SECRETARIES

Mr. Yuan Rui (resigned on 10 August 2018)  
Mr. Ip Pui Sum (CPA (Practising), FCCA,  
ACMA, ACIS, ACS)

## AUTHORISED REPRESENTATIVES

Mr. Yuan Rui (resigned on 10 August 2018)  
Ms. Yue Shujun (appointed on 10 August 2018)  
Mr. Ip Pui Sum (CPA (Practising), FCCA,  
ACMA, ACIS, ACS)

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE 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  
(Special General Partnership) (resigned on 13 July 2018)  
WUYIGE Certified Public Accountants LLP  
(Special General Partnership) (appointed on 13 July 2018)  
Certified Public Accountants

## LEGAL ADVISORS AS TO HONG KONG LAW

Zhong Lun Law Firm

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

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

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

Due to the wide range of medical device products offered in the medical device industry, the medical device market in the PRC is highly fragmented and most of the manufacturers are relatively 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 market is generally divided into three major segments, namely trauma, spine and joint. In particular, the joint implant market is highly concentrated with multinational corporations dominating the market segment. However, with the advancement of the healthcare reform in the PRC 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.

## BUSINESS REVIEW

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

For the six months ended 30 June 2018, we recorded a revenue of RMB213.1 million yuan, representing an increase of 71.6%, as compared with the corresponding period of the previous year (corresponding period of 2017: RMB124.2 million yuan). The gross profit was RMB135.7 million yuan, representing an increase of 45.4% as compared with the corresponding period of the previous year (corresponding period of 2017: RMB93.3 million yuan). The profit attributable to equity holders of the Company was RMB50.4 million yuan, representing an increase of 42.3% as compared with the corresponding period of the previous year (corresponding period of 2017: RMB35.4 million yuan). Basic earnings per share was RMB0.73 yuan, representing a year-on-year increase of 43.1% (corresponding period of 2017: RMB0.51 yuan).

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

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

As at 30 June 2018, we held 16 medical device registration certificates in the PRC for the production of medical devices which cover joint prosthesis products for the four major joints and spinal products, of which 10 are Class III medical device registration certificates and six are Class I medical device registration certificates. As the PRC adopts a strict product registration system for medical devices manufacturers, enterprises with complete product registrations are more competitive in the market.

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### **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 knowhows 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.

As at 30 June 2018, the Company has obtained 37 patents and has applied for 40 new patents. In March 2018, the Company obtained the approval for the two special applications for innovative medical instruments, which are single knee joint prosthesis (acceptance number: CQTS1700268) and customized individualized pelvic prosthesis (acceptance number: CQTS1700269), respectively, pursuant to Procedures for Special Approval of Innovative Medical Devices (Trial).

### **Advanced ceramics 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@delta 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@delta, 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 will continue to strive to promote high-mid end products such as the new XN knee joint prosthesis products and ceramic joint prosthesis products, which increased sales and in overall upgraded the brand of the Company.

### **Customized joint prosthesis products offerings**

The Company’s customized (modular) joint prosthesis products which are provided for patients suffering from bone tumor and comminuted fracture are one of the Group’s products with higher competitiveness, with half of the market share of the domestic joint prosthesis products for tumors.

At the same time, the Company is designing, developing, and has already introduced customized individualized prosthesis for clinical purposes. Through 3D printing, there can be customized joint prosthesis products for individual patients, including but not limited to those who suffer from bone defects, bone deformity and have special needs. This will further expand the coverage and market of the Group’s customized products.

In March 2018, the Company obtained the approval for the special application for the innovative medical instruments of customized individualized pelvic prosthesis products (acceptance number: CQTS1700269), pursuant to Procedures for Special Approval of Innovative Medical Devices (Trial), which symbolized that the approval for the Company’s customized individualized prosthesis has entered a fast track.

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

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

### **Others**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Operating revenue

Our revenue increased by 71.6% from approximately RMB124.2 million yuan for the six months ended 30 June 2017 to approximately RMB213.1 million yuan for the six months ended 30 June 2018, which was mainly attributable to the sales growth of joint implant and spinal implant and the expansion of sales network. The growth of spinal products increased to approximately RMB3.7 million yuan as of 30 June 2018, mainly driven by the sales to new customers and existing customers. The revenue of our major products as compared with that of the previous year is as follows:

Product category	Six months ended 30 June		Increase over corresponding period
	2018 RMB'000 yuan	2017 RMB'000 yuan	
Joint prosthesis products	209,490	124,653	68.05%
Spinal products	3,651	(418)	N/A
Other businesses	2	4	-50%
Total	213,143	124,239	71.6%

#### Joint prosthesis products

Joint prosthesis products increased by 68.05% from RMB124.65 million yuan as at 30 June 2017 to approximately RMB209.5 million yuan as at 30 June 2018, of which primary high-end products, such as ceramic joint prosthesis products, XN knee joint prosthesis products and minimal invasive hip joint prosthesis products, achieved a fast growth in the industry.

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. The Company has won the tenders on a massive scale for all the product series throughout the country. The product lines that awarded tender are well diversified and as a result the sales of our joint prosthesis products has increased.

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Gross profit**

Our gross profit increased by 45.4% from approximately RMB93.3 million yuan for the six months ended 30 June 2017 to approximately RMB135.7 million yuan for the six months ended 30 June 2018, and our gross profit margins decreased from 75.1% as at 30 June 2017 to 63.7% as at 30 June 2018. It was mainly attributable to the adoption of the world's most advanced spraying coating by engaging overseas factories to produce quality joint prosthesis products with higher competitiveness. With the overseas coating companies establishing factories in China and the increase in volume of our coating products, our capability to reduce the cost and bargaining power will improve significantly. In addition, according to ASBE No. 14 "Revenue" (Amended), we use all the rebate that we expect to pay to the distributors in the first half of 2018 to offset the revenue, and this kind of expense is categorized as selling expenses for the same period in 2017. Hence, the gross profit of the current period decreased.

### **Selling expenses**

Our selling expenses increased from approximately RMB31.9 million yuan for the six months ended 30 June 2017 to approximately RMB59.6 million yuan for the six months ended 30 June 2018. 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 basic level hospitals. As a result, we 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 with renowned orthopedic surgeons from across the country, clinical trainings for surgeries as well as publicity, promotion and trainings with respect to new products.

### **Impairment loss of assets**

Our impairment loss of assets increased from approximately RMB0.4 million yuan for the six months ended 30 June 2017 to approximately RMB1.3 million yuan for the six months ended 30 June 2018, 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.

### **Income tax expenses**

Our income tax expenses increased by 22.4% from approximately RMB5.8 million yuan for the six months ended 30 June 2017 to approximately RMB7.1 million yuan for the six months ended 30 June 2018, which was mainly attributable to the increase in profits from operations between January and June 2018.

### **Net profit**

Our net profit increased by 42.3% from approximately RMB35.4 million yuan for the six months ended 30 June 2017 to approximately RMB50.4 million yuan for the six months ended 30 June 2018, which was mainly attributable to the increase in our revenue.

### **Liquidity and capital resources**

Our liquidity increased by 4.7% from approximately RMB371.6 million yuan as at 31 December 2017 to approximately RMB389.0 million yuan as at 30 June 2018. Our principal sources of capital are generated from our operations and the issue of H shares. The Board is of the opinion that we have sufficient resources to support our operations and meet our foreseeable capital expenditures.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 yuan after deducting underwriting commissions and all related expenses. The net proceeds received from the global offering will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 27 February 2015.

Use of Proceeds	Proportion	Amount available (RMB million yuan)	Expense as of 30 June 2018 (RMB million yuan)	Outstanding amount as of 30 June 2018 (RMB million yuan)
First-instalment expense for the development of Daxing New Production Base	50%	92.93	7.40	85.53
Research and development activities	20.20%	37.54	0.80	36.74
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	20%	37.17	8.50	28.67
Working capital and other general corporate purposes	9.80%	18.21	18.21	0.00
<b>Total</b>	<b>100%</b>	<b>185.86</b>	<b>34.91</b>	<b>150.95</b>

### Inventory

Our inventory increased by 48.9% from approximately RMB58.9 million yuan as of 31 December 2017 to approximately RMB87.7 million yuan as of 30 June 2018.

### Fixed assets and construction in progress

Our fixed assets and construction in progress increased by 5.9% from approximately RMB60.8 million yuan as of 31 December 2017 to approximately RMB64.4 million yuan as of 30 June 2018, which was mainly attributable to the increase in our investment for the acquisition of production facilities in 2018.

### Net current assets

Our net current assets increased by 6.8% from approximately RMB452.6 million yuan as at 31 December 2017 to approximately RMB483.6 million yuan as of 30 June 2018, which was mainly attributable to the increase in inventory, notes receivable and accounts receivable.

### Intangible assets

Our intangible assets slightly increased by 0.9% from approximately RMB33.1 million yuan as of 31 December 2017 to approximately RMB33.4 million yuan as of 30 June 2018, which was mainly attributable to the acquisition of new system.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### *Cash flow analysis*

As at 30 June 2018, our net cash inflows generated from operating activities was RMB34.3 million yuan, which was mainly attributable to the cash received from the sales of goods; our net cash inflows generated from investing activities was RMB17.1 million yuan, which was mainly attributable to the acquisition of fixed assets; our net cash inflows generated from financing activities was nil; and our cash and cash equivalents increased by RMB17.4 million yuan as compared with that of the end of the previous year.

#### *Capital expenditure*

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

#### *Contingent liabilities and guarantees*

As of 30 June 2018, we did not have any significant contingent liabilities and guarantees.

## **SUBSEQUENT EVENTS**

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

## **FUTURE PROSPECTS**

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Strengthen our innovation ability and increase the research and development resources**

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

### **Expand our brand influence**

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

### **Retention of talents**

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

## EMPLOYEES

As at 30 June 2018, our Group had a total of 543 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. As of 30 June 2018, the total salary and related cost paid to our employees were approximately RMB31.3 million yuan. 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 subsidiaries purchased, redeemed or sold any of our Company's listed securities during the six months ended 30 June 2018.

## INTERIM DIVIDEND

The Board proposed the declaration of interim dividend of RMB0.231 yuan per share (including tax charge), totaling RMB15,978,362.40 yuan (including tax) for the six months ended 30 June 2018 (30 June 2017: Nil). The declaration of the interim dividend is subject to the shareholders' approval in the general meeting.

The interim 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 general meeting, closure of registration of members as well as the dividend payments will be issued by our Company as soon as practicable.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE

Our Company has committed to delivering and maintaining a higher standard of corporate governance to meet business needs and shareholders' expectation. Our Company has adopted the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules as the basis of our Company's corporate governance practices. The Corporate Governance Code has been applicable to our Company with effect from the 11 March 2015. Pursuant to code provision A.2.1 of the Corporate Governance Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, Mr. Shi Chunbao currently performs the roles as the chairman and general manager of the Company. 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.

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

## COMPLIANCE WITH MODEL CODE

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

## REVIEW OF INTERIM RESULTS

The Audit Committee of the Board has reviewed the Company's consolidated financial statements for the half year ended 30 June 2018, including the accounting principles and practices applied.

WUYIGE Certified Public Accountants LLP has reviewed the relevant financial statements.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2018, the interests or short positions of the directors, supervisors and the chief executive officer of the Company in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, will be as follows:

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

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	35.0%
		19,589,580	Interest of Spouse	28.3%
Ms. Yue Shujun	Domestic shares	19,589,580	Beneficial owner	28.3%
		24,237,087	Interest of Spouse	35.0%
Mr. Lin Yiming	Domestic shares	1,160,000	Beneficial owner	1.7%

The calculation is based on the total number of 69,170,400 ordinary shares of the Company in issue as at 30 June 2018. Saved as disclosed above, as at 30 June 2018, none of the directors, supervisors and the chief executive officer of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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 Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Mr. Shi Chunbao	Domestic shares	24,237,087	Beneficial owner	35.0%
		19,589,580	Interest of Spouse	28.3%
Ms. Yue Shujun	Domestic shares	19,589,580	Beneficial owner	28.3%
		24,237,087	Interest of Spouse	35.0%
Or Ching Han, Helen (Note 3)	H shares	1,350,000 (long position)	Beneficial owner	7.04%
Citigroup Inc.	H shares	1,500,000 (long position)	Person having a security interest	7.82%
Taiping Assets Management (HK) Company Limited	H shares	1,148,600 (long position)	Investment manager	5.99%
Taiping Trustees Limited	H shares	1,148,600 (long position)	Trustee	5.99%

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital
Winning Beauty Limited	H shares	1,127,000 (long position)	Beneficial owner	5.87%
Orchid Asia VI, L.P. (Note 4)	H shares	997,600 (long position)	Beneficial owner	5.20%
Oavi Holdings, L.P. (Note 4)	H shares	997,600 (long position)	Interest in a controlled corporation	5.20%
Orchid Asia VI GP, Limited (Note 4)	H shares	997,600 (long position)	Interest in a controlled corporation	5.20%
Orchid Asia V Group Management, Limited (Note 4)	H shares	997,600 (long position)	Interest in a controlled corporation	5.20%
Orchid Asia V Group, Limited (Note 4)	H shares	997,600 (long position)	Interest in a controlled corporation	5.20%
Areo Holdings Limited (Note 4)	H shares	1,050,000 (long position)	Interest in a controlled corporation	5.48%
Li Gabriel (Note 4)	H shares	1,050,000 (long position)	Interest in a controlled corporation	5.48%
Lam Lai Ming (Note 4)	H shares	1,050,000 (long position)	Interest in a controlled corporation	5.48%

### Notes:

- The calculation is based on the number of 50,000,000 domestic shares and 19,170,400 H shares of the Company in issue as at 30 June 2018, respectively.
- The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 30 June 2018.
- 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.
- 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 30 June 2018, the directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

# REVIEW REPORT



大信會計師事務所  
北京市海澱區知春路1號  
學院國際大廈15層  
郵編100083

WUYIGE Certified Public Accountants.LLP  
15/F, Xueyuan International Tower  
No. 1 Zhichun Road, Haidian Dist.  
Beijing, China, 100083

電話Telephone : +86(10) 82330558  
傳真Fax : +86(10) 82327668  
網址Internet : www.daxincpa.com.cn

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

We have audited the accompanying financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as the “**Company**”), which comprise the consolidated and parent company’s balance sheets as at 30 June 2018, the consolidated and parent company’s profit statements from January to June 2018, the consolidated and parent company’s cash flow statements and the consolidated and parent company’s statement of changes in Equity from January to June 2018, and notes to the financial statements. The preparation of these financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report on these financial statements based on our review.

We conducted our review in accordance with “China Standard on Review No. 2101 – Engagements to Review Financial Statements”. This Standard requires that we plan and perform the review to obtain limited assurance as to whether the financial statements are free from material misstatement. A review is limited primarily to inquiries of personnel of the Company and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared in accordance with “Accounting Standard for Business Enterprises” and do not present fairly, in all material respects, the consolidated and parent company’s financial position of the Company as at 30 June 2018, and of its operating results and cash flows from January to June 2018.

**WUYIGE Certified Public Accountants. LLP**  
Beijing · China

**Chinese Certified Public Accountant:**

**Chinese Certified Public Accountant:**

28 August 2018

# CONSOLIDATED BALANCE SHEET

As at 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Note	Closing balance	Opening balance
<b>Current assets:</b>			
Monetary capita		389,017,028.85	371,618,428.62
Held-for-trading financial assets			
Derivative financial assets			
Notes and accounts receivable		110,141,878.24	96,995,764.83
Prepayment		4,379,469.16	1,618,077.61
Other receivables		2,147,397.56	915,826.53
Inventories		87,735,447.49	58,947,158.89
Assets held-for-sale			
Non-current assets due within one year			
Other current assets		26,940.72	116,686.21
<b>Total current assets</b>		<b>593,448,162.02</b>	<b>530,211,942.69</b>
<b>Non-current assets:</b>			
Debt investments			
Other debt investments			
Long-term receivable			
Long-term equity investments			
Investment property			
Fixed assets		51,123,289.84	47,580,889.11
Construction in progress		13,294,095.25	13,193,700.06
Productive biological assets			
Oil & gas assets			
Intangible assets		33,384,710.15	33,126,892.76
Development expenditures			
Goodwill			
Long-term prepayments		898,333.37	1,008,333.35
Deferred income tax assets		5,239,334.59	2,699,036.67
Other non-current assets		17,478,412.22	5,840,781.71
<b>Total non-current assets</b>		<b>121,418,175.42</b>	<b>103,449,633.66</b>
<b>Total assets</b>		<b>714,866,337.44</b>	<b>633,661,576.35</b>



## CONSOLIDATED BALANCE SHEET

As at 30 June 2018

(Expressed in Renminbi Yuan)

Items	Note	Closing balance	Opening balance
<b>Current liabilities:</b>			
Short-term borrowings			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes and accounts payable		<b>45,004,755.60</b>	25,316,462.14
Advances received		<b>14,803,557.58</b>	15,891,150.69
Employee remuneration payable		<b>4,927,133.51</b>	4,503,817.95
Taxes payable		<b>8,224,551.55</b>	14,285,556.35
Other payables		<b>36,872,412.58</b>	17,621,821.89
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>109,832,410.82</b>	77,618,809.02
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Estimated liabilities		<b>17,565,819.57</b>	1,994,981.90
Deferred income		<b>13,642,707.43</b>	14,822,497.59
Deferred income tax liabilities		<b>926,111.00</b>	753,109.62
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>32,134,638.00</b>	17,570,589.11
<b>Total liabilities</b>		<b>141,967,048.82</b>	95,189,398.13
<b>Shareholders interest:</b>			
Share capital		<b>69,170,400.00</b>	69,170,400.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		<b>230,039,180.01</b>	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Surplus reserve		<b>30,599,186.14</b>	30,599,186.14
Undistributed profit		<b>243,090,522.47</b>	208,663,412.07
Total shareholders interest attributable to the parent company		<b>572,899,288.62</b>	538,472,178.22
Non-controlling shareholders interest			
<b>Total shareholders interests</b>		<b>572,899,288.62</b>	538,472,178.22
<b>Total liabilities &amp; shareholders interests</b>		<b>714,866,337.44</b>	633,661,576.35

# PARENT COMPANY'S BALANCE SHEET

As at 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Note	Closing balance	Opening balance
<b>Current assets:</b>			
Monetary capital		388,954,059.75	371,601,738.39
Held-for-trading financial assets			
Derivative financial assets			
Notes and accounts receivable		109,340,007.09	96,680,680.98
Prepayment		4,379,469.16	1,618,077.61
Other receivables		2,147,397.56	915,826.53
Inventories		87,688,139.80	58,947,158.89
Assets held-for-sale			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>592,509,073.36</b>	529,763,482.40
<b>Non-current assets:</b>			
Debt investments			
Other debt investments			
Long-term receivable			
Long-term equity investments		665,263.00	665,263.00
Investment property			
Fixed assets		51,121,314.84	47,578,914.11
Construction in progress		13,294,095.25	13,193,700.06
Productive biological assets			
Oil & gas assets			
Intangible assets		33,384,710.15	33,126,892.76
Development expenditures			
Goodwill			
Long-term prepayments		898,333.37	1,008,333.35
Deferred income tax assets		5,198,124.69	2,673,316.53
Other non-current assets		17,478,412.22	5,840,781.71
<b>Total non-current assets</b>		<b>122,040,253.52</b>	104,087,201.52
<b>Total assets</b>		<b>714,549,326.88</b>	633,850,683.92

## PARENT COMPANY'S BALANCE SHEET

As at 30 June 2018

(Expressed in Renminbi Yuan)

Items	Note	Closing balance	Opening balance
<b>Current liabilities:</b>			
Short-term borrowings			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes and accounts payable		45,058,538.85	25,314,390.97
Advances received		14,803,557.58	15,891,150.69
Employee remuneration payable		4,927,133.51	4,503,817.95
Taxes payable		8,215,310.19	14,285,556.35
Other payables		38,291,079.87	18,979,139.98
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>111,295,620.00</b>	78,974,055.94
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Estimated liabilities		17,565,819.57	1,994,981.90
Deferred income		13,642,707.43	14,822,497.59
Deferred income tax liabilities		926,111.00	753,109.62
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>32,134,638.00</b>	17,570,589.11
<b>Total liabilities</b>		<b>143,430,258.00</b>	96,544,645.05
<b>Shareholders interest:</b>			
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			
Surplus reserve		30,599,186.14	30,599,186.14
Undistributed profit		241,310,302.73	207,497,272.72
<b>Total shareholders interests</b>		<b>571,119,068.88</b>	537,306,038.87
<b>Total liabilities &amp; shareholders interests</b>		<b>714,549,326.88</b>	633,850,683.92

# CONSOLIDATED PROFIT STATEMENT

For the six months ended 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>I. Operating revenue</b>		<b>213,143,115.11</b>	124,239,007.80
Less: operating cost		<b>77,407,318.17</b>	30,892,188.66
Taxes and surcharge		<b>2,242,506.08</b>	1,929,050.54
Selling expenses		<b>59,633,287.38</b>	31,870,159.27
Administrative expenses		<b>12,654,304.58</b>	12,076,000.76
Research and development expenses		<b>9,002,247.76</b>	9,757,400.60
Financial expense		<b>(5,065,233.10)</b>	(2,952,425.05)
Including: interest expenses			
Interest proceeds		<b>(2,828,088.81)</b>	(3,668,902.84)
Assets impairment loss		<b>1,323,175.85</b>	424,148.53
Add: other gains		<b>1,594,767.16</b>	875,825.00
Investment income (losses are presented as “-”)			
Including: investment income from associates and joint ventures			
Gains on changes of fair value (losses are presented as “-”)			
Gains on disposal of assets (losses are presented as “-”)			
<b>II. Operating profit (losses are presented as “-”)</b>		<b>57,540,275.55</b>	41,118,309.49
Add: Non-operating income			100,000.00
Less: Non-operating expenses		<b>200.00</b>	1,700.00
<b>III. Gross profit (total losses are presented as “-”)</b>		<b>57,540,075.55</b>	41,216,609.49
Less: income tax expenses		<b>7,134,602.75</b>	5,781,231.74
<b>IV. Net profit (net losses are presented as “-”)</b>		<b>50,405,472.80</b>	35,435,377.75
(I) Classified by continuity of operation:			
1. Net profit for continuing operation (net losses are presented as “-”)		<b>50,405,472.80</b>	35,435,377.75
2. Net profit for ceased operation (net losses are presented as “-”)			
(II) Classified by ownership:			
1. Net profit attributable to the shareholders of the parent company (net losses are presented as “-”)		<b>50,405,472.80</b>	35,435,377.75
2. Non-controlling shareholders’ interest (net losses are presented as “-”)			



## CONSOLIDATED PROFIT STATEMENT

For the six months ended 30 June 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>V. Net other comprehensive income after tax</b>			
Net other comprehensive income after tax attributable to the shareholders of the parent company			
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Changes in re-measurement on the defined benefit plans			
2. Other comprehensive income which cannot be converted into profit or loss under equity method			
(II) Other comprehensive income to be reclassified to profit or loss			
1. Other comprehensive income which can be converted 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			
<b>VI. Total comprehensive income</b>		<b>50,405,472.80</b>	35,435,377.75
Total comprehensive income attributable to the shareholders of the parent company			
Total comprehensive income attributable to non-controlling shareholders			
<b>VII. Earnings per share</b>			
(I) Basic EPS		<b>0.73</b>	0.51
(II) Diluted EPS		<b>0.73</b>	0.51

# PARENT COMPANY'S CONSOLIDATED PROFIT STATEMENT

For the six months ended 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>I. Operating revenue</b>		<b>212,400,006.11</b>	124,073,304.03
Less: operating cost		<b>77,454,625.86</b>	30,892,188.66
Taxes and surcharge		<b>2,241,544.46</b>	1,929,050.54
Selling expenses		<b>59,633,287.38</b>	31,870,159.27
Administrative expenses		<b>12,525,309.72</b>	11,676,167.71
Research and development expenses		<b>9,002,247.76</b>	9,757,400.60
Financial expense		<b>(5,065,143.63)</b>	(2,952,598.35)
Including: interest expenses			
Interest proceeds		<b>(2,827,899.34)</b>	(2,669,813.75)
Assets impairment loss		<b>1,261,216.80</b>	416,993.65
Add: other gains		<b>1,594,767.16</b>	875,825.00
Investment income (losses are presented as “-”)			
Including: investment income from associates and joint ventures			
Gains on changes of fair value (losses are presented as “-”)			
Gains on disposal of assets (losses are presented as “-”)			
<b>II. Operating profit (losses are presented as “-”)</b>		<b>56,941,684.92</b>	41,359,766.95
Add: Non-operating income			100,000.00
Less: Non-operating expenses		<b>200.00</b>	1,700.00
<b>III. Gross profit (total losses are presented as “-”)</b>		<b>56,941,484.92</b>	41,458,066.95
Less: income tax expenses		<b>7,150,092.51</b>	5,783,020.46

## PARENT COMPANY'S CONSOLIDATED PROFIT STATEMENT

For the six months ended 30 June 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>IV. Net profit (net losses are presented as “-”)</b>		<b>49,791,392.41</b>	35,675,046.49
(1) Net profit for continuing operation (net losses are presented as “-”)		<b>49,791,392.41</b>	35,675,046.49
(2) Net profit for ceased operation (net losses are presented as “-”)			
<b>V. Net other comprehensive income after tax</b>			
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Changes in re-measurement on the defined benefit plans			
2. Other comprehensive income which cannot be converted into profit or loss under equity method			
(II) Other comprehensive income to be reclassified to profit or loss			
1. Other comprehensive income which can be converted 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			
<b>VI. Total comprehensive income</b>		<b>49,791,392.41</b>	35,675,046.49

# CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods and rendering of services		249,763,842.60	120,738,840.58
Receipts of tax refund			
Other cash receipts related to operating activities		2,817,591.05	100,000.00
Subtotal of cash inflows from operating activities		252,581,433.65	120,838,840.58
Cash payments for goods purchased and services received		90,646,743.73	26,119,632.24
Cash paid to and on behalf of employees		30,351,426.29	21,146,313.12
Taxes paid		36,786,540.51	26,413,385.83
Other cash payments related to operating activities		60,444,282.75	36,401,458.07
Subtotal cash outflows from operating activities		218,228,993.28	110,080,789.26
Net cash flows from operating activities		34,352,440.37	10,758,051.32
<b>II. Cash flows from investing activities:</b>			
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		2,391,370.78	2,670,092.37
Subtotal of cash inflows from investing activities		2,391,370.78	2,670,092.37
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		19,490,727.18	2,272,617.94
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		19,490,727.18	2,272,617.94
Net cash flows from investing activities		(17,099,356.40)	397,474.43



## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>III. Cash flows from financing activities:</b>			
Cash received from investment			
Including: cash received by subsidiaries from non-controlling shareholders' investments			
Cash received from borrowings			
Other cash receipts related to financing activities			
<hr/>			
Subtotal of cash inflows from financing activities			
<hr/>			
Cash repayments of debt			
Cash paid for distribution of dividends, profits or for interest expenses			
Including: cash paid for distribution of dividends and profits by subsidiaries to non-controlling shareholders			
Other cash payments related to financing activities			
<hr/>			
Subtotal of cash outflows from financing activities			
<hr/>			
Net cash flows from financing activities			
<hr/>			
<b>IV. Effect of foreign exchange rate changes on cash &amp; cash equivalents</b>		<b>145,516.26</b>	(680,668.89)
<hr/>			
<b>V. Net increase in cash and cash equivalents</b>		<b>17,398,600.23</b>	10,474,856.86
Add: Opening balance of cash and cash equivalents		<b>371,618,428.62</b>	297,285,790.16
<hr/>			
<b>VI. Closing balance of cash and cash equivalents</b>		<b>389,017,028.85</b>	307,760,647.02

# PARENT COMPANY'S CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods and rendering of services		249,392,717.06	120,738,840.58
Receipts of tax refund			
Other cash receipts related to operating activities		2,878,750.78	100,000.00
Subtotal of cash inflows from operating activities		252,271,467.84	120,838,840.58
Cash payments for goods purchased and services received		90,544,995.19	26,119,632.24
Cash paid to and on behalf of employees		30,229,401.43	21,144,501.19
Taxes paid		36,753,696.97	26,413,385.83
Other cash payments related to operating activities		60,437,212.75	36,353,789.60
Subtotal cash outflows from operating activities		217,965,306.34	110,031,308.86
Net cash flows from operating activities		34,306,161.50	10,807,531.72
<b>II. Cash flows from investing activities:</b>			
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		2,391,370.78	2,670,015.67
Subtotal of cash inflows from investing activities		2,391,370.78	2,670,015.67
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		19,490,727.18	2,272,617.94
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		19,490,727.18	2,272,617.94
Net cash flows from investing activities		(17,099,356.40)	397,474.43

## PARENT COMPANY'S CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
<b>III. Cash flows from financing activities:</b>			
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 debt			
Cash paid for distribution of dividends, profits or for interest expenses			
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities			
Net cash flows from financing activities			
<b>IV. Effect of foreign exchange rate changes on cash &amp; cash equivalents</b>		<b>145,516.26</b>	(680,668.89)
<b>V. Net increase in cash and cash equivalents</b>		<b>17,352,321.36</b>	10,524,260.56
Add: Opening balance of cash and cash equivalents		<b>371,601,738.39</b>	297,193,825.81
<b>VI. Closing balance of cash and cash equivalents</b>		<b>388,954,059.75</b>	307,718,086.37

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Other equity instruments					Current period					Total equity	
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	Undistributed profit	Subtotal		Non-controlling interest
<b>I. Balance at the end of prior year</b>	69,170,400.00				230,039,180.01			30,599,186.14	209,663,412.07	538,472,178.22		538,472,178.22
Add: changes of accounting policies												
Error correction of prior period												
Business combination under common control												
Others												
<b>II. Balance at the beginning of current year</b>	69,170,400.00				230,039,180.01			30,599,186.14	209,663,412.07	538,472,178.22		538,472,178.22
<b>III. Amount of current period increase or decrease (decreases are presented as "-")</b>												
(i) Total comprehensive income												
(ii) Capital contributed and withdrawn by shareholders												
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												
1. Appropriation of surplus reserve												
2. Distribution to shareholders												
3. Others												
(iv) Internal carry-over within shareholders interest												
1. Transfer of capital reserve to share capital												
2. Transfer of surplus reserve to share capital												
3. Surplus reserve to cover losses												
4. Transfer of changes in balance of the defined benefit plans to retained earnings												
5. Others												
<b>IV. Balance at the end of current period</b>	69,170,400.00				230,039,180.01			30,599,186.14	243,090,522.47	572,899,288.62		572,899,288.62



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

(Expressed in Renminbi Yuan)

Items	Equity attributable to parent company						Subtotal	Non-controlling interest	Total equity	
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares				Other comprehensive income
<b>I. Balance at the end of prior year</b>	69,170,400.00				230,039,180.01		23,774,980.13	157,925,043.22	480,909,603.36	480,909,603.36
Add: changes of accounting policies										
Error correction of prior period										
Business combination under common control										
Others										
<b>II. Balance at the beginning of current year</b>	69,170,400.00				230,039,180.01		23,774,980.13	157,925,043.22	480,909,603.36	480,909,603.36
<b>III. Amount of current period increase or decrease (decreases are presented as "-")</b>										
(I) Total comprehensive income										
(II) Capital contributed and withdrawn by shareholders										
1. Ordinary shares contributed by shareholders										24,713,965.75
2. Capital contributed by holders of other equity instruments										35,435,377.75
3. Amount of share-based payment included in equity										
4. Others										
(III) Profit distribution										
1. Appropriation of surplus reserve										(10,721,412.00)
2. Distribution to shareholders										(10,721,412.00)
3. Others										
(IV) Internal carry-over within shareholders interest										
1. Transfer of capital reserve to share capital										
2. Transfer of surplus reserve to share capital										
3. Surplus reserve to cover losses										
4. Transfer of changes in balance of the defined benefit plans to retained earnings										
5. Others										(10,721,412.00)
<b>IV. Balance at the end of current period</b>	69,170,400.00				230,039,180.01		23,774,980.13	182,639,009.97	505,623,569.11	505,623,569.11

# PARENT COMPANY'S CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018  
(Expressed in Renminbi Yuan)

Items	Other equity instruments					Current period					Total equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	Undistributed profit	Total equity	
<b>I. Balance at the end of prior year</b>	69,170,400.00				230,039,180.01			30,599,186.14	207,497,272.72	537,306,038.87	
Add: changes of accounting policies											
Error correction of prior period											
Others											
<b>II. Balance at the beginning of current year</b>	69,170,400.00				230,039,180.01			30,599,186.14	207,497,272.72	537,306,038.87	
<b>III. Amount of current period increase or decrease (decreases are presented as "-")</b>											
(I) Total comprehensive income											
(II) Capital contributed and withdrawn by shareholders											
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											
1. Appropriation of surplus reserve									-15,978,362.40	-15,978,362.40	
2. Distribution to shareholders									-15,978,362.40	-15,978,362.40	
3. Others											
(IV) Internal carry-over within shareholders interest											
1. Transfer of capital reserve to share capital											
2. Transfer of surplus reserve to share capital											
3. Surplus reserve to cover losses											
4. Transfer of changes in balance of the defined benefit plans to retained earnings											
5. Others											
<b>IV. Balance at the end of current period</b>	69,170,400.00				230,039,180.01			30,599,186.14	241,310,302.73	571,119,068.88	

# PARENT COMPANY'S CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

(Expressed in Renminbi Yuan)

Items	Other equity instruments			Previous period Equity attributable to parent company				Total equity		
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income		Surplus reserve	Undistributed profit
<b>I. Balance at the end of prior year</b>	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										
Others										
<b>II. Balance at the beginning of current year</b>	69,170,400.00				230,039,180.01			23,774,980.13	156,800,830.64	479,785,390.78
<b>III. Amount of current period increase or decrease (decreases are presented as "-")</b>										
(I) Total comprehensive income										
(II) Capital contributed and withdrawn by shareholders										
1. Ordinary shares contributed by shareholders										24,953,634.49
2. Capital contributed by holders of other equity instruments										35,675,046.49
3. Amount of share-based payment included in equity										
4. Others										
(III) Profit distribution										
1. Appropriation of surplus reserve										-10,721,412.00
2. Distribution to shareholders										-10,721,412.00
3. Others										
(IV) Internal carry-over within shareholders interest										
1. Transfer of capital reserve to share capital										
2. Transfer of surplus reserve to share capital										
3. Surplus reserve to cover losses										
4. Transfer of changes in balance of the defined benefit plans to retained earnings										
5. Others										
<b>IV. Balance at the end of current period</b>	69,170,400.00				230,039,180.01			23,774,980.13	181,754,465.13	504,739,025.27

# NOTES TO FINANCIAL STATEMENTS

1 January 2018 – 30 June 2018

(Unless otherwise specified, the amounts are expressed in 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 RMB69.1704 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 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 consolidated financial statements’ scope. Please refer to “Note VI. Interest in other entities” for details.

## II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

- (I) Preparation basis: The financial statements of the Company have been prepared on the basis of going concern, in accordance with actually-occurring transactions and items, requirements such as “Accounting Standard for Business Enterprises – Basic Standards” issued by the Ministry of Finance and specific accounting standards (hereinafter as “ASBEs”), and significant accounting policies and accounting estimates as stated below.
- (II) Going concern: The Company has the ability to continue as a going concern within the 12 months after the end of the reporting period and there are no material events that may affect its ability to continue as a going concern.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates note:

The Company have based on the production and operation features to confirm specific accounting policies and accounting estimates, mainly provision for bad debts of receivables (Note III (X)), accounting of inventories (Note III (XI)), depreciation of fixed assets and amortization of intangible assets (Note III (XIII) and (XV)), and revenue recognition (Note III (XX)), etc.

**(I) Statement of compliance with ASBEs**

The financial statements have been prepared in accordance with the requirements of ASBEs, and present truly and completely information relating to the Company's financial position as at 30 June 2018, its results of operations and cash flows from January to June 2018.

**(II) Accounting period**

Accounting year of the Company is the calendar year from 1 January to 31 December.

**(III) Operating cycle**

The Company takes one year or 12 months as its normal operating cycle which serves as the division standard for the liquidity of assets and liabilities.

**(IV) Functional currency**

The functional currency of the Company is Renminbi.

**(V) Business combination**

1. *Business combination under common control*

In case the consideration for the long-term equity investments resulted from the business combination under common control is paid by way of cash, transfer of non-cash assets or assumption of debts, the Company will, on the date of combination, recognise the acquiree's share in the carrying amount of net assets in the ultimate controlling party's consolidated financial statements as initial investment cost of long-term equity investments. In case the acquirer pays the combination consideration by issuing equity instruments, the aggregate nominal value of shares issued will be recognised as share capital. The difference between the initial investment cost of long-term equity investments and the carrying amount of combination consideration (or aggregate nominal value of shares issued) shall be adjusted under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

2. *Business combination not under common control*

For a business combination not under common control, the combination cost is the aggregate fair value of assets paid, liabilities incurred or assumed and equity securities issued by the acquirer in exchange for the control of the acquiree on the acquisition date. Where identifiable assets, liabilities and contingent liabilities of the acquiree resulting from the business combination not under common control satisfy the conditions for recognition, they shall be measured at fair value on the acquisition date. Any excess of combination cost over the share of fair value of identifiable net assets in the acquiree as a result of the combination will be recognised as goodwill by the acquirer. Where the combination cost is less than the share of fair value of identifiable net assets of the acquiree as a result of the combination, the difference shall be recognised as non-operating income for the current period after reassessment by the acquirer.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (VI) Preparation method of consolidated financial statements

- Scope of consolidated financial statements*

The Company incorporated all of its subsidiaries (including the separate entities controlled by the Company) into the scope of consolidated financial statements, including enterprises under control of the Company, separable parts in the investees and structured entities.
- Adoption of uniform accounting policies, date of balance sheets and accounting period for parent company and subsidiaries*

When preparing consolidated financial statements, in case the accounting policies or accounting periods of the subsidiaries differ from those of the Company, necessary adjustments will be made to the financial statements of the subsidiaries based on the accounting policies or accounting periods of the Company.
- Offsetting in consolidated financial statements*

The consolidated financial statements shall be prepared on the basis of the balance sheets of the parent company and subsidiaries, which offset the internal transactions incurred between the parent company and subsidiaries and between subsidiaries. The owners' equity of the subsidiaries not attributable to the parent company shall be presented as "minority interests" under the owners' equity item in the consolidated balance sheet. The long-term equity investment in the parent company held by the subsidiaries is deemed as treasury stock of the corporate group and a reduction of owners' equity, which shall be presented as "Less: treasury shares" under the owners' equity in the consolidated balance sheet.
- Accounting treatment of subsidiaries acquired from combination*

For subsidiaries acquired from business combination under common control, the business combination is deemed to have occurred at the commencement of control by the ultimate controlling party. The assets, liabilities, operating results and cash flows of the subsidiaries are included in the consolidated financial statements from the beginning of the period in which the combination takes place. For subsidiaries acquired from business combination not under common control, when preparing the consolidated financial statements, adjustments are made to individual financial statements of the subsidiaries based on the fair value of identifiable net assets as at the acquisition date.

#### (VII) Recognition standard for cash and cash equivalents

Cash determined in the preparation of statement of cash flows by the Company represents the cash on hand and deposits readily available for payment of the Company. Cash equivalents determined in the preparation of statement of cash flows refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of price volatility.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (VIII) Translation of foreign currency business and financial statements denominated in foreign currency

1. *Translation of foreign currency business*

Foreign currency transactions of the Company are translated into and recorded in the functional currency on the transaction date. At the balance sheet date, monetary items denominated in foreign currency are translated using the spot exchange rate on that date. Exchange differences arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate used at initial recognition or on the last balance sheet date shall be recorded into current profit or loss, except for those arising from specific borrowings denominated in foreign currency and qualified for capitalisation, which are capitalised as cost of the related assets during the capitalisation period. Translation of non-monetary items denominated in foreign currency and measured at historical cost shall continue to be based on the spot exchange rate on the date of transaction, without changing the amount in its functional currency. Non-monetary items denominated in foreign currency and measured at fair value shall be translated at the spot exchange rate on the date when the fair value is determined. Upon translation, the difference between the amounts in functional currency upon translation and in original functional currency shall be treated as change in fair value (including the change in the exchange rate), and included in current profit or loss or recognised as other comprehensive income.

#### (IX) Financial instruments

1. *Classification and reclassification of financial instruments*

Financial instruments are classified as financial assets or financial liabilities and equity instruments. A financial asset or a financial liability is recognised when the Company becomes a contractual party to a financial instrument.

Financial assets are classified into the following categories when initially recognized: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through current profit or loss. Only if the Company changes its business model for managing financial assets, all affected financial assets shall be reclassified in accordance with the requirements of Chapter 6 under “ASBE 22 – Identification and measurement of financial instruments”.

Financial liabilities are classified into the following categories when initially recognized:

Save as the following, the Company classifies financial liabilities as financial liabilities at amortised cost: ① financial liabilities at fair value through current profit or loss (including held-for-trading financial liabilities (including derivative financial liabilities) and financial liabilities designated as at fair value through current profit or loss). ② Financial liabilities from the transfer of financial assets disqualified for the derecognition of financial assets or continuing involvement in the transferred financial assets. The Company will measure financial liabilities of this type in accordance with relevant requirements of “ASBE No. 23 – Transfer of financial assets”. ③ Financial guarantee contracts other than circumstance ① or ② above, and commitments to grant loans other than circumstance ① and which will enjoy an interest rate lower than that of the market. The Company, as an issuer of the financial liabilities will measure subsequent to initial recognition at the higher of the amount of provision for losses as determined according to Chapter 8 of ASBE and the surplus after accumulative amortization as determined according to relevant requirements of “ASBE14 – Revenues”.

The Company will measure financial liabilities, which are of business combination not under common control as determined as acquirer or are at consideration, at fair value through current profit or loss in accounting treatment.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 – 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IX) Financial instruments (Continued)

##### 2. *Measurement of financial instruments*

Financial instruments of the Company are measured at fair value upon initial recognition. Subsequent measurement of financial instruments is classified as: for financial assets and financial 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, the transaction expenses thereof are included into the initially recognized amount. However, if the initial recognition of accounts receivable of the Company does not include significant financing components as defined in “ASBE14 – Revenues” or does not consider financing components not exceeding one year according to “ASBE14 – Revenues”, it shall be initially measured at the transaction price as defined in “ASBE14 – Revenues”.

Gains or losses arising from financial assets at amortized cost (which are not a part of any swap arrangements) and are subsequently measured at amortized cost, when amortised at effective rates, impaired and derecognized, are recognised in the current profit or loss.

For financial assets at fair value through other comprehensive income (excluding equity investments designated by the Company which are not held for trading at fair value through other comprehensive income), impairment losses or gains, exchange losses or gains, and interests income of the financial assets calculated using effective interest rate method shall be recognized in the profit and loss, while other gains or losses incurred shall be recognized in other comprehensive income. For equity investments designated by the Company which are not held for trading at fair value through other comprehensive income, the fair values shall be recognized in other comprehensive income. For financial assets at fair value through current profit or loss, the fair value shall be recognized in current profit or loss.

Interest income of financial assets shall be executed according to Provision 39 of “ASBE 22 – Financial Instruments: Recognition and Measurement”.

Dividend income of financial assets shall be executed according to Provision 65 of “ASBE 22 – Financial Instruments: Recognition and Measurement”.

##### 3. *Derecognition of financial assets and financial liabilities*

The Company will derecognize financial assets which satisfy any of the following criteria: ① expiry of contractual rights for collecting the cash flow of the said financial assets; ② transfer of financial assets where the Company substantially transferred all risks and rewards related to the ownership of the financial assets; ③ transfer of financial assets where the Company neither transferred nor retained substantially all risks and rewards related to the ownership of the financial assets, and did not retain its control over the said financial assets. If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the carrying amount of the transferred financial assets and the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in equity (the contractual terms of the financial assets stipulate that cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount) previously recorded in other comprehensive income is recorded in current profit or loss.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IX) Financial instruments (Continued)

##### 3. *Derecognition of financial assets and financial liabilities (Continued)*

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 sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in equity which shall be apportioned to the derecognized portion, and the apportioned entire carrying amount of the said financial assets are included into current profit or loss.

For financial assets such as investment in equity instrument not held for trading, which are measured at fair value through other comprehensive income, when the financial assets are derecognized, accumulated profit or loss previously recorded in other comprehensive income is reclassified from other comprehensive income to retained earnings.

Only when the underlying present obligations of a financial liability are relieved totally or partly may the portion of financial liability or obligations relieved be derecognized. An agreement between the Company and a lender to replace the existing financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the existing financial liability and recognition of a new financial liability. As for substantive changes made to the contract terms (whole or in part) of the existing financial liabilities, the existing financial liabilities (or part of it) will be derecognized, and financial liabilities after term revision will be included into current profit or loss.

The difference between the carrying amount of the derecognized portion and the consideration paid will be included into current profit or loss.

##### 4. *Impairment of financial assets*

Based on expected credit losses, the Company conducts impairment accounting treatment for and recognizes impairment losses of financial assets at amortised cost and financial assets at fair value through other comprehensive income (except held-for-trading equity instrument investments designated to be financial assets at fair value through other comprehensive income). Details are as follows:

- ① If the credit risk of the said financial instrument has increased significantly since the initial recognition, the Company will measure provision for losses equivalent to the amount of expected credit losses during the whole duration period of the said financial instrument.
- ② If the credit risk of the said financial instrument has not increased significantly since the initial recognition, the Company will measure provision for losses equivalent to the amount of expected credit losses of the said financial instrument over the next 12 months.
- ③ The Company has measured provision for losses equivalent to the amount of expected credit losses during the whole duration period of the said financial instrument in the previous accounting period. If the said financial instrument has no longer increased significantly since the initial recognition at the current balance sheet date, the Company will measure provision for losses of the said financial instrument equivalent to the amount of expected credit losses over the next 12 months at the current balance sheet date.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (X) Receivables

Receivables of the Company mainly comprise accounts receivables, long-term receivable and other receivables. At the current balance sheet date, if there is objective evidence indicating impairment, the Company will recognize impairment loss at the excess of the carrying amount of the receivables over the present value of the predicted future cash flow.

#### 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

#### 2. *Receivables with bad debt provision made on a collective basis using portfolios*

Basis of defining portfolio	Nature of amounts and risk features
Portfolio of related parties	Portfolios by related parties
Portfolio of bad debt provision using ageing analysis method	Receivables of the same age with similar credit risk features
Portfolio of bad debt provision using portfolios	
Portfolio of related parties	Conduct impairment test on an individual basis. If there is objective evidence indicating impairment, provision for bad debts is made at the excess of the carrying amount of the receivables over the present value of the predicted future cash flow; if no evidence of impairment is shown in the test, no provision for bad debts is made for receivables from related parties within the combination scope and provision for bad debts is made for receivables from other related parties using ageing analysis method
Portfolio of bad debt provision using ageing analysis method	Provision for bad debts is made using ageing analysis method

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in 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 (Continued)*

Provision for bad debts is made using ageing analysis method for the portfolios:

Ages	Proportion of provision for accounts receivable (%)	Proportion of provision for other receivables (%)
Within one year (inclusive)	5.00	5.00
One to two years	15.00	15.00
Two to three years	50.00	50.00
Over three 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.

#### (XI) Inventories

1. *Classification of inventories*

Inventories mean the finished goods or goods held for sale in the ordinary course of business of the Company, unfinished products in the process of production, and materials or supplies etc. to be consumed in the production process or in the rendering of services. Inventories mainly include raw materials, unfinished products, finished goods, etc.

2. *Accounting method for dispatching inventories*

Upon delivery of inventories, the actual cost of such inventories will be determined using the weighted average method.

3. *Provisions for declines in the value of inventories*

On the balance sheet date, inventories are measured at the lower of cost and net realisable value. The provision for impairment of inventories is made on an item-by-item basis. The provision for declines in the value of inventories with large quantity and of low unit cost is made according to their inventory classification.

4. *Inventory system*

Perpetual inventory method is adopted by the Company.

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

Low-value consumables and packages are amortized using one-off method.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

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

1. *Determination of initial investment cost*

For a long-term equity investment obtained from business combination under common control, the acquiree's share of the carrying amount of equity shall be recognised as the initial cost; for business combination not under common control, the combination cost as determined on the date of acquisition shall be recognised as the initial cost; for a long-term equity investment acquired by payment of cash, the initial investment cost shall be the actual purchase price paid; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued; for a long-term equity investment acquired from debt restructuring, the initial investment cost shall be recognised according to relevant requirements under "ASBE 12 – Debt Restructuring"; for a long-term equity investment acquired from exchange of non-monetary assets, the initial investment cost shall be recognized according to relevant requirements under the ASBE.

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

Where the investor has a control over an investee, the long-term equity investment in such investee shall be measured using cost approach. Long-term equity investments in associates and joint ventures shall be measured using equity approach. Where part of the equity investments of the investor in its associates are held indirectly through venture investment institutions, common funds, trust companies or other similar entities including investment linked insurance funds, such part of investments indirectly held by the investor shall be measured at fair value through profit or loss according to the relevant requirements of "ASBE 22 – Recognition and Measurement of Financial Instruments", regardless whether the above entities have significant influence on such part of investments, and the remaining shall be measured using equity approach.

3. *Basis of conclusion for common control and significant influence over the investee*

Joint control over an investee refers to the situation where activities that have significant influence on the return of certain arrangement can only be decided by unanimous consent of the parties sharing the control, which include sale and purchase of goods or services, management of financial assets, acquisition and disposal of assets, research and development activities and financing activities; significant influence on the investee refers to the situation where significant influence exists when holding more than 20% but less than 50% of voting capital in an investee, or even if holding less than 20%, significant influence still exists when any of the following conditions is satisfied: having representative at the board of directors or similar governing body of the investee; participating in the policy making of the investee; assigning key management officers to the investee; the investee relying on the technology or technical information of the investing company; conducting major transactions with the investee.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XIII) Fixed assets

1. *Recognition conditions of fixed assets*

Fixed assets are tangible assets that are held for use more than a useful life of one accounting year in the production of goods and supply of services, for rental to others, or for operation purpose. A fixed asset is recognised when it meets the following conditions: it is probable that the economic benefits associated with the fixed asset will flow into the Company; and its cost can be reliably measured.

2. *Classification and depreciation method of fixed assets*

The fixed assets of the Company mainly comprise: buildings and structures, machinery, transport facilities, other facilities, and etc. The fixed assets are depreciated using the straight-line method. The useful life and estimated net residual value of a fixed asset are determined according to the nature and use pattern of the fixed asset. At the end of each year, the useful life, estimated net residual value and the method of depreciation of the fixed asset will be reviewed, and shall be adjusted accordingly if they differ from previous estimates. The Company makes provision for depreciation for all of its fixed assets other than fully depreciated fixed assets that are still in use and lands accounted for on an individual basis.

Category of assets	Estimated useful life (years)	Estimated net residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	30	5	3.17
Machinery	10	5	9.50
Transport facilities	5	5	19.00
Other facilities	5	5	19.00

3. *Recognition and measurement of fixed assets under finance lease*

As for a fixed asset under finance lease, it is a lease that actually involves the transfer of all risks and rewards related to the ownership of the asset. A fixed asset under finance lease is initially measured at the lower of the fair value of the leased asset on the inception date and present value of the minimum lease payment. Subsequent measurement of fixed assets under finance lease shall adopt such depreciation policy as applied to self-owned fixed assets for making provisions for depreciation and impairment.

#### (XIV) Construction in progress

There are two types of construction in progress for the Company: self-construction and sub-contracting construction. Construction in progress is transferred to fixed assets when the project is completed and ready for its intended use. A fixed asset is ready for intended use if any of the following criteria is met: the construction (including installation) work of the fixed assets has been completed or substantially completed; the fixed asset has been put into trial production or trial operation and it is evidenced that the asset can operate ordinarily or produce steadily qualified products; or the result of trial operation proves that it can run or operate normally; little or no expenditure will be incurred for construction of the fixed asset; or the fixed asset constructed has achieved or almost achieved, or is complied with the requirement of design or contract.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XV) Intangible assets

1. *Measurement method of intangible assets*

Intangible assets of the Company are initially measured at cost. The actual cost of a purchased intangible asset includes the considerations and relevant expenses paid. The actual cost of an intangible asset contributed by investors is the price contained in the investment contract or agreement. If the price contained in the investment contract or agreements is not a fair value, the fair value of the intangible asset is regarded as the actual cost. The cost of a self-developed intangible asset is the total expenditures incurred in bringing the asset to its intended use.

Subsequent measurement of the Company's intangible assets: intangible assets with finite useful lives are amortized on a straight-line basis over the useful lives of the intangible assets; at the end of each year, the useful lives and amortization policy are reviewed, and adjusted accordingly if there are variance with original estimates; intangible assets with indefinite useful lives are not amortized and the useful lives are reviewed at the end of each year. If there is objective evidence that the useful life of an intangible asset is finite, the intangible asset is amortized using the straight line method according to the estimated useful life.

2. *Determination basis of infinite useful life*

An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company or it has no definite useful life. The judgment basis of intangible assets with indefinite useful life: derived from the contractual rights or other legal rights but the contract or the law does not specify certain useful life; in light of the conditions of the competitors and the opinions of relevant experts, the specific period that intangible asset generating economic benefits to the Company still can not be determined.

At the end of each year, the useful life shall be reviewed for those intangible assets with indefinite useful life by mainly using the bottom-up method. The relevant department that uses intangible asset will perform the basic review and evaluate whether there are changes in the basis for judgments of the indefinite useful life, etc.

3. *Basis for research and development phases for internal research and development project and basis for capitalization of expenditure incurred in development stage*

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 are transferred to intangible assets if the conditions for recognition of intangible assets are met. Basis for distinguishing research phase and development phase of an internal research and development project: (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.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XVI) Impairment of long-term assets

Long-term assets such as long-term equity investments, investment properties measured under the cost model, fixed assets, construction in progress, productive biological assets measured under the cost model, oil and gas assets, intangible assets and goodwill are tested for impairment if there is any indication that such assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill separately presented on the financial statements is tested for impairment at least every year, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, the carrying amount of goodwill is allocated to asset groups or sets of asset groups expected to benefit from the synergy of business combination. The testing result shows that, where the recoverable amount of the asset group or the set of asset groups allocated with goodwill is lower than the carrying amount, impairment loss is recognised accordingly. The amount of impairment loss is first reduced against the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then reduced against the carrying amounts of other assets (other than the goodwill) within the asset group or set of asset groups on pro rata basis.

Once the impairment loss of such assets is recognized, the reversible part will not be reversed in subsequent periods.

#### (XVII) Long-term prepayments

Long-term prepayments of the Company are expenses which have been paid but benefit a period of over one year (not including one year). Long-term prepayments are amortized over the benefit period. If a long-term prepayment cannot bring benefit in future accounting periods, its residue value not yet amortized shall be transferred in full to current profit or loss.

#### (XVIII) Employee remuneration

Employee benefits are all forms of rewards or compensation provided by the Company in exchange for services rendered by employees or for the termination of employment. Employee benefits mainly include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits.

##### 1. Short-term benefits

In the accounting period in which employees provide service for the Company, short-term benefits actually incurred are recognized as liabilities and charged to current profit or loss, or if otherwise required or permitted by other accounting standards to costs of assets. At the time of actual occurrence, the Company's employee benefits are recorded in the current profit or loss or costs of relevant assets as incurred. The non-monetary employee welfare expenses are measured at fair value. With regard to the medical insurance, work-related injury insurance, maternity insurance and other social insurance and housing provident fund contributed and labour union expenses and employee education expenses paid as required by regulations, the Company should calculate and recognize the corresponding employees benefits payables according to the appropriation basis and proportion as stipulated by relevant requirements, recognize the corresponding liabilities in the accounting period in which employees provide service, and record the same in current profit or loss or costs of relevant assets.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XVIII) Employee remuneration (Continued)

2. *Post-employment benefits*

During the accounting period in which an employee provides service, the amount payable calculated under defined contribution scheme shall be recognized as a liability and recorded in current profit or loss or in costs of related assets. In respect of the defined benefit scheme, the Company shall attribute the welfare obligations under the defined benefit scheme in accordance with the estimated accrued benefit method to the service period of relevant employee, and record the obligation in current profit loss or costs of relevant assets.

3. *Termination benefits*

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

4. *Other long-term employee benefits*

When other long-term employee benefits provided to the employees by the Company satisfied the conditions of defined contribution plans, those benefits shall be accounted for in accordance with the requirements relating to defined contribution plans. In addition, the Company recognizes and measures the net liabilities or net assets of other long-term employee benefits according to relevant requirements of the defined benefit scheme.

#### (XIX) Estimated liability

If an obligation in relation to contingency is the present obligation of the Company, the performance of such obligation is likely to lead to an outflow of economic benefits and its amount can be reliably measured, such obligation shall be recognized as estimated liability. The initial measurement is based on the best estimate of the expenditure required for the performance of current obligation. When the necessary expenditures fall within a range and the probability of each result in the range is identical, the best estimate which is the median of the range shall be recognized; if there are several items involved, every possible result and its relevant probability are taken into account for the best estimate to be recognized.

At the balance sheet date, the carrying amount of estimated liabilities shall be reviewed. If there is solid evidence that the carrying amount cannot reflect truly the current best estimate, the carrying amount shall be adjusted according to the current best estimate.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XX) Revenue

1. *Revenue recognition principles*

Operating revenue of the Company mainly includes revenue from goods transferred and services provided (hereafter referred to as “goods transferred”). The Company fulfills its performance obligations in the contract that it recognizes relevant revenue when a customer acquires control of relevant goods.

The Company should recognize revenue when the customer acquires control of relevant goods after the contracts between the Company and the customer meeting the following conditions:

- 1) The contracted parties have approved such contract and committed that they would perform their respective obligations;
- 2) The contract specified the rights and obligations of all parties related to the goods transferred;
- 3) The contract has clear payment terms on the goods transferred;
- 4) The contract is of commercial nature, namely that the performance of the contract will change the risks, time or amount of future cash flows of the Company;
- 5) The consideration entitled to the Company from the transfer of goods to the customer is likely to be withdrawn.

Upon the contract is in effective, the company shall evaluate the contracts, identify the performance obligation of each single item in the contract, and ensure whether the performance obligation of each single item is to be fulfilled within a specified period of time or at a particular point of time. For performance obligation to be fulfilled at a particular point of time, the company shall recognize revenue when a customer acquires control of relevant goods. When judging whether the customer obtains control of the good or not, the company should consider the following indications:

- 1) The company has a present right to the payment for the goods, which means the customer has a present obligation to pay.
- 2) The company has transferred legal title of the goods to customers, which means customers have legal title to the goods.
- 3) The company has transferred physical possession of the goods to customers, which means customers has owned the physical possession of the goods.
- 4) The company has transferred the significant risks and rewards of the ownership of the goods to the customers, which means customers have received the significant risks and rewards of the ownership of the goods.
- 5) Customers have accepted the goods.
- 6) Other indications show customers have obtained control of the goods.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XX) Revenue (Continued)

2. *Specific principles 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 in; and the costs incurred from the relevant products can be measured reliably. Revenue from overseas sales is recognized if, and only if, the following conditions are all met: 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.

#### (XXI) Government grants

1. *Types of government grants*

Government grants are monetary assets or non-monetary assets (excluding the capital invested by the government as the owner) obtained by the Company from the government for free, and are mainly divided into two types: government grants related to assets and government grants related to income.

2. *Accounting treatment of government grants*

Asset-related government grant shall be recognized as deferred income. The amount recognized as deferred income shall be recorded in current profit or loss by installments in a reasonable and systematic way over the useful life of the relevant assets. Specifically, the government grants related to the Company's daily activities shall be included in other income; and the government grants unrelated to the Company's daily activities shall be included in non-operating income.

Government grants measured at nominal amount shall be recorded directly in current profit or loss.

Government grants related to income shall be treated as follows: those used to compensate relevant expenses or losses to be incurred by the Company in subsequent periods shall be recognized as deferred income and recorded in current profit or loss when such expenses are recognized; and those used to compensate relevant expenses or losses that have been incurred by the Company shall be recorded directly in current profit or loss. When included in current profit or loss, government grants related to the Company's daily activities shall be included in other income; government grants unrelated to the Company's daily activities shall be included in non-operating income.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXI) Government grants (Continued)

3. *Specific standards for differentiating governmental grants related to assets from those related to income*

Government grants, with which the Company acquires, constructs or otherwise forms long-term assets, are recognized as asset-related government grant. The government grants other than the government grants related to assets are recognized as government grants related to income.

Where there is no express regulation on subsidy recipients in government documents, the criteria for differentiating governmental grants related to assets from those related to income is as below: ① government documents specify that government grant subject to a specific project shall be separated according to the proportion of expenditure budget and capitalization budget of the specific project, and the proportion shall be reviewed and modified if necessary on each balance sheet date; ② government grant shall be categorized as related to income if its usage is only subject to general description without specifying any specific project in government documents.

4. *Timing for recognition of governmental grants*

The governmental grants measured at the amount receivable will be recognized when there is unambiguous evidence suggesting the conformance to related conditions as provided in financial support policies and financial support fund is expected to be received. Other government grants other than those measured at the amount receivable will be recognized at the actual time of receiving such grants.

5. *Accounting treatment for interest subsidies for policy-based preferential loans*

(1) Where the interest subsidies are appropriated from the fiscal funds to the lending bank and then the bank provides loans to the Company at a policy-based preferential interest rate, the Company will recognize the amount of borrowings received as the initial value of borrowing and calculate relevant borrowing costs according to the principal amount of borrowing and the policy-based preferential interest rate.

(2) Where the interest subsidies are paid directly to the Company, the Company will use such interest subsidies to offset the corresponding borrowing costs.

#### (XXII) Deferred tax assets and deferred 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 (for items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws, tax base is recognized as the difference) 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. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 – 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXII) Deferred tax assets and deferred tax liabilities (Continued)

3. As for taxable temporary difference related to the investments of subsidiaries and associated enterprises, the deferred income tax liabilities shall be recognized unless the Company can control the time for the reversal of temporary differences and such differences are very unlikely to be reversed in the foreseeable future. As for the deductible temporary difference related to investments of subsidiaries and associated enterprises, the deferred income tax assets shall be recognized when such temporary differences are much likely to be reversed in the foreseeable future and the taxable profit are available against which the deductible temporary difference can be utilized.

#### (XXIII) Lease

1. Accounting treatment for operating leases: Rental expenses for operating leases shall be charged to costs of relevant assets or current profit or loss on a straight-line basis over the lease term.
2. Accounting treatment for financing leases: The carrying amount of a leased asset shall be measured at the lower of its fair value and the present value of the minimum lease payment. The difference between the carrying amount of the leased asset and the minimum lease payment shall be treated as unrecognized financing expenses and amortized using effective interest rate method over the lease term. The balance derived from deducting the unrecognized financing expenses from the minimum lease payment shall be presented as long-term payables.

#### (XXIV) Descriptions on the changes in critical accounting policies and accounting estimates

- (1) On 31 March 2017, the Ministry of Finance revised “ASBE 22 – Financial Instruments: Recognition and Measurement”, “ASBE 23 – Transfer of financial assets” and “ASBE 24 – Hedging”; on 2 May 2017, the Ministry of Finance revised “ASBE 37 – Presentation of financial instruments”, both revision were in effect since 1 January 2018. The Company adopted relevant accounting standards in preparation of the 2018 interim financial statements and implemented accounting treatment according to relevant convergence rules.

Description: the aforementioned changes in relevant accounting policies of financial instruments had no material impacts on the retained earnings and other comprehensive income of the Company at the beginning of 2018, and shall not be subject to retrospective adjustment.

- (2) On 5 July 2017, the Ministry of Finance revised “ASBE 14 – Revenue” with Cai Kuai [2017] No. 22, which was in effect since 1 January 2018. The Company adopted relevant accounting standards in preparation of the 2018 interim financial statements and implemented accounting treatment according to relevant convergence rules.

Description: the Company changed the accounting treatment for sales rebate.

After changes: the Company calculates rebate amounts at the end of each year based on contractual agreements where borrowings are charged to revenue from main operation and loans are charged to estimated liabilities. When there are rebate amounts at the following year, borrowings are charged to estimated liabilities and loans are charged to revenue from main operation.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

### IV. TAXES

#### (I) Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax (VAT)	Taxable income	17%, 16%
Urban maintenance and construction tax	Turnover tax payable	5%
Enterprise income tax	Taxable income	15%, 25%

Name of entity	Income tax rate
Beijing Chunlizhengda Medical Instruments Co., Ltd.	15%
Beijing Zhao Yi Te Medical Devices Co., Ltd.	25%

#### (II) Critical preferential tax and official approval

The Company passed the certification of high and new technology enterprise review on 24 November 2015 and obtained the High and New Technology Enterprise Certificate (Certificate No.: GR201511003197; Expiration Date: 24 November 2018) co-issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office, SAT, and Beijing Municipal Local Tax Bureau; The Company continues to apply for the High and New Technology Enterprise Certificate in 2018, and it is very likely to be approval. The 2018 Interim Report will be prepared based on the 15% preferential tax rate.

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

#### (I) Monetary Funds

Categories	Balance at the end of period	Balance at the beginning of year
Cash on hand	74,894.90	39,859.89
Cash at bank	388,942,133.95	371,578,568.73
Total	389,017,028.85	371,618,428.62
Including: the total amount deposited overseas	165,565,778.76	163,728,662.16

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Notes receivable and accounts receivable

<b>Categories</b>	<b>Balance at the end of period</b>	Balance at the beginning of year
Notes Receivables	<b>30,835,749.48</b>	23,339,770.10
Accounts receivable	<b>90,633,085.00</b>	85,334,866.72
Less: Provision for bad debts	<b>11,326,956.24</b>	11,678,871.99
<b>Total</b>	<b>110,141,878.24</b>	96,995,764.83

#### 1. Notes receivables

<b>Categories</b>	<b>Balance at the end of period</b>	Balance at the beginning of year
Bank acceptance bills	<b>30,003,429.48</b>	21,281,588.10
Commercial acceptance bills	<b>832,320.00</b>	2,058,182.00
Less: Provision for bad debts		
<b>Total</b>	<b>30,835,749.48</b>	23,339,770.10

Note: Endorsed or discounted and undue notes receivable at the balance sheet date at the end of the period were RMB600,000.00 yuan.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Notes receivable and accounts receivable (Continued)

##### 2. Accounts receivable

Categories	Closing balance			
	Book balance Amount	Proportion (%)	Provision for bad debts Amount	Proportion (%)
Accounts receivable of individually significant amount and with provision made for bad debts on an individual basis				
Accounts receivable with provision made for bad debts using portfolios	89,648,178.31	98.91	10,588,276.22	11.81
Accounts of individually insignificant amount but with provision made for bad debts on an individual basis	984,906.69	1.09	738,680.02	75.00
<b>Total</b>	<b>90,633,085.00</b>	<b>100.00</b>	<b>11,326,956.24</b>	<b>12.50</b>

Categories	Opening balance			
	Book balance Amount	Proportion (%)	Provision for bad debts Amount	Proportion (%)
Accounts receivable of individually significant amount and with provision made for bad debts on an individual basis				
Accounts receivable with provision made for bad debts using portfolios	84,458,114.03	98.97	11,021,307.47	13.05
Accounts receivable of individually insignificant amount but with provision made for bad debts on an individual basis	876,752.69	1.03	657,564.52	75.00
<b>Total</b>	<b>85,334,866.72</b>	<b>100.00</b>	<b>11,678,871.99</b>	<b>13.69</b>

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Notes receivable and accounts receivable (Continued)

##### 2. Accounts receivable (Continued)

- (1) Accounts receivable with provision made for bad debts using portfolios  
Accounts receivable with provision made for bad debts using age analysis

Ages	Closing balance			Opening balance		
	Book balance	Proportion (%)	Provision for bad debts	Book balance	Proportion (%)	Provision for bad debts
Within one year	73,824,740.47	5.00	3,691,237.02	64,718,290.70	5.00	3,235,914.54
One to two years	8,815,189.66	15.00	1,322,278.45	11,316,833.33	15.00	1,697,525.00
Two to three years	2,866,974.87	50.00	1,433,487.44	4,670,244.15	50.00	2,335,122.08
Over three years	4,141,273.31	100.00	4,141,273.31	3,752,745.85	100.00	3,752,745.85
Total	89,648,178.31	11.81	10,588,276.22	84,458,114.03	13.05	11,021,307.47

- (2) Accounts receivable of individually insignificant amount and with provision made for bad debts on an individual basis

Name of customers	Closing balance		
	Book balance	Provision proportion (%)	Provisions for bad debts
Unit A	800,250.00	75.00	600,187.50
Unit B	124,316.69	75.00	93,237.52
Unit C	54,730.00	75.00	41,047.50
Unit D	5,610.00	75.00	4,207.50
Totals	984,906.69		738,680.02

- (3) Provisions made, collected or reversed for bad debts during current period  
Provision for bad debts made in current period totaled RMB-351,915.75 yuan, and no provision for bad debts were collected or reversed in current period.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Notes receivable and accounts receivable (Continued)

2. *Accounts receivable (Continued)*

(4) Top five accounts receivable by closing balance collection of the borrower

Name of party	Closing balance	Percentage of the total accounts receivable (%)	Provision for bad debts balance
First	7,957,280.00	8.78	397,864.00
Second	7,714,757.56	8.51	385,737.88
Third	6,123,350.00	6.76	432,067.50
Fourth	4,409,624.00	4.87	220,481.20
Fifth	4,201,097.69	4.64	210,054.88
Total	30,406,109.25	33.56	1,646,205.46

#### (III) Prepayments

1. *Prepayments presented by ages*

Ages	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	3,432,953.03	78.39	1,537,227.61	95.00
One to two years	946,516.13	21.61		
Two to three years			80,850.00	5.00
Over three years				
Total	4,379,469.16	100.00	1,618,077.61	100.00

2. *Details of the top 5 prepayments with largest balances*

Name of party	Closing balance	Proportion to the balance of Prepayment (%)
First	1,820,000.00	41.56
Second	526,550.00	12.02
Third	315,274.30	7.20
Fourth	291,454.56	6.66
Fifth	199,100.00	4.55
Total	3,152,378.86	71.99

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IV) Other receivables

Categories	Closing balance	Opening balance
Interest receivables		
Dividend receivable		
Other receivables	<b>2,709,856.89</b>	1,267,217.01
Less: Provision for bad debts	<b>562,459.33</b>	351,390.48
Total	<b>2,147,397.56</b>	915,826.53

#### 1. Other receivables

Categories	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables of individually significant amount and with provision made for bad debts on an individual basis				
Other receivables with provision made for bad debts using portfolios	<b>2,709,856.89</b>	<b>100.00</b>	<b>562,459.33</b>	<b>20.76</b>
Other receivables of individually insignificant amount and with provision made for bad debts on an individual basis				
Total	<b>2,709,856.89</b>	<b>100.00</b>	<b>562,459.33</b>	<b>20.76</b>

Categories	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables of individually significant amount and with provision made for bad debts on an individual basis				
Other receivables with provision made for bad debts using portfolios	1,267,217.01	100.00	351,390.48	27.73
Other receivables of individually insignificant amount and with provision made for bad debts on an individual basis				
Total	1,267,217.01	100.00	351,390.48	27.73

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IV) Other receivables (Continued)

##### 1. Other receivables (Continued)

(1) Other receivables of individually significant amount and with provision made for bad debts on an individual basis

① Other receivables with provision made for bad debts using age analysis

Ages	Closing balance			Book balance	Opening balance	
	Book balance	Provision Proportion (%)	Provision for bad debts		Provision Proportion (%)	Provision for bad debts
Within one year	1,820,201.85	5.00	91,010.09	659,150.25	5.00	32,957.51
One to two years	308,388.28	15.00	46,258.24	336,151.52	15.00	50,422.73
Two to three years	312,151.52	50.00	156,075.76	7,810.00	50.00	3,905.00
Over three years	269,115.24	100.00	269,115.24	264,105.24	100.00	264,105.24
Total	2,709,856.89	20.76	562,459.33	1,267,217.01	27.73	351,390.48

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

Provision for bad debts made in current period totaled RMB211,068.85 yuan, and no provision for bad debts were collected or reversed in current period.

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	1,077,842.04	491,938.82
Deposit, guarantee deposit	469,779.52	659,779.52
Others	1,162,235.33	115,498.67
Total	2,709,856.89	1,267,217.01

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IV) Other receivables (Continued)

1. Other receivables (Continued)

(4) Top five accounts receivable by closing balance collection of the borrower

Name of debtor	Nature of receivables	Closing balance	Ages	Proportion to the total amount of the ending balance of other accounts receivable (%)	Balance of bad debt provision
First	To refund	825,000.10	Within one year	30.44	41,250.01
Second	Petty cash	253,610.49	Within one year	9.36	12,680.52
Third	Deposit	180,000.00	Two to three years	6.64	90,000.00
Fourth	Petty cash	129,700.00	Within one year	4.79	6,485.00
Fifth	Lease security deposit	128,828.00	Over three years	4.75	128,828.00
Total		1,517,138.59		55.98	279,243.53

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (V) Inventories

##### 1. Categories of inventories

Categories of inventories	Closing balance			Opening balance		
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw material	20,021,930.99	228,615.71	19,793,315.28	15,272,958.94	226,382.59	15,046,576.35
Goods sold	448,239.90		448,239.90	4,047,687.78		4,047,687.78
Work in progress	12,806,761.24	968,927.56	11,837,833.68	12,164,517.19	924,109.03	11,240,408.16
Stock inventory	59,822,284.43	4,166,225.80	55,656,058.63	31,361,741.30	2,749,254.70	28,612,486.60
Total	93,099,216.56	5,363,769.07	87,735,447.49	62,846,905.21	3,899,746.32	58,947,158.89

##### 2. Movement of provision for inventory write-down

Categories of inventories	Opening balance	Provision for the current period	Decrease in current period		Closing balance
			Reversal	Write off	
Raw material	226,382.59	2,233.12			228,615.71
Work in progress	924,109.03	44,818.53			968,927.56
Stock inventory	2,749,254.70	1,416,971.10			4,166,225.80
Total	3,899,746.32	1,464,022.75			5,363,769.07

#### (VI) Other current assets

Items	Closing balance	Opening balance
Input tax to be deducted		116,686.21
Prepaid income tax	26,940.72	
Total	26,940.72	116,686.21



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (VII) Fixed Assets

Categories	Closing balance	Opening balance
Fixed assets	51,123,289.84	47,580,889.11
Fixed assets clearance		
Less: Provision for impairment		
<b>Total</b>	<b>51,123,289.84</b>	<b>47,580,889.11</b>

#### 1. Fixed assets

Items	Building and structures	Mechanical equipment	Transport facilities	Office equipment	Total
(I) Original carrying amount					
1. Opening balance	20,379,712.55	51,477,046.45	2,646,786.01	1,036,209.02	75,539,754.03
2. Increase in current period		6,272,807.04		147,820.87	6,420,627.91
(1) Acquisition		6,272,807.04		147,820.87	6,420,627.91
3. Decrease in current period					
4. Closing balance	20,379,712.55	57,749,853.49	2,646,786.01	1,184,029.89	81,960,381.94
(II) Accumulated depreciation					
1. Opening balance	3,228,837.96	22,612,402.69	1,448,968.88	668,655.39	27,958,864.92
2. Increase in current period	325,653.10	2,346,942.46	144,161.24	61,470.38	2,878,227.18
(1) Provision	325,653.10	2,346,942.46	144,161.24	61,470.38	2,878,227.18
3. Decrease in current period					
4. Closing balance	3,574,424.74	24,962,339.78	1,593,130.12	707,197.46	30,837,092.10
(III) Provision for impairment					
1. Opening balance					
2. Increase in current period					
3. Decrease in current period					
4. Closing balance					
(IV) Carrying amount					
1. Closing carrying amount	16,825,221.49	32,790,508.34	1,053,655.89	453,904.12	51,123,289.84
2. Opening carrying amount	17,150,874.59	28,864,643.76	1,197,817.13	367,553.63	47,580,889.11

Note: Original value of the fixed assets continued to be used upon full Provision for impairment at the end of the period was RMB5,541,215.19 yuan. There were no fixed assets of which certificates of title have not been obtained at the end of the period.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (VII) Fixed Assets (Continued)

2. Temporarily idled fixed assets as of 30 June 2018

Categories	Carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount	Notes
Mechanical equipment	269,701.38	256,847.21		12,854.17	
Total	269,701.38	256,847.21		12,854.17	

#### (VIII) Work in progress

Categories	Closing balance	Opening balance
Work in progress	<b>13,294,095.25</b>	13,193,700.06
Construction material		
Less: Provision for impairment		
Total	<b>13,294,095.25</b>	13,193,700.06

1. Construction in progress

(1) Basic situation of the constructions in progress

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	<b>13,294,095.25</b>		<b>13,294,095.25</b>	13,193,700.06		13,193,700.06
Total	<b>13,294,095.25</b>		<b>13,294,095.25</b>	13,193,700.06		13,193,700.06

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (VIII) Work in progress (Continued)

1. Construction in progress (Continued)

(2) Changes in significant projects of construction in progress

Name of construction	Budgets (RMB0,000 yuan)	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	13,193,700.06	100,395.19			13,294,095.25
Total	18,429.65	13,193,700.06	100,395.19			13,294,095.25

Name of construction	Investment to budget of construction (%)	Completion Progress (%)	Accumulated amount of interest capitalization	Including: 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	7.21	7.21				Self-generated funds and publicly raised fund
Total						

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IX) Intangible assets

Items	Land use rights	Software	Total
I. Carrying amount			
1. Opening balance	37,052,810.33	670,287.17	37,723,097.50
2. Increase in current period		741,201.33	741,201.33
(1) Acquisition		741,201.33	741,201.33
3. Decrease in current period			
4. Closing balance	37,052,810.33	1,411,488.50	38,464,298.83
II. Accumulated amortization			
1. Opening balance	4,154,349.45	441,855.29	4,596,204.74
2. Increase in current period	385,679.58	97,704.36	483,383.94
(1) Provision	385,679.58	97,704.36	483,383.94
3. Decrease in current period			
4. Closing balance	4,540,029.03	539,559.65	5,079,588.68
III. Provision for impairment			
1. Opening balance			
2. Increase in current period			
3. Decrease in current period			
4. Closing balance			
IV. Carrying amount			
1. Closing carrying amount	32,512,781.30	871,928.85	33,384,710.15
2. Opening carrying amount	32,898,460.88	228,431.88	33,126,892.76

#### (X) Long-term prepayments

Categories	Opening balance	Increase in current period	Amortization in current period	Other decrease	Closing balance
Renovation costs	1,008,333.35		109,999.98		898,333.37
Total	1,008,333.35		109,999.98		898,333.37

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XI) Deferred income tax assets, deferred income tax liabilities

1. *Deferred income tax assets, deferred income tax liabilities are not presented in the net value after offset*

Items	Closing balance		Opening balance	
	Deferred income tax assets/liabilities	Deductible/Taxable temporary difference	Deferred income tax assets/liabilities	Deductible/Taxable temporary difference
Deferred income tax assets:				
Provision for impairment of assets	2,604,461.66	17,253,184.64	2,399,789.38	15,930,008.79
Expected liabilities	2,634,872.93	17,565,819.57	299,247.29	1,994,981.90
Subtotal	5,239,334.59	34,819,004.21	2,699,036.67	17,924,990.69
Deferred income tax liabilities:				
Accelerated depreciation of fixed assets	926,111.00	6,174,073.43	753,109.62	5,020,730.85
Subtotal	926,111.00	6,174,073.43	753,109.62	5,020,730.85

2. *Details of unrecognized deferred income tax assets*

Items	Closing balance	Opening balance
Deductible losses	321,319.74	981,869.42
Total	321,319.74	981,869.42

3. *Deductible tax losses that are not recognised as deferred tax assets will expire in the following years*

Year	Closing balance	Opening balance	Notes
2018		136,692.89	
2019		142,221.96	
2020		169,611.79	
2021	321,319.74	533,342.78	
Total	321,319.74	981,869.42	



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XII) Other non-current assets

Items	Closing balance	Opening balance
Prepayment for the acquisition of long-term assets	17,478,412.22	5,840,781.71
Total	17,478,412.22	5,840,781.71

#### (XIII) Notes payable and accounts payable

Items	Closing balance	Opening balance
Notes payable		
Accounts payable	45,004,755.60	25,316,462.14
Total	45,004,755.60	25,316,462.14

##### 1. Accounts payable

###### (1) Details

Items	Closing balance	Opening balance
Acquired material	44,493,789.23	25,032,183.14
Acquired machines and equipments	510,966.37	284,279.00
Total	45,004,755.60	25,316,462.14

###### (2) By aging

Items	Closing balance	Opening balance
Within one year (including one year)	43,733,805.66	24,199,043.00
One to two years	719,546.95	630,217.59
Two to three years	134,280.00	296,603.56
Over three years	417,122.99	190,597.99
Total	45,004,755.60	25,316,462.14

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XIV) Advances received

(1) Details

Items	Closing balance	Opening balance
Goods payment	14,803,557.58	15,891,150.69
Total	14,803,557.58	15,891,150.69

(2) Ages

Items	Closing balance	Opening balance
Within one year (including one year)	9,696,051.81	12,252,163.64
Over one year	5,107,505.77	3,638,987.05
Total	14,803,557.58	15,891,150.69

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XV) Employee remuneration payable

1. *Employee remuneration payable is shown as follows*

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance
Short-term remuneration	4,047,321.67	28,975,459.02	28,596,674.14	<b>4,426,106.55</b>
Post-employment benefits – defined contribution plan	456,496.28	1,820,710.71	1,776,180.03	<b>501,026.96</b>
<b>Total</b>	<b>4,503,817.95</b>	<b>30,796,169.73</b>	<b>30,372,854.17</b>	<b>4,927,133.51</b>

2. *Details of employee remuneration payable*

(1) Short-term remuneration

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance
Wage, bonus, allowance and subsidy	3,367,398.53	25,376,319.37	25,081,064.75	<b>3,662,653.15</b>
Employee welfare premium		605,340.99	605,340.99	
Social insurance premium	371,877.65	1,596,546.14	1,561,156.30	<b>407,267.49</b>
Including: Medicare premium	311,015.77	1,333,389.01	1,303,750.59	<b>340,654.19</b>
Occupational injuries premium	34,084.08	154,827.67	151,608.01	<b>37,303.74</b>
Maternity premium	26,777.80	108,329.46	105,797.70	<b>29,309.56</b>
Housing provident funds	101,295.00	891,815.00	890,487.00	<b>102,623.00</b>
Trade union fund and employee education fund	206,750.49	505,437.52	458,625.10	<b>253,562.91</b>
<b>Total</b>	<b>4,047,321.67</b>	<b>28,975,459.02</b>	<b>28,596,674.14</b>	<b>4,426,106.55</b>

(2) Defined contribution plan

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance
Basic endowment insurance premium	436,800.20	1,748,204.65	1,705,327.38	<b>479,677.47</b>
Unemployment insurance premium	19,696.08	72,506.06	70,852.65	<b>21,349.49</b>
<b>Total</b>	<b>456,496.28</b>	<b>1,820,710.71</b>	<b>1,776,180.03</b>	<b>501,026.96</b>

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XVI) Taxes payable

Taxes	Closing balance	Opening balance
VAT	1,930,846.13	7,763,495.91
Enterprise income tax	5,664,397.27	5,460,873.41
Urban maintenance and construction tax	188,040.70	400,344.30
Individual income tax	242,206.01	215,935.34
Education surcharge	112,824.41	240,206.58
Local education surcharge	75,216.28	164,980.51
Stamp duty	11,020.75	39,720.30
Total	8,224,551.55	14,285,556.35

#### (XVII) Other payables

Items	Closing balance	Opening balance
Interests payable		
Dividends payable	15,978,362.40	
Other payables	20,894,050.18	17,621,821.89
Total	36,872,412.58	17,621,821.89

##### 1. Dividends payable

Name of entity	Closing balance	Opening balance	Reason for unsettlement over one year
Dividends of ordinary shares	15,978,362.40		
Total	15,978,362.40		

##### 2. Other payables

###### (1) By nature

Nature of amount	Closing balance	Opening balance
Sales rebate	4,250,803.39	8,136,969.09
Accruals	9,698,905.97	7,200,000.00
Guarantee deposits	6,333,671.00	1,641,880.00
Others	610,669.82	642,972.80
Total	20,894,050.18	17,621,821.89

Note: The Company does not have other large-sum payables aged over one year.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XVIII) Expected liabilities

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance	Reasons
Sales return	1,994,981.90	4,356,883.10	1,994,981.90	<b>4,356,883.10</b>	
Sales rebate		13,208,936.47		<b>13,208,936.47</b>	
Total	1,994,981.90	17,565,819.57	1,994,981.90	<b>17,565,819.57</b>	

Note: Sales return is the estimated sales amount to be returned for the current sales according to the historical information and future operation of the Company. Sales rebate is the estimated amount to be rebated to customers in goods according to the contractual agreements entered into between the Company and customers.

#### (XIX) Deferred income

##### 1. Deferred income by category

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance	Reasons
Government grants	14,822,497.59		1,179,790.16	<b>13,642,707.43</b>	
Total	14,822,497.59		1,179,790.16	<b>13,642,707.43</b>	

##### 2. Government grants

Items	Opening balance	Amount of grants increased for the period	Included in current profit or loss	Other changes	Closing balance	Related to assets/related to income	Notes
Grant for industrialization of ceramic femoral head on ceramic hip joint prostheses	4,084,747.59		547,131.83		<b>3,537,615.76</b>	Related to assets	Note 1
Grant for PEEK interbody fusion cage	1,663,750.00		99,825.00		<b>1,563,925.00</b>	Related to assets	Note 2
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	7,608,000.00		475,500.00		<b>7,132,500.00</b>	Related to assets	Note 3
Grant for clinical study and construction project of pilot production capacity of spinal artificial vertebral fixation system	1,466,000.00		57,333.33		<b>1,408,666.67</b>	Related to assets	Note 4
Total	14,822,497.59		1,179,790.16		<b>13,642,707.43</b>		



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XIX) Deferred income (Continued)

##### 2. Government grants (Continued)

Note 1: According to the notice of Beijing Science & Technology Commission on the releasing fund for "industrialization of ceramic femoral head on ceramic hip prostheses" on 24 December 2012, a technology fund amounting RMB5,946,000 yuan is granted, of which RMB5,670,000 was used in the purchase of equipment. According to the requirements and judgement of relevant standards, the government grant amounting RMB5,670,000 yuan was related to assets.

Note 2: According to the notice of Beijing Science & Technology Commission on the releasing fund for "clinical study of PEEK interbody fusion cage" on 3 June 2014, a technology fund amounting RMB1,996,500 yuan is granted, which was used in the purchase of equipment. According to the requirements and judgement of relevant standards, such government grant was related to assets.

Note 3: According to the Jing Fa Gai [2015] No.417 of Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會), Finance Bureau of Tongzhou District in Beijing granted RMB9,510,000 yuan for innovation ability development on joint prosthesis of Beijing engineering laboratory where such grant was used in the innovation ability development on joint prosthesis of Beijing engineering laboratory. According to the requirements and judgement of relevant standards, such government grant was related to assets.

Note 4: According to the 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" on 21 April 2016, a technology fund amounting RMB2,500,000 yuan is granted, which was used in the purchase of equipment. According to the requirements and judgement of relevant standards, such government grant was related to assets.

#### (XX) Share capital

Items	Opening balance	Movements for the period (+, -)					Subtotal	Closing balance
		Issue of new shares	Bonus shares	Reserves transferred to shares	Others			
Held by domestic natural persons	50,000,000.00							50,000,000.00
H shares	19,170,400.00							19,170,400.00
Total	69,170,400.00							69,170,400.00

#### (XXI) Capital reserve

Categories	Opening balance	Increase in current period	Decrease in current period	Closing balance
I. Capital premium	228,239,180.01			228,239,180.01
II. Other capital reserve	1,800,000.00			1,800,000.00
Total	230,039,180.01			230,039,180.01

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXII) Surplus reserve

Categories	Opening balance	Increase in current period	Decrease in current period	Closing balance
Statutory surplus reserve	30,599,186.14			30,599,186.14
Total	30,599,186.14			30,599,186.14

#### (XXIII) Undistributed profit

Items	Closing balance	
	Amount	Percentage of appropriation or distribution
Balance before adjustment at the end of preceding period	208,663,412.07	
Total balance at the beginning of the adjustment (Increase+, decrease-)		
Balance after adjustment at the beginning of the period	208,663,412.07	
Add: Net profit attributable to owners of the parent company for the current period	50,421,188.76	
Less: Appropriation of statutory surplus reserve		
Appropriation of discretionary surplus reserve		
Dividend payable on ordinary shares	15,978,362.40	
Ordinary shares dividends transferred to share capital		
Undistributed profits at end of period	243,090,522.47	

#### (XXIV) Operating revenue and operating cost

Items	Amounts for the current period		Amount of the previous period	
	Revenue	Costs	Revenue	Costs
I. Subtotal from main operation	213,141,160.11	76,297,339.85	124,239,007.80	30,892,188.66
Medical device	213,141,160.11	76,297,339.85	124,239,007.80	30,892,188.66
II. Subtotal from other operation	1,955.00	1,109,978.32		
Waste materials	1,955.00	1,109,978.32		
Total	213,143,115.11	77,407,318.17	124,239,007.80	30,892,188.66

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXV) Taxes and surcharge

Items	Amounts for the current period	Amount of the previous period
Urban maintenance and construction tax	950,997.79	757,634.13
Education surcharge	570,598.68	454,580.47
Local education surcharge	380,399.10	303,053.64
Housing property tax	183,790.08	103,325.22
Land use tax	75,548.78	75,548.78
Vehicle and vessel tax	5,200.00	3,900.00
Stamp duty	75,971.65	231,008.30
Total	2,242,506.08	1,929,050.54

#### (XXVI) Selling expenses

Items	Amount for the current period	Amount for the previous period
Market development expenses	50,411,128.44	21,505,463.19
Employee benefits	7,603,342.45	5,308,124.01
Office expenses	391,040.71	1,319,969.61
Transportation expenses	589,714.90	540,173.04
Sales rebate		2,094,013.23
Others	638,060.88	1,102,416.19
Total	59,633,287.38	31,870,159.27

#### (XXVII) Administrative expenses

Items	Amount for the current period	Amount for the previous period
Employee benefits	7,184,176.76	5,842,436.57
Agency fees	1,817,720.28	2,718,409.11
Depreciation and amortization expenses	1,040,534.88	920,335.01
Office and travelling expenses	312,903.53	221,694.97
Rentals and property expenses	417,918.99	555,151.54
Business entertainments expenses	201,560.65	166,852.49
Others	1,679,489.49	1,651,121.07
Total	12,654,304.58	12,076,000.76

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXVIII) Research and development expenses

Items	Amount for the current period	Amount for the previous period
Employee benefits	4,488,807.58	3,238,390.27
Supplies consumed	580,193.36	1,083,069.19
Fuel expenses	185,982.10	89,755.39
Depreciation and amortization	687,897.30	372,086.16
Examination and testing expenses	2,351,395.14	4,274,386.84
Others	707,972.28	699,712.75
Total	9,002,247.76	9,757,400.60

#### (XXIX) Financial expenses

Items	Amount for the current period	Amount for the previous period
Interest expenses		
Less: Interest income	2,828,088.81	3,668,902.84
Foreign exchange losses		680,668.89
Less: Foreign exchange gains	2,250,097.45	
Handling fee expenses	12,953.16	35,808.90
Total	-5,065,233.10	-2,952,425.05

#### (XXX) Assets impairment loss

Items	Amount for the current period	Amount for the previous period
Loss from bad debts	-140,846.90	-805,802.95
Inventory write-down loss	1,464,022.75	1,229,951.48
Total	1,323,175.85	424,148.53

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXXI) Other income

Items	Amount for the current period	Amount for the previous period	Related to assets/related to income	Notes
Grant for industrialization of ceramic femoral head on ceramic hip joint prostheses	547,131.83	283,500.00	Related to assets	Note 1
Grant for PEEK interbody fusion cage	99,825.00	99,825.00	Related to assets	Note 1
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	475,500.00	475,500.00	Related to assets	Note 1
Grant for clinical study and construction project of pilot production capacity of spinal artificial vertebral fixation system	57,333.33	17,000.00	Related to assets	Note 1
Grant of international market developing funds of small-and-medium-sized enterprises	231,977.00		Related to income	Note 2
Other grants	183,000.00		Related to income	
<b>Total</b>	<b>1,594,767.16</b>	<b>875,825.00</b>		

Note 1: Please refer to Note V (XIX) Deferred income for details.

Note 2: According to the document of "Measures for Administration of International Market Developing Funds of Small-and Medium-Sized Enterprises" (Cai Qi [2010] No.87), Beijing Municipal Commission of Commerce granted a total of RMB231,977.00 yuan of International Market Developing Funds of Small-and Medium-Sized Enterprises In March and May of 2018. Such government grant is not related to income based on the requirements and judgement of relevant standards.

Note 3: Other income for the current period is charged as RMB1,594,767.16 yuan of government grant under non-recurring profit or loss.



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXXII) Non-operating income

1. *Non-operating income by items*

Items	Amount for the current period	Amount for the previous period	Amount charged to current non-recurring profit or loss
Government grants not related to daily activity		100,000.00	
Total		100,000.00	

2. *Government grants charged to non-operating income*

Items	Amount for the current period	Amount for the previous period	Related to assets/related to income
2016 financial award for advanced units		100,000.00	Related to income
Total		100,000.00	

#### (XXXIII) Non-operating expenses

Items	Amount for the current period	Amount for the previous period	Amount charged to current non-recurring profit or loss
Others	200.00	1,700.00	200.00
Total	200.00	1,700.00	200.00

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 – 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXXIV) Income tax expenses

1. *Details of income tax expenses*

<b>Items</b>	<b>Amount for the current period</b>	Amount for the previous period
Current period income tax expenses according to tax laws and relevant requirements	<b>9,501,899.29</b>	5,685,841.46
Deferred income tax expenses	<b>-2,367,296.54</b>	95,390.28
<b>Total</b>	<b>7,134,602.75</b>	5,781,231.74

2. *Reconciliation between accounting profit and income tax expenses*

<b>Items</b>	Amount
Total profit	57,540,075.55
Income tax expenses based on statutory/applicable tax rate	8,631,011.34
Effect of different tax rate applicable to subsidiaries	59,859.06
Effect of prior income tax adjustment	-208,809.96
Effect of non-deductible costs, expenses and losses	142,482.42
Effect of utilization of deductible temporary differences or deductible losses not recognized as deferred income tax assets in prior periods	-165,137.42
Effects of research and development expenses and additional deductions	-1,324,802.69
Income tax expenses	7,134,602.75

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXXV) Cash flow statement

1. *Other cash receipts or payments related to operating activities*

<b>Items</b>	<b>Amount for the current period</b>	Amount for the previous period
Other cash receipts related to operating activities	<b>2,817,591.05</b>	100,000.00
Including: Net receipts from current accounts	<b>1,965,896.02</b>	
Interest receipts from deposit	<b>436,718.03</b>	
Government grants received	<b>414,977.00</b>	100,000.00
Other cash payment related to operating activities	<b>60,444,282.75</b>	36,401,458.07
Including: Expenses of cash payment	<b>60,431,129.59</b>	31,912,461.05
Net payment of current accounts		4,488,997.02
Handling fee and other expenses	<b>13,153.16</b>	

2. *Other cash receipts or payments related to investing activities*

<b>Items</b>	<b>Amount for the current period</b>	Amount for the previous period
Other cash receipts related to investing activities	<b>2,391,370.78</b>	2,670,092.37
Including: Interest receipts from investment capital	<b>2,391,370.78</b>	2,670,092.37

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXXVI) Supplemental information to the cash flow statement

1. Supplemental information to the cash flow statement

Items	Amount for the current period	Amount for the previous period
1. Reconciliation of net profit to cash flow from operating activities		
Net profit	50,405,472.80	35,435,377.75
Add: Provision for assets impairment	1,323,175.85	424,148.53
Depreciation of fixed assets, oil and gas assets, productive biological assets	2,878,227.18	2,799,053.13
Amortization of intangible assets	483,383.94	440,414.04
Amortization of long term prepayments	109,999.98	
Loss on disposal of fixed assets, intangible assets and other long term assets (Gain represented by “-”)		
Fixed assets retirement loss (Gain represented by “-”)		
Losses on changes in fair value (Gain represented by “-”)		
Losses on changes in fair value (Gain represented by “-”)	-2,536,887.04	-2,988,233.95
Investments losses (Gain represented by “-”)		
Decrease of deferred income tax assets (Increase represented by “-”)	-2,540,297.92	-64,337.77
Increase of deferred income tax liabilities (Decrease represented by “-”)	173,001.38	159,728.05
Decrease in inventories (Increase represented by “-”)	-30,252,311.35	-7,003,513.76
Decrease in operating receivables (Increase represented by “-”)	-16,908,483.60	-22,872,131.57
Increase of operating payables (Decrease represented by “-”)	31,217,159.15	4,427,546.87
Others		
Net cash flow from operating activities	34,352,440.37	10,758,051.32
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	389,017,028.85	307,760,647.02
Less: Balance of cash at the beginning of the period	371,618,428.62	297,285,790.16
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	17,398,600.23	10,474,856.86

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (XXXVI) Supplemental information to the cash flow statement (Continued)

##### 2. Cash and cash equivalents

Items	Amount for the current period	Amount for the previous period
I. Cash	<b>389,017,028.85</b>	371,618,428.62
Including: Cash on hand	<b>74,894.90</b>	39,859.89
Cash in bank on demand for payment	<b>388,942,133.95</b>	371,578,568.73
II. Cash equivalents		
Including: Bond investments maturing within three months		
III. Balance of cash and cash equivalents at the end of the period	<b>389,017,028.85</b>	371,618,428.62
Including: Parent company or subsidiaries of the Group using restricted cash and cash equivalents		

#### (XXXVII) Monetary items in foreign currencies

##### 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			16,573,352.16
Including: USD	<b>1,150,283.01</b>	6.6166	7,610,962.56
EUR	<b>290.50</b>	7.6515	2,222.76
HKD	<b>10,627,542.22</b>	0.8431	8,960,166.84
Accounts receivable			8,249,498.59
Including: USD	<b>1,246,788.17</b>	6.61660	8,249,498.59
Accounts payable			5,644,875.10
Including: USD	<b>47,385.00</b>	6.6166	313,527.59
EUR	<b>696,771.55</b>	7.6515	5,331,347.51



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

### VI. INTEREST IN OTHER ENTITIES

#### Interest in subsidiaries

Subsidiaries	Place of registration	Main operating place	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	
Beijing Zhao Yi Te Medical Devices Co., Ltd.	Tongzhou, Beijing	Tongzhou, Beijing	Selling of medical devices	100.00		Through capital contribution to establish a new company

### VII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company aims to seek the balance between the risks and benefits from its risk management with the use of financial instruments and to mitigate the adverse effects that the risks have on the Company's operating results. 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 adhere 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 the management of such risks. Details are as follows:

#### (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 regular basis. The Company selects and enters into transactions with credible and well-reputed customers based on credit assessment result, and monitors its balance of receivables, to avoid significant risks in bad debts of the Company.

As the Company's credit risks of accounts receivable fall into several business partners and customers, as of 30 June 2018, 33.56% (31 December 2017: 33.96%) of the accounts receivable of the Company was due from the five largest customers of the Company. The Company has no significant concentration of credit risk.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Liquidity risk

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

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

At the balance sheet date, the undiscounted contractual cash flows of the financial assets and financial liabilities of the Company by their maturity date are presented as follows:

Items	30 June 2018				Total
	Within one year	One to two years	Two to three years	Over three years	
Financial assets					
Monetary capital	389,017,028.85				389,017,028.85
Accounts payable – original value	90,633,085.00				90,633,085.00
Other payable – original value	2,709,856.89				2,709,856.89
Subtotal	482,359,970.74				482,359,970.74
Financial liabilities					
Accounts payable	45,004,755.60				45,004,755.60
Other payable	20,894,050.18				20,894,050.18
Subtotal	65,898,805.78				65,898,805.78

#### (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.

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

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

##### 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 Renminbi, 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.

### VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (I) Actual controllers of the Company

Actual controllers	Nationality	Position in the Company	Holding proportion over the Company (%)	Voting right proportion over the Company (%)
Shi Chunbao	PRC	Chairman and General Manager	35.04	35.04
Yue Shujun	PRC	Executive Director and Deputy General Manager	28.32	28.32

Note: Shi Chunbao and Yue Shujun are a couple.

#### (II) Subsidiaries of the Company

Please refer to Note "VI. Interest in other entities" for details.

#### (III) Other related party of the Company

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

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (IV) Related party transactions

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

Name of related party	Type of related party transaction	Content of related party transaction	Pricing and determination methods of related party transaction	Amount for the current period		Amount for the previous period	
				Amount	Proportion to the amount of similar transaction (%)	Amount	Proportion to the amount of similar transaction (%)
Sale of goods and rendering of services:							
Beijing Gaoyang Materials Centre	Sale of goods	Medical devices	Market price	6,780,662.23	3.18	8,989,570.94	7.24

2. *Emoluments of directors and supervisors*

Emoluments of key management	Position	Amount for the current period	Amount for the previous period
Shi Chunbao	Executive Director	609,991.28	309,201.44
Yue Shujun	Executive Director	519,991.28	219,201.44
Wang Jianliang	Executive Director	172,910.72	121,578.72
Xu Hong	Independent Non-executive Director		50,000.00
Tong Xiaobo	Independent Non-executive Director	50,000.00	50,000.00
Cheung Ying Kwan	Independent Non-executive Director	26,370.00	50,000.00
Ge Changyin	Independent Non-executive Director	50,000.00	
Ho Wai Ip	Independent Non-executive Director	4,444.00	
Zhang Lanlan	Employees Supervisor	58,500.03	49,967.99
Total		1,492,207.31	849,949.59

#### (V) Receivables from or payable to related parties

1. *Receivables*

Items	Related party	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivables	Beijing Gaoyang Materials Centre	7,714,757.56	385,737.88	16,584,145.22	607,799.21
Total		7,714,757.56	385,737.88	16,584,145.22	607,799.21

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

### IX. COMMITMENTS AND CONTINGENCIES

**(I) Commitments**

As of 30 June 2018, the Company has no commitments needed to be disclosed.

**(II) Contingencies**

As of 30 June 2018, the Company has no contingencies needed to be disclosed.

### X. EVENTS AFTER THE BALANCE SHEET DATE

As of the date of report, there is no other event after the balance sheet date needed to be explained.

### XI. OTHER SIGNIFICANT EVENTS

**(I) Segment Report**

The Company is mainly engaged in the manufacture and trading of surgical implants, instruments and related products. Based on the Company's internal organizational structure, management requirements and internal reporting policies, the Company's business constitutes of one single reportable segment, i.e. manufacture and trading of surgical implants, instruments and related products. In the perspective of the Company's internal organizational structure, management requirements and internal reporting policies, operating segment is not required and there is no segment report needed to be disclosed.

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

**(I) Notes receivable and accounts receivable**

Categories	Closing balance	Opening balance
Notes receivable	30,835,749.48	23,339,770.10
Accounts receivable	89,748,776.50	84,999,304.57
Less: Provision for bad debts	11,244,518.89	11,658,393.69
Total	109,340,007.09	96,680,680.98



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (I) Notes receivable and accounts receivable (Continued)

*Disclosure of accounts receivable by category*

Categories	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Account receivable of individually significant amount and with provision made on an individual basis				
Account receivable with provision made on a collective basis	88,763,869.81	98.90	10,505,838.87	11.84
Account receivable of individually insignificant amount but with provision made on an individual basis	984,906.69	1.10	738,680.02	75.00
<b>Total</b>	<b>89,748,776.50</b>	<b>100.00</b>	<b>11,244,518.89</b>	<b>12.53</b>

Categories	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Account receivable of individually significant amount and with provision made on an individual basis				
Account receivable with provision made on a collective basis	84,122,551.88	98.97	11,000,829.17	13.08
Account receivable of individually insignificant amount but with provision made on an individual basis	876,752.69	1.03	657,564.52	75.00
<b>Total</b>	<b>84,999,304.57</b>	<b>100.00</b>	<b>11,658,393.69</b>	<b>13.72</b>

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (I) Notes receivable and accounts receivable (Continued)

##### 2. Receivables with provision made on a collective basis

##### (1) Accounts receivable with provision made on a collective basis with age analysis method

Ages	Closing balance			Opening balance		
	Book balance	Provision proportion (%)	Provision for bad debts	Book balance	Provision proportion (%)	Provision for bad debts
Within one year	72,596,560.47	5.00	3,629,828.02	64,308,724.70	5.00	3,215,436.24
One to two years	8,675,000.66	15.00	1,301,250.10	11,316,833.33	10.00	1,697,525.00
Two to three years	2,866,974.87	50.00	1,433,487.44	4,670,244.15	50.00	2,335,122.08
Over three years	4,141,273.31	100.00	4,141,273.31	3,752,745.85	100.00	3,752,745.85
Total	88,279,809.31		10,505,838.87	84,048,548.03		11,000,829.17

##### (2) Accounts receivable with no provision made on a collective basis

Portfolio	Book balance	
	Closing balance	Opening balance
Portfolio of accounts receivable from subsidiaries	484,060.50	74,003.85
Total	484,060.50	74,003.85

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

Name of customer	Closing balance		
	Book balance	Provision proportion (%)	Provision for bad debts
Unit A	800,250.00	75.00	600,187.50
Unit B	124,316.69	75.00	93,237.52
Unit C	54,730.00	75.00	41,047.50
Unit D	5,610.00	75.00	4,207.50
Total	984,906.69		738,680.02

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (I) Notes receivable and accounts receivable (Continued)

4. Details of the top five accounts receivable by closing balance collection of the debtor

Name of party	Closing balance	Proportion to the total accounts receivable (%)	Provision for bad debts balance
The first	7,957,280.00	8.87	397,864.00
The second	7,714,757.56	8.60	385,737.88
The third	6,123,350.00	6.82	432,067.50
The fourth	4,409,624.00	4.91	220,481.20
The fifth	4,201,097.69	4.68	210,054.88
Total	30,406,109.25	33.88	1,646,205.46

#### (II) Other receivables

Categories	Closing balance	Opening balance
Interest receivable		
Dividend receivable		
Other receivables	2,627,454.65	1,184,814.77
Less: Provision for bad debts	480,057.09	268,988.24
Total	2,147,397.56	915,826.53

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Other receivables (Continued)

Disclosure of other receivables by category

Categories	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables of individually significant amount and with provision made on an individual basis				
Other receivables with provision made on a collective basis	2,627,454.65	100.00	480,057.09	18.27
Other receivables of individually insignificant amount but with provision made on an individual basis				
<b>Total</b>	<b>2,627,454.65</b>	<b>100.00</b>	<b>480,057.09</b>	<b>18.27</b>

Categories	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables of individually significant amount and with provision made on an individual basis				
Other receivables with provision made on a collective basis	1,184,814.77	100.00	268,988.24	22.70
Other receivables of individually insignificant amount but with provision made on an individual basis				
<b>Total</b>	<b>1,184,814.77</b>	<b>100.00</b>	<b>268,988.24</b>	<b>22.70</b>

#### 1. Other receivables with provision made on a collective basis

##### (1) Other receivables with provision made on a collective basis with age analysis method

Ages	Closing balance			Opening balance		
	Book balance	Provision	Provision for bad debts	Book balance	Provision	Provision for bad debts
		proportion (%)			proportion (%)	
Within one year	1,820,201.85	5.00	91,010.09	659,150.25	5.00	32,957.51
One to two years	308,388.28	15.00	46,258.24	336,151.52	15.00	50,422.73
Two to three years	312,151.52	50.00	156,075.76	7,810.00	50.00	3,905.00
Over three years	186,713.00	100.00	186,713.00	181,703.00	100.00	181,703.00
<b>Total</b>	<b>2,627,454.65</b>		<b>480,057.09</b>	<b>1,184,814.77</b>		<b>268,988.24</b>

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

#### (II) Other receivables (Continued)

2. *Provisions made, collected or reversed for bad debts during the current period*  
Provision for bad debts made in current period amounted to RMB211,068.85 yuan, and no provision for bad debts were collected or reversed in the current period.

3. *Other receivables categorized by nature of receivables*

Nature of receivables	Closing balance	Opening balance
Petty cash	1,077,842.04	491,938.82
Guarantee deposit	469,779.52	659,779.52
Others	1,079,833.09	33,096.43
Total	2,627,454.65	1,184,814.77

4. *Details of the top five other receivables by closing balance collection of the debtor*

Name of debtor	Nature of receivables	Closing balance	Ages	Proportion to the total closing balance of other receivables (%)	Provision for bad debts balance
The first	Pending refund	825,000.10	Within one year	31.40	41,250.01
The second	Petty cash	253,610.49	Within one year	9.65	12,680.52
The third	Guarantee deposit	180,000.00	Two to three years	6.85	90,000.00
The fourth	Petty cash	129,700.00	Within one year	4.94	6,485.00
The fifth	Rental guarantee deposit	128,828.00	Over three years	4.90	128,828.00
Total		1,517,138.59		57.74	279,243.53



## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

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

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

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

#### Investments in subsidiaries

Investees	Opening balance	Current period increase	Current period decrease	Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
Total	665,263.00			665,263.00		

#### (IV) Operating revenue and operating cost

Items	Amount for the current period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
I. Subtotal of main operations	212,398,051.11	76,344,647.54	124,073,304.03	30,892,188.66
Medical instruments	212,398,051.11	76,344,647.54	124,073,304.03	30,892,188.66
II. Subtotal of other operations	1,955.00	1,109,978.32		
Waste materials	1,955.00	1,109,978.32		
Total	212,400,006.11	77,454,625.86	124,073,304.03	30,892,188.66

## NOTES TO FINANCIAL STATEMENTS

1 January 2018 — 30 June 2018

(Unless otherwise specified, the amounts are expressed in Renminbi Yuan)

### XIII. SUPPLEMENTARY INFORMATION

#### (I) Details of non-recurring profit or loss for the current period

Items	Amount	Remarks
1. Government grants included in profit or loss for the current period (exclusive of those that are closely related to the enterprise business and received in a certain amount or fixed quantity according to the State standards)	1,594,767.16	
2. Other non-operating income and expenses other than aforesaid items	-200.00	
3. Impact of income tax	-239,185.07	
Total	1,355,382.09	

#### (II) RONA and EPS

Profit of the reporting period	Weighted average RONA (%)		EPS			
			Basic EPS		Diluted EPS	
	January to June 2018	January to June 2017	January to June 2018	January to June 2017	January to June 2018	January to June 2017
Net profit attributable to shareholders of ordinary shares	8.94	7.11	0.73	0.51	0.73	0.51
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	8.70	7.11	0.71	0.51	0.71	0.51

Beijing Chunlizhengda Medical Instruments Co., Ltd.  
28 August 2018

The notes to the Financial Statements from page 31 to page 88 are signed by the following persons in charge:

Legal representative:  
Signature:  
Date:

Person in charge for accounting work:  
Signature:  
Date:

Person in charge of the accounting agency:  
Signature:  
Date: