



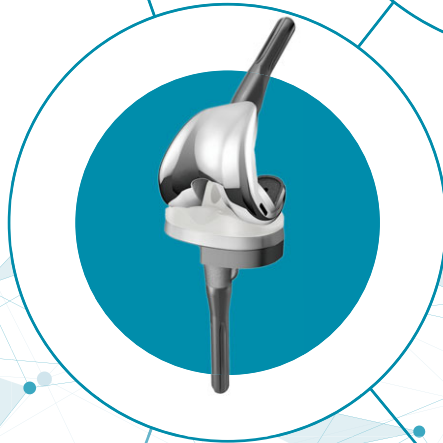
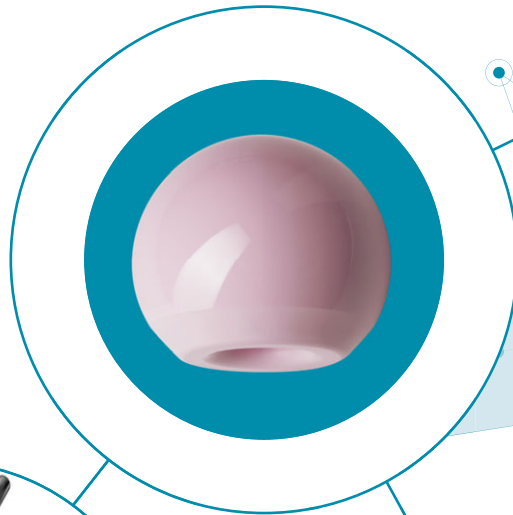
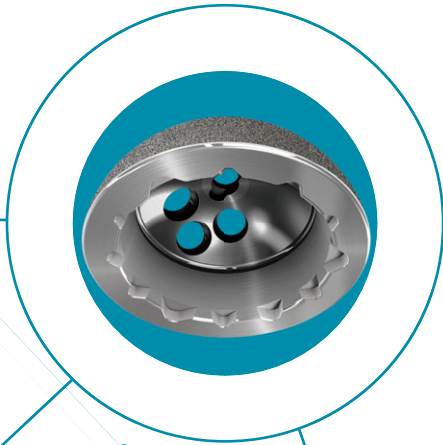
北京市春立正達醫療器械股份有限公司

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

2018 ANNUAL REPORT



* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Lin Yiming

Independent non-executive Directors

Mr. Ge Changyin
Mr. Tong Xiaobo
Mr. Ho Wai Ip (joined on 16 March 2018)
Mr. Cheung Ying Kwan (resigned on 16 March 2018)

SUPERVISORS

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

AUDIT COMMITTEE

Mr. Ge Changyin (*Chairman*)
Mr. Tong Xiaobo
Mr. Lin Yiming
Mr. Ho Wai Ip (joined on 16 March 2018)

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

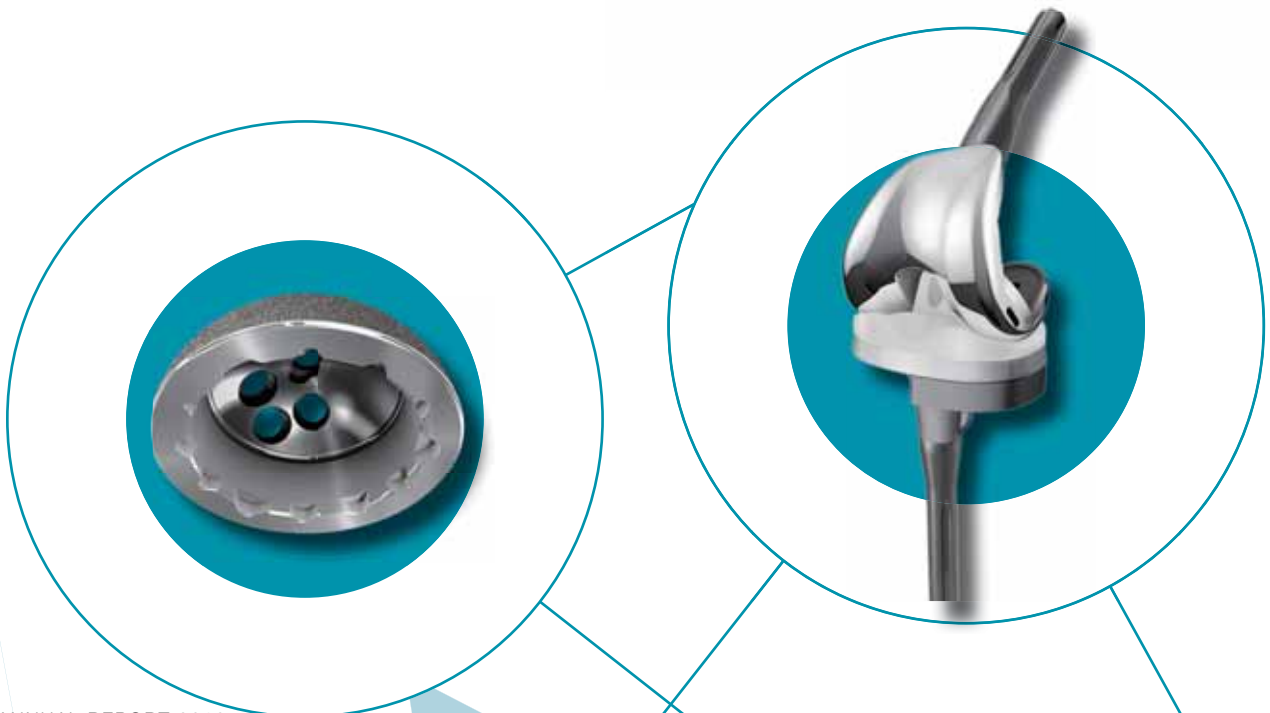
Mr. Shi Chunbao (*Chairman*)
Mr. Ge Changyin
Mr. Ho Wai Ip (joined on 16 March 2018)
Mr. Cheung Ying Kwan (resigned on 16 March 2018)

JOINT COMPANY SECRETARIES

Mr. Yuan Rui (resigned on 13 July 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)



CORPORATE INFORMATION

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

<http://www.clzd.com>

AUDITORS

Pan-China Certified Public Accountants LLP
(resigned on 13 July 2018)
WUYIGE Certified Public Accountants LLP
(appointed on 13 July 2018)
Certified Public Accountants

LEGAL ADVISOR AS TO HONG KONG LAW

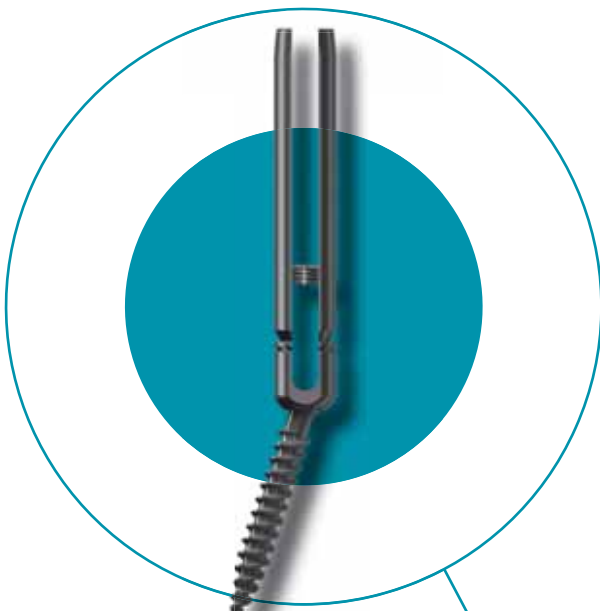
Zhong Lun Law Firm

H SHARE REGISTRAR

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

PRINCIPAL BANK

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



FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Total current assets	162,501	379,578	439,426	530,212	661,200
Total non-current assets	77,355	98,463	100,703	103,449	153,540
Total assets	239,856	478,041	540,129	633,661	814,740
Total current liabilities	26,310	37,654	41,992	77,619	172,068
Total non-current liabilities	7,626	16,831	17,227	17,570	14,532
Total liabilities	33,936	54,485	59,219	95,189	186,600
Total shareholder's equity	205,920	423,556	480,910	538,472	628,140
Net current assets	136,191	341,924	397,434	452,593	489,132
Total assets less current liabilities	213,546	440,388	498,137	556,042	642,672
Revenue	134,534	177,368	207,926	300,317	497,927
Operating profit	42,248	43,496	70,813	78,981	119,490
Profit before tax for the year	42,913	43,494	73,744	78,796	119,449
Net profit for the year	37,031	37,866	63,441	68,284	105,646

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

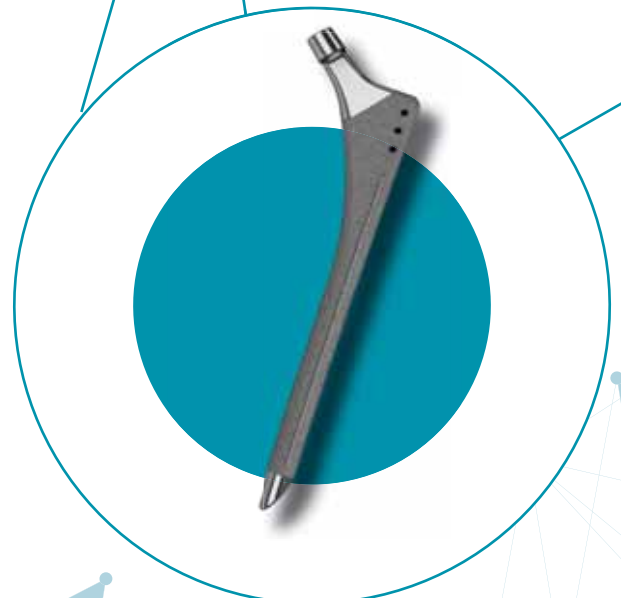
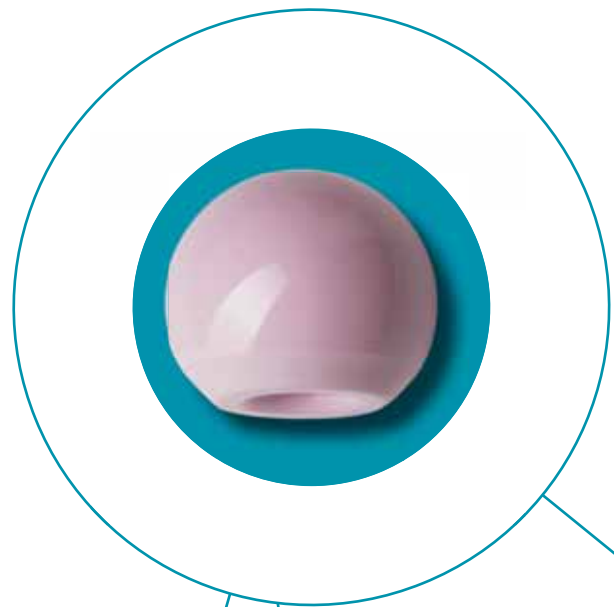
On behalf of the Board (the “**Board**”) of Directors of Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”), I am pleased to propose the annual report of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2018 (“**during the year**”).

In 2018, the State Council of the People's Republic of China (“**China**”) undertook institutional reforms, and it established National Health Commission which covers the duties of the original National Health and Family Planning Commission (the “**NHFPC**”), and established State Administration for Market Regulation, while separately establishing National Medical Products Administration, in order to achieve hierarchical management on market administration. For strengthening the management on medical insurance, the National Healthcare Security Administration was established. Such institutional reform will bring long-term benefits to the development of medical instruments industry in China. In 2018, the issue of relevant regulations on multiple medical instruments including customized medical instruments and the smooth development of tenders for medical instruments of different levels will gradually benefit the domestic medical instrument enterprises.

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

As one of the leading orthopedic medical device companies in China, leveraging on the diversified implantable orthopedic medical device products, powerful research and development capability as well as a constantly expanding sales network, the Company has captured the opportunities of the industry growth and achieved healthy and stable development during the year. The Company recorded revenue of approximately RMB497.9 million in 2018, which represents a year-on-year increase of 65.8%

(2017: RMB300.3 million). The profit attributable to the equity holders of the Company recorded a year-on-year increase of 54.61% to approximately RMB105.6 million (2017: approximately RMB68.3 million). Basic earnings per share amounted to RMB1.53, which represents a year-on-year increase of 54.5% (2017: RMB0.99). The Company proposed the payment of 2018 Final Dividend to shareholders of RMB0.231 per share (including tax charge) (2017: RMB0.231 per share (including tax charge)).



CHAIRMAN'S STATEMENT

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

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

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

Shi Chunbao

Chairman

27 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

In 2018, the State Council of the People's Republic of China (“China”) undertook institutional reforms, and it established National Health Commission which covers the duties of the original National Health and Family Planning Commission (the “**NHFPC**”), and established State Administration for Market Regulation, while separately establishing National Medical Products Administration, in order to achieve hierarchical management on market administration. For strengthening the management on medical insurance, the National Healthcare Security Administration was established. Such institutional reform will bring long-term benefits to the development of medical instruments industry in China. In 2018, the issue of relevant regulations on multiple medical instruments including customized medical instruments and the smooth development of tenders for medical instruments of different levels will gradually benefit the domestic medical instrument enterprises.

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

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

II. BUSINESS REVIEW

We are a reputable orthopedic medical device company in China which focuses on research and development, production and sales of implantable orthopedic medical devices, including joint prosthesis products and spinal products. Our Group's revenue was mainly derived from our sales to distributors in both China and overseas, whereas remaining revenue was derived from other sales channels including sales to ODM and OEM customers overseas and direct sales to hospitals in China. For the year ended 31 December 2018, we recorded a revenue of approximately RMB497.9 million, representing an increase of 65.8% compared with that of the previous year (2017: RMB300.3 million). The gross profit was RMB317.9 million, representing an increase of 46.97% compared with that of the previous year (2017: RMB216.3 million). The profit attributable to equity holders of the Company was approximately RMB105.6 million, representing an increase of 54.61% compared with that of the previous year (2017: RMB68.3 million). Basic earnings per share was RMB1.53, representing a year-on-year increase of 54.5% (2017: RMB0.99).

According to the domestic joint products registration index (國產關節類產品註冊檢索) of the National Medical Products Administration, we are one of the domestic enterprises that hold the most comprehensive medical device registration certificates for joint prosthesis products in China in terms of number and types of certificates. As at 31 December 2018, we held 16 medical device registration certificates and recordation certificate in China for the production of medical devices which cover our joint prosthesis products for the four major joints and spinal products, of which 10 are Class III medical device registration certificates, 1 is Class II medical device registration certificate and 5 are Class I medical device recordation certificates. As China adopts a strict product registration system for medical devices manufacturing enterprises, the possession of comprehensive product registration certificates and recordation certificate is the key factor for enterprises to be more competitive in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Diversified product portfolio

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

Strong research and development capabilities

Our Company is a state-level high and new technology enterprise (國家級高新技術企業) and G20 Enterprise (which is a progressive development advocated by the municipal government in Beijing aiming at promoting the biomedicine industry in Beijing as the backbone of the capital with its strategic value). Our research and development team consists of professionals who possess Doctorate degrees and Master's degrees and numerous talents who have over 10 years of experience in research and development of production, with adequate capabilities in the development of innovative products and sustainable improvement of research and development.

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 worked closely together with experts, thereby ensuring that those products under research and development will meet the market demands and fulfill the requirement of clinical practicality. The "Research Program by Multiple Joint Surgical Centres in China" (中國關節外科多中心研究工程) initiated by us conducts clinical follow-ups and trackings on the joint prosthesis products developed by us for the purpose of provision of clinical data for improvements in joint prosthesis and instruments. Currently, there are over 300 hospitals from 31 provinces which joined the research program, being the first domestic program for follow-ups and trackings focused on the clinical effectiveness of joint prosthesis of such a large scale.

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 Company's 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 of 31 December 2018, the Company has obtained 41 patents and has applied for 57 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 (單髌膝關節假體) (acceptance number: CQTS1700268) and customized and personalized pelvic prosthesis (定製個體化骨盆假體) (acceptance number: CQTS1700269), respectively, pursuant to Procedures for Special Approval of Innovative Medical Devices (Trial) (《創新醫療器械特別審批程序(試行)》).

In December 2018, the Company obtained the approval for establishment of a state-level postdoctoral working station for scientific research. The Company will rely on the state-level post-doctoral working station for scientific research to enhance the consolidated strength of research and development team, while speeding up the progress of research and development of high-end medical instrument products and promoting the launch of new products.

MANAGEMENT DISCUSSION AND ANALYSIS

Advanced ceramic joint prosthesis products

In April 2015, the Company became the first enterprise in China to obtain a medical device registration certificate for the fourth generation of BIOLOX®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.

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 DAMIS techniques in the next three years to a thousand doctors, who specialised in joint-related surgeries.

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

Custom joint prosthesis product series

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

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

In March 2018, the Company obtained the approval for a special application for innovative medical instruments, namely customized and personalized pelvic prosthesis (定製個體化骨盆假體) (acceptance number: CQTS1700269) pursuant to Procedures for Special Approval Procedure for Innovative Medical Devices (Trial) (《創新醫療器械特別審批程序(試行)》), which marked the rapid progress of approval for customized individualized prosthesis of our Company.

Extensive distribution and sales network

We have built an extensive distribution network covering all provinces, municipalities and autonomous regions in China (excluding Hong Kong, Macau and Taiwan), and our sales network has covered numerous hospitals located in these regions through our distributors. Most of our products are sold in China and some are exported to 36 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Our revenue increased by 65.8% from approximately RMB300.3 million for the year ended 2017 to approximately RMB497.9 million for the year ended 2018. The growth in revenue was mainly attributable to the growth in sales of our joint prosthesis products and spinal products. The revenue of our major products compared with that of the previous year is as follows:

Product category	Year ended 31 December 2018 (RMB'000)	2017 (RMB'000)	Growth over corresponding period
Joint prosthesis products	484,072	292,904	65.27%
Spinal products	13,775	7,413	85.82%
Other businesses	80	–	N/A
Total	497,927	300,317	65.80%

Joint prosthesis products

Joint prosthesis products increased by 65.27% from approximately RMB292.9 million for the year ended 2017 to approximately RMB484.1 million for the year ended 2018, of which is primarily due to our main high-end products, such as ceramic joint prosthesis products, XN series knee joint prosthesis products and minimal invasive hip joint prosthesis products, have 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 medical devices covering both half-ceramics and full-ceramics joint prosthesis products. The Company is also one of the first domestic enterprises to manufacture advanced joint prosthesis products. Our Company was awarded tenders of a large scale, which covered a comprehensive range of our various product lines, such that our joint prosthesis products enjoyed a growth in sales volume.

In addition, the Company is the first and the sole domestic enterprise to introduce DAMIS and advanced minimal invasive techniques from Europe. The Company also put a lot of effort into the promotion and application of DAMIS products and techniques, which in turn drove the increase in sales volume of minimal invasion related products.

Gross profits

Our gross profit increased by 46.97% from approximately RMB216.3 million for the year ended 2017 to approximately RMB317.9 million for the year ended 2018, which was mainly attributable to the rapid growth of primary joint prosthesis products such as ceramic joint prosthesis products, XN series knee joint prosthesis products, which are medium-to-high-end products with relatively higher unit prices, and spine products in the industry.

Our gross profit margin decreased from 72.0% for the year ended 2017 to 63.85% for the year ended 2018, which 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. If overseas coating companies build factories in China and the number of our coating products keeps increasing, our capability to reduce the cost and bargaining power will improve significantly. In addition, according to ASBE No. 14 "Revenue" (Amended), we used all the rebate that we expect to pay to the distributors in 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling expenses

Our selling expenses increased from approximately RMB88.9 million for the year ended 2017 to approximately RMB143.9 million for the year ended 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 primary 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 for renowned orthopedic surgeons from across the country, clinical trainings for surgeries as well as publicity, promotion and trainings with respect to new products.

Administrative expenses

Our administrative expenses decreased by 20.78% from approximately RMB23.1 million for the year ended 2017 to approximately RMB18.3 million for the year ended 2018, which was primarily due to our Company further streamlined the administration measures on financial auditing for endowment, medical, unemployment, employment injury and maternity insurances as well as housing provident fund, in which the said insurances and provident fund originally included in administrative expenses were reclassified to selling expenses and operational costs.

Research and development expenses

Our research and development expenses increased by 67.45% from approximately RMB21.2 million for the year ended 2017 to approximately RMB35.5 million for the year ended 2018. Our research and development expenses in 2018 accounted for 7.12% of the annual revenue. It was mainly attributed to the increased number of staffs for research and development, the engagement of domestic and foreign experts to improve our Chinese skeleton database (中國國民骨骼數據庫) through clinical trials, and the research and development of new products which cater for the physical conditions of the domestic population. Meanwhile, significant progress was achieved for sample production of new products, clinical testings, product registrations, etc. The clinical testings for numerous high-end new products were underway to the observation periods, while the registrations for various new products were getting close to the stage of supplementary review.

Impairment loss of assets

Our impairment loss of assets decreased from approximately RMB2.9 million for the year ended 2017 to approximately RMB2.0 million for the year ended 2018, which was mainly attributable to the decrease in impairment losses of our inventory in accordance with the impairment policy of the Company.

Impairment loss of credits

Our impairment loss of credits decreased from approximately RMB3.3 million for the year ended 2017 to approximately RMB2.4 million for the year ended 2018, which was mainly attributable to higher quality of accounts receivable and optimized aging structure of accounts receivable.

Non-operating income

Our non-operating income increased from approximately RMB0.03 million for the year ended 2017 to approximately RMB0.1 million for the year ended 2018, which was mainly attributable to the receipt of the government grants.

Income tax expenses

Our income tax expenses increased by 31.43% from approximately RMB10.5 million for the year ended 2017 to approximately RMB13.8 million for the year ended 2018, which was mainly attributable to the increase in profits from operations in 2018.

Net profit for the year

Our net profit increased by 54.61% from approximately RMB68.3 million for the year ended 2017 to approximately RMB105.6 million for the year ended 2018. The increase in net profit was mainly attributable to the increase in our revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and capital resources

Our liquidity increased by 11.65% from approximately RMB371.6 million for the year ended 31 December 2017 to approximately RMB414.9 million for the year ended 2018.

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

Use of proceeds from the global offering

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

Use of Proceeds	Proportion	Amount available (RMB million)	Expense as of 31 December 2018 (RMB million)	Outstanding amount as of 31 December 2018 (RMB million)
First-instalment expense for the development of Daxing New Production Base	50%	92.93	8.1	84.83
Research and development activities	20.20%	37.54	0.8	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	9.6	27.57
Working capital and other general corporate purposes	9.80%	18.21	18.21	0.00
Total	100%	185.86	36.71	149.15

Inventory

Our inventory increased from approximately RMB58.9 million for the year ended 2017 to approximately RMB95.9 million for the year ended 2018, which was mainly attributable to the increase in sales volume and stock keeping according to market needs.

Fixed assets and construction in progress

Our fixed assets and construction in progress increased by 70.23% from approximately RMB60.8 million for the year ended 31 December 2017 to approximately RMB103.5 million for the year ended 31 December 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 8.06% from approximately RMB452.6 million for the year ended 31 December 2017 to approximately RMB489.1 million for the year ended 31 December 2018, which was mainly attributable to the increase in inventory, notes receivable and monetary funds.

MANAGEMENT DISCUSSION AND ANALYSIS

WORKING CAPITAL AND FINANCIAL RESOURCES

Cash flow analysis

As at 31 December 2018, our net cash inflows generated from operating activities was approximately RMB108.5 million, which was mainly due to receipts of cash from the sales of goods; our net cash outflows generated from investing activities was approximately RMB48.2 million, which was mainly due to the acquisition of fixed assets and construction in progress; our net cash outflows generated from financing activities was approximately RMB16.0 million, which was mainly due to the payment of dividends; and our cash and cash equivalents increased by approximately RMB43.3 million as compared to the end of last year.

Capital expenditure

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

Contingent liabilities or guarantees

As of 31 December 2018, we did not have any significant contingent liabilities or guarantees.

SUBSEQUENT EVENTS

On 15 February 2019, the extraordinary general meeting passed the proposed bonus issue of a total of 69,170,400 shares from the undistributed profits as at 31 December 2017 by poll, on the basis of 1 bonus share for every 1 existing share (including tax) held by the shareholders whose names appear on the register of members of the Company on the record date (i.e. 15 February 2019), and the bonus shares will be issued by way of conversion of undistributed profits.

FUTURE PROSPECTS

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

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

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

We are currently developing a joint prosthesis product called advanced customized and individualized 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 customized and individualized joint prosthesis products have a wider range of application. They are high-end products which can better analyse and cater for specific needs of patients. As such, we believe that advanced customized and individualized joint prosthesis products can generate higher profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthening our innovation ability and increasing research and development resources

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

Expand our brand influence

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

Talent development and incentives

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

EMPLOYEE

As at 31 December 2018, our Group had approximately a total of 628 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. As of 31 December 2018, the total salary and related cost paid to our employees were approximately RMB63.9 million. Our Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither our Company, nor its subsidiary purchased, redeemed or sold any of our Company's listed securities for the year ended 31 December 2018.

FINAL DIVIDEND

2018 final dividend

The Board proposed the declaration of final dividend of RMB0.231 per share (including tax charge) for the year ended 31 December 2018, totalling RMB31,956,724.80 (including tax charge) based on 138,340,800 issued shares as of the date of this annual report (2017: RMB0.231 per share (including tax charge), totalling RMB15,978,362.40 (including tax charge) based on 69,170,400 issued shares). The declaration of the dividend is subject to the shareholders' approval in the annual general meeting held on 28 June 2019.

The final dividend will be payable to the shareholders of H shares in Hong Kong Dollars. The dividend is expected to be paid on or before 28 September 2019 to shareholders whose names appear on the Company's register of members on 11 July 2019, with the applicable exchange rate being the average mid-point rate of the relevant foreign currencies published by the People's Bank of China on its website for the period of seven working days immediately prior to the date of the declaration of dividend and other payments. An additional announcement regarding the dates of the annual general meeting, closure of registration of members as well as the dividend payments will be issued by our Company as soon as practicable.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Shi Chunbao (史春寶), aged 49, is our executive Director, chairman of our Board, general manager and sales and marketing director. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

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

Ms. Yue Shujun (岳術俊), aged 47, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

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

Mr. Wang Jianliang (王建良), aged 40, is currently executive Director and the domestic sales director of the Company who is principally responsible for domestic sales of the Company in the People's Republic of China. Mr. Wang joined the Company on 9 June 2000 and held the position of sales for the Hebei region from June 2000 to July 2003. He acted as the manager for the Hunan, Guangxi, Guangdong and Hainan regions from August 2003 to October 2011 and worked as the manager for the Southern region (provinces south to the Qinling-Huaihe Line) from November 2011 to October 2013. He was then appointed as the domestic sales director of the Company since November 2013.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Director

Mr. Lin Yiming (林一鳴), aged 50, is our non-executive Director. He is responsible for providing advice on the management as well as the strategic development of our Group. Mr. Lin became our Director on 17 September 2010 and has been our non-executive Director since 16 April 2014. Prior to joining our Group, Mr. Lin held the position of chairman of Beijing Shidai Kewei Education Consulting Co., Ltd. (北京時代柯維教育諮詢有限公司) from August 2009 to August 2012, the principal activities of which are providing education, consulting and trainings, and was the dean of School of Tourism, the dean of School of Business and an assistant to the principal at Beijing Geely University (北京吉利學院) from January 2010 to June 2014. Mr. Lin has been the executive principle of Beijing Geely University since June 2014. Mr. Lin obtained a Master degree in Business Administration from Concordia University – Wisconsin, USA in September 2011.

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

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

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Tong Xiaobo (佟小波), aged 59, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Mr. Tong worked as a quality supervisor at the Beijing Medical Devices Testing Center (北京醫療器械檢測中心) of CFDA (Center for Quality Supervision and Testing of Medical Devices (醫療器械產品質檢站)) from 1985 to 1991. Mr. Tong then worked as the chief officer of the research center of Beijing Institute of Medical Devices (北京醫療器械研究所研究室), an institute engaging in medical devices testing apparatus and equipment research and development from 1993 to 1998, responsible for the research of the testing technologies of medical devices. Mr. Tong has been the director and chief engineer of Beijing Fuluke Measuring Technology Research Institute (北京福祿克測量技術研究所), an institute engaging in testing medical devices and consulting, since 2000 and is currently its authorised representative, responsible for testing the standards of medical devices and consultations. Mr. Tong has been the chief engineer of Beijing Tefan Medical Devices Laboratory (北京特凡醫療器械實驗室), an institute engaging in medical devices research, development, testing and consulting since 2007 and is currently its authorised representative, responsible for the consultation of medical devices. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience. Mr. Tong has been a shareholder of Beijing Tefan Medical Devices Laboratory since May 2004. Mr. Tong obtained a diploma in Electronics, the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University in August 1985.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ge Changyin (葛長銀), became the independent non-executive director of the Group on 29 June 2017. Mr. Ge, aged 55, has been a lecturer and an assistant professor at China Agricultural University College of Economics & Management since July 1986. He has been the independent director of Cofco Tunhe Sugar Co., Ltd (中糧屯河糖業股份有限公司), a listed company on the Shanghai Stock Exchange (stock code: 600737) mainly engaged in sugar production, sugar trading, and sugar refining since June 2014. Since April 2015, Mr. Ge has also been the independent director of China Camc Engineering Co Ltd (中工國際工程股份有限公司), a listed company on the Shenzhen Stock Exchange (stock code: 002051) mainly engaged in contract projects consisting of industrial projects, water projects, electric power projects, transportation projects, domestic and overseas trading business and asset management business. Mr. Ge obtained a bachelor degree in industrial accounting from Anhui Finance and Trade College (安徽財貿學院) (now known as Anhui University of Finance and Economics (安徽財經大學)) in July 1986. Mr. Ge obtained a graduation certificate for a training course as an independent director of listed companies from the Securities Association of China and Tsinghua University School of Economics and Management in June 2004. Mr. Ge obtained a graduation certificate for a training course as a senior manager of listed companies from the Shenzhen Stock Exchange in August 2009. Mr. Ge obtained a graduation certificate for a continuous training course as an independent director of listed companies from the Shanghai Stock Exchange in March 2016.

Mr. Ho Wai Ip (何偉業), became the independent non-executive director of the Group on 16 March 2018. Mr. Ho, aged 55, is currently a partner of Alliance & Associates, Certified Public Accountants (“**Alliance & Associates**”). He possesses over 30 years of experience in financial advisory, taxation and business management. Mr. Ho worked in PricewaterhouseCoopers from July 1990 to December 2000, and his last position was senior manager. In January 2002, he started his private practice by establishing Alliance & Associates, Certified Public Accountants and has been acting as a partner of Alliance & Associates since then. Mr. Ho is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Society of Chinese Accountants & Auditors, and the Taxation Institute of Hong Kong. During the period between April 2007 and January 2011, Mr. Ho was the independent non-executive director and a member of the audit committee and remuneration committee of China Seven Star Shopping Limited (stock code: 245), which shares are listed on the main board of the Stock Exchange.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Zhang Jinyong (張金勇), aged 50, is currently the president of Dacheng Rongzhi (Beijing) Technology Co., Ltd (大成融智(北京)科技有限公司). Mr. Zhang joined Dacheng Rongzhi (Beijing) Technology Co., Ltd. in January 2009. Prior to joining Dacheng Rongzhi (Beijing) Technology Co., Ltd., Mr. Zhang held the position of general manager of Beijing Dacheng Zhibo Technology Development Center (北京大成智博科技發展中心) from January 2002 to December 2008. He obtained a junior college degree in electronic technology and applied computer science from Changzhou Electronics Industry Worker University (常州市電子工業職工大學), Jiangsu in July 1996 and a Master degree in Business Administration from Concordia University Wisconsin, the USA in July 2011. Mr. Zhang is currently studying for a Master degree in Executive Master of Business Administration in Peking University, Beijing.

Ms. Pei Xiaohui (裴曉輝), aged 46, is currently the general secretary of the Stomatology Special Committee of China Association for Medical Devices Industry (中國醫療器械行業協會口腔專委會) (the "SSC") and the director of training and consultation department of China Association for Medical Devices Industry (中國醫療器械行業協會). Ms. Pei joined the SSC in August 2014 and China Association for Medical Devices Industry in October 2006. Prior to joining the SSC and China Association for Medical Devices Industry, Ms. Pei worked as the general office administrative of Beijing Jianxiong Construction Group (北京建雄建築集團) from July 1995 to October 1998. Ms. Pei then served as the assistant to manager of quality control department and the director of system department of Beijing Wanzhong Air Conditioning and Refrigeration Equipment Company (北京萬眾空調製冷設備公司) from November 1998 to April 2001. She worked in Beijing Kake Benitez Enterprise Management Consultants, LLC. (北京卡克斯特企業管理顧問有限責任公司) and held the position of the manager of marketing and consultation departments from May 2001 to April 2002. From April 2002 to October 2006, she worked in Beijing Manager Management Consulting Co., Ltd. (北京曼尼格爾企業管理顧問有限公司) as the manager of consultation department. Ms. Pei obtained the Certificate of qualification of internal auditor of quality control by China Quality Mark Certification Committee (方圓標誌認證委員會質量體系內部審核員) in 1997. She became the auditor of China National Registration Board for Auditors (中國認證人員國家註冊委員會審核員) and the consultant of China National Auditor and Training Accreditation Board (中國認證人員培訓機構國家認可委員會諮詢師) in 2002 and 2004 respectively, and was admitted as the Corporate Human Resources Management Practitioner (企業人力資源管理師) in 2005. Ms. Pei obtained her junior college degree in human resources from Northern Jiaotong University (北方交通大學) (now known as Beijing Jiaotong University (北京交通大學)), Beijing in 1995 and a bachelor degree in administrative management from Peking University, Beijing in 2005. She obtained a Master degree in biomedical engineering from Beihang University, Beijing in 2010.

Ms. Zhang Lanlan (張蘭蘭), aged 30, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since 17 September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

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

JOINT COMPANY SECRETARIES

Mr. Ip Pui Sum (葉沛森), aged 59, has become one of our joint company secretaries since 11 March 2015. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statements audit, accounting and company secretary services. Mr. Ip has been appointed as the company secretary of companies listed on the Main Board and GEM of the Hong Kong Stock Exchange including Tingyi (Cayman Islands) Holding Corp. (stock code: 0322), Luoyang Glass Company Limited (stock code: 1108), National Agricultural Holdings Limited (stock code: 1236) and Orient Victory China Holdings Limited (stock code: 0265), Baofeng Modern International Holdings Co Ltd (stock code: 1121) and Asiaray Media Group Limited (stock code: 1993) since January 1996, August 2008, December 2011 and October 2014, April 2017 and June 2017 respectively. He has also been appointed as one of the joint company secretaries of ZACD Group Ltd. (stock code: 8313) and China Tianrui Automotive Interiors Co. Ltd (stock code: 6162) since July 2017 and May 2018 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master degree in Business Administration from Henley Management School and Brunel University, United Kingdom in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregated sales of the Group to the largest customer and the top five customers amounted to 5% (2017: 5.53%) and 22.5% (2017: 23.99%), respectively, of the total income of the Group for the year.

For the year ended 31 December 2018, the aggregated purchases of the Group to the largest supplier and the top five suppliers amounted to 22.05% (2017: 21.92%) and 42.24% (2017: 55.3%), respectively, of the total purchases of the Group.

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

FIVE YEAR FINANCIAL SUMMARY

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the affair of the Company and the Group as at that date are set out in the consolidated financial statements on page 54 to page 70 of this annual report.

ADDITIONAL INFORMATION OF BUSINESS REVIEW

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

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in properties, plants and equipment for the year ended 31 December 2018 are set out in note V.8, 9 to the consolidated financial statements.

RESERVES

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

REPORT OF THE DIRECTORS

DIVIDEND

The Board proposed the payment of final dividend for the year ended 31 December 2018 as to RMB0.231 per share (including tax charge) and RMB31,956,724.80 (including tax charge) in aggregate (“**2018 Final Dividend**”). Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (“**AGM**”) to be held on 28 June 2019, the 2018 final Dividend will be paid on or before 28 September 2019. Dividend on domestic shares will be paid in RMB whereas dividend on H shares will be paid in Hong Kong dollars.

Under the China Enterprise Income Tax Law and its implementation regulations and other relevant rules, where the Company distributes the proposed 2018 Final Dividend to non-resident enterprise shareholders whose names appear on the register of member for H shares of the Company, it is required to withhold enterprise income tax at the generally applicable tax rate of 10%. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, or trustees or other groups or organizations, will be treated as shares being held by the non-resident enterprise shareholders, and consequently will be subject to the withholding of the enterprise income tax.

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

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

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

REPORT OF THE DIRECTORS

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

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

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled to attend the 2018 Annual General Meeting, the Company's register of Shareholders of H Shares will be closed from Tuesday, 28 May 2019 to Friday, 28 June 2019 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified to attend and vote at the 2018 Annual General Meeting, Shareholders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 27 May 2019.

Shareholders whose names appear on the Company's register of members at the close of business on Thursday, 27 June 2019 are entitled to attend and vote at the Annual General Meeting.

In order to ascertain the Shareholders who are entitled to receive the final dividend for the year ended 31 December 2018, the Register of Members of the Company will be closed from Friday, 5 July 2019 to Thursday, 11 July 2019 (both days inclusive), during which period no transfers of shares shall be effected. In order to be qualified for receiving the final dividend of the year 2018, any holders of H Shares whose transfers have not been registered have to lodge all transfers of shares accompanied by the relevant share certificates with the Company's H Share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 4 July 2019.

Shareholders whose names appear on the Company's register of members at the close of business on Thursday, 11 July 2019 are entitled to receive the final dividend for the year ended 31 December 2018.

SUFFICIENT OF THE PUBLIC FLOAT

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

PURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2018, neither of the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Name	Age	Position	Appointment date
Mr. Shi Chunbao (史春寶)	49	Executive Director, chairman of the Board, general manager and sales and marketing director	September 2010
Ms. Yue Shujun (岳術俊)	47	Executive Director and deputy general manager	September 2010
Mr. Wang Jianliang (王建良)	40	Executive Director and domestic sales director	November 2016
Mr. Lin Yiming (林一鳴)	50	Non-executive Director	September 2010
Mr. Tong Xiaobo (佟小波)	59	Independent non-executive Director	September 2010
Mr. Zhang Jinyong (張金勇)	50	Chairman of the Board of Supervisors	July 2016
Ms. Pei Xiaohui (裴曉輝)	46	Supervisor	July 2016
Ms. Zhang Lanlan (張蘭蘭)	30	Employee Supervisor	September 2010
Mr. Cheung Ying Kwan (張應坤)	59	Independent non-executive Director	May 2014 (resigned on 16 March 2018)
Mr. Ge Changyin (葛長銀)	55	Independent non-executive Director	June 2017
Mr. Ho Wai Ip (何偉業)	55	Independent non-executive Director	March 2018

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the directors, supervisors and senior management of the Company are set out on page 15 to page 20 in this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

REMUNERATION OF DIRECTORS AND SUPERVISORS

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

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2018.

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

As at 31 December 2018, the interests or short positions of the directors, supervisors and the chief executive officer in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), will be as follows:

INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

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

Notes:

- The calculation is based on the number of 50,000,000 domestic shares of the Company in issue as at 31 December 2018.
- The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2018.

Saved as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

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

REPORT OF THE DIRECTORS

Notes:

1. The calculation is based on the number of 50,000,000 domestic shares and 19,170,400 H shares of the Company in issue as at 31 December 2018, respectively.
2. The calculation is based on the total number of 69,170,400 shares of the Company in issue as at 31 December 2018.
3. Orchid China Master Fund Limited directly holds 1,350,000 H shares of the Company. Orchid China Management (Cayman) Limited holds 100% equity interest of Orchid China Master Fund Limited. Honest City Investments Limited holds 63% equity interest of Orchid China Management (Cayman) Limited. Explorer Associates Limited respectively holds 30% equity interest of Orchid China Management (Cayman) Limited and 100% equity interest of Honest City Investments Limited. Or Ching Han, Helen holds 100% interest of Explorer Associates Limited. Accordingly, Or Ching Han, Helen is deemed to be interested in the 1,350,000 shares held by Orchid China Master Fund Limited.
4. Orchid Asia VI, L.P. directly holds 997,600 H shares of the Company. Oavi Holdings, L.P. holds 100% equity interest of Orchid Asia VI, L.P.. Orchid Asia VI GP, Limited holds 100% equity interest of Oavi Holdings, L.P.. Orchid Asia V Group Management, Limited holds 100% equity interest of Orchid Asia VI GP, Limited. Orchid Asia V Group, Limited holds 100% equity interest of Orchid Asia V Group Management, Limited. Orchid Asia V Co-Investment, Limited directly holds 52,400 H shares of the Company. Areo Holdings Limited holds 100% equity interest of Orchid Asia V Group, Limited and Orchid Asia V Co-Investment, Limited. Mr. Gabriel Li and Ms. Lam Lai Ming are directors of Areo Holdings Limited. Accordingly, Mr. Gabriel Li and Ms. Lam Lai Ming are deemed to be interested in the 1,050,000 H shares held by Areo Holdings Limited.

Save as disclosed above, as at 31 December 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.

CONTINUING CONNECTED TRANSACTIONS

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

Related Party	Details of the connected transactions	Amount for the current period	Amount for the corresponding period in the last year
Beijing Gaoyang Materials Centre	Sales of goods	7,588,346.21	12,819,153.84

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

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

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

REPORT OF THE DIRECTORS

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

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

CONTRACTS OF SIGNIFICANCE

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

COMPETING BUSINESS

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

RETIREMENT SCHEMES

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

DONATIONS

Donation made by the Group during the year amounted to approximately RMB150,000.

REPORT OF THE DIRECTORS

PROPERTIES

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

TBD: to be determined

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2018, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

On 15 February 2019, the extraordinary general meeting passed the proposed bonus issue of a total of 69,170,400 shares from the undistributed profits as at 31 December 2017 by poll, on the basis of 1 bonus share for every 1 existing share (including tax) held by the shareholders whose names appear on the register of members of the Company on the record date (i.e. 15 February 2019), and the bonus shares will be issued by way of conversion of undistributed profits.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, which includes, the review of the Group's consolidated annual results for the year ended 31 December 2018.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 has been audited by WUYIGE Certified Public Accountants LLP, who shall be retired and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of WUYIGE Certified Public Accountants LLP as the auditor of the Group is to be proposed at the AGM.

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

Beijing, PRC, 27 March 2019

REPORT OF THE BOARD OF SUPERVISORS

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

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

The Board of Supervisors have reviewed earnestly and approved the report of the Directors, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2018 AGM. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up till now, none of the directors, chief executive nor senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the shareholders of the Company.

The Board of Supervisors is satisfied with the various tasks carried out by the Company in 2018 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Board of Supervisors

Zhang Jinyong

Beijing, PRC, 27 March 2019

CORPORATE GOVERNANCE REPORT

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

1. BOARD OF DIRECTORS

1.1 Composition of the Board of Directors

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

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

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

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

The details of the Directors' resumes are set out on pages 15 to 20 of this report. The relationship of the Chairman and general manager Mr. Shi Chunbao and executive Director Ms. Yue Shujun is husband and wife. Other than that, other Members of the Board of Directors do not have any relations between each other (including financial, business, family or other material or related relations). The Board of Directors is well-balanced in structure and each of its members is knowledgeable, richly experienced and talented in the business operation and development of the Company. All the Directors understand their joint and several responsibilities for Shareholders of the Company.

CORPORATE GOVERNANCE REPORT

1.2 Board Meetings

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

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

During the year ended 31 December 2018 the Board of Directors held 4 meetings in total, with details of the attendance of Directors specified as follows:

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

Notes:

1. Mr. Cheung Ying Kwan resigned on 16 March 2018.
2. Mr. Ho Wai Ip was appointed on 16 March 2018.

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

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

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

CORPORATE GOVERNANCE REPORT

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

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (c) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Company's Directors, Supervisors and employees;
- (d) to review the Company's compliance with Corporate Governance Code and disclosure in the corporate governance report;
- (e) to review the adequacy and effectiveness of risk management and internal control system; and
- (f) to review significant matters related to accounting practices and all material controls, and provide its results and recommendations for improvements made by the Audit Committee.

1.4 Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the Corporate Governance Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. Mr. Shi Chunbao, being one of the founders of the Group with extensive industry experience, currently performs the roles as the chairman and general manager.

The Board believes that vesting the roles of both chairman and general manager in Mr. Shi Chunbao 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.

1.5 Directors' Appointment and Re-election

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

1.6 Board Diversity Policy

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

1.7 Training for Directors

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

1.8 Directors' Insurance

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

2. BOARD COMMITTEES

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

2.1 Audit Committee

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

Name	Position	Meetings	
		attended/ to be attended	Attendance rate
Mr. Lin Yiming	Non-executive Director	3/3	100%
Mr. Tong Xiaobo	Independent non-executive Director	3/3	100%
Mr. Ge Changyin	Independent non-executive Director	3/3	100%
Mr. Ho Wai Ip	Independent non-executive Director	2/2	100%

CORPORATE GOVERNANCE REPORT

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

1. Reviewed the consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices;
2. Reviewed and confirmed the continuing connected transactions;
3. Reviewed the interim results for the six months ended 30 June 2018.

2.2 Nomination Committee

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

The principal duties of the Nomination Committee are reviewing the selection requirements and procedures, structure, number, composition and diversity of the directors and senior management; identifying and selecting qualified candidates to be nominated as directors and senior management or making recommendations to the Board; making recommendations to the Board on the appointment or reappointment of and the succession planning for directors and senior management; reviewing, at its discretion, the board diversity policy; reviewing the independence of independent non-executive directors; and carrying out other duties as authorized by the Board. During the year ended 31 December 2018, the Nomination Committee held one meeting, the details of which are as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman, Executive Director and general manager	1/1	100%
Mr. Ge Changyin	Independent non-executive Director	1/1	100%
Mr. Ho Wai Ip	Independent non-executive Director	1/1	100%
Mr. Cheung Ying Kwan	Independent non-executive Director	N/A	N/A

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

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

CORPORATE GOVERNANCE REPORT

2.3 Remuneration Committee

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

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

The principal duties of the Remuneration Committee are evaluating the appointment, remuneration policies and assessment criteria for the directors and senior management, conducting such assessment and providing advice. It shall include setting the overall remuneration policy and structure for the directors and senior management of the Company and to propose to the Board in respect of establishing remuneration policy through a formal and transparent procedure; reviewing and approving the remuneration proposals for the management with reference to the corporate goals and objectives made by the Board; make recommendations to the Board on the remuneration packages of Directors and senior management; and carrying out other duties as authorized by the Board. During the year ended 31 December 2018, the Remuneration Committee held one meeting, the details of which are as follows:

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

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2018 is set out below:

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

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

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

CORPORATE GOVERNANCE REPORT

3. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing the annual financial statements of the Company for the year ended 31 December 2018.

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

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

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

4. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

5. JOINT COMPANY SECRETARY

According to Rule 3.29 of the Listing Rules, the company secretary of the Company must take no less than 15 hours of relevant professional training in each financial year. The company secretary, Mr. Ip Pui Sum, has submitted his training records to the Company, indicating that he has taken no less than 44 hours of relevant professional training through attending seminars and reviewing relevant guideline materials during the financial year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

6. AUDITOR'S REMUNERATION

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

Type of Service	RMB'000
Annual Audit Services	700
Total	700

During the year ended 31 December 2018, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

7. GENERAL MEETINGS

During the year ended 31 December 2018, the Company convened two general meetings, as detailed below:

The Annual General Meeting for the year 2017 held on 28 June 2018: (i) To consider and approve the annual report for the year 2017; (ii) to consider and approve the report of the Directors for the year 2017; (iii) to consider and approve the report of the Board of Supervisors for the year 2017; (iv) to consider and approve the reappointment of the auditor and to authorise the Board of Directors to determine the auditor's remuneration for the year 2018; (v) to consider and approve the financial report for the year 2017; (vi) to consider and approve the dividend distribution plan for the year 2017; and (vii) to consider and approve the re-election of Directors.

The Extraordinary General Meeting held on 31 August 2018: Ordinary resolution 1. To consider, confirm, ratify and approve the appointment of Wuyige Certified Public Accountants LLP as the Company's auditor. The reason for the change of auditor is that the existing auditor, Pan-China, has been acting as the Company's auditor since 2009 and the Board is of the view that the appointment of a new auditor with international recognition will ensure that auditor's independence will be safeguarded which will, in turn, ensure that good practice of corporate governance are being followed. Pan-China has confirmed that there are no circumstances connected with its resignation which it considers should be brought to the attention of the shareholders and the creditors of the Company. The Board has also confirmed that it is not aware of any matter in connection with the proposed change of the auditor that needs to be brought to the attention of the Shareholders. The Board hereby would like to express its sincere gratitude to Pan-China for its professional services rendered to the Company in the past years. An ordinary resolution was passed at the EGM to confirm, ratify and approve the appointment of Wuyige Certified Public Accountants LLP as the Company's auditor.

8. DIVIDEND POLICY

The Company strives to strike a balance between fulfilling the expectation of shareholders and taking prudent capital management by a sustainable dividend policy. The dividend policy of the Company aims at enabling shareholders to share the profits of the Company while retaining adequate reserves for development of the Company. The Company will take various factors into account for proposed declaration and payment of dividends, including the actual and expected financial results of the Group, the liquidity level and future development plans of the Group, overall economic and financial conditions, commercial delinquency of the Group, those internal or external factors that may cause an impact on the operations or financial results and conditions of the Group, and other factors considered relevant by the Board.

CORPORATE GOVERNANCE REPORT

9. COMMUNICATIONS WITH SHAREHOLDERS

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

9.1 Shareholders' Rights to Propose Resolutions

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

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

9.2 Shareholders' Right to Requisite a Meeting

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

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

CORPORATE GOVERNANCE REPORT

9.3 Inquiry and Communication of Shareholders

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

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

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

10. ARTICLES OF ASSOCIATION AND AMENDMENTS

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

11. NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

1. ABOUT THIS REPORT

Beijing Chunlizhengda Medical Instruments Co., Ltd., founded in 1998, has been focusing on research and development, production and sales of implantable orthopedic medical devices for 20 years. We are one of the medical device enterprises that holds the most comprehensive registration certificates for joint prosthesis products in China and the first enterprise in mainland China to obtain BIOLOX® ceramic joint prosthesis, covering both fullceramics and half-ceramics joint prosthesis.

Over the past 20 years, the Company is committed to fulfil corporate social responsibility while maintaining a healthy and rapid development and serving orthopedic patients all over the world. This report is a consolidated summary about the environmental, design and governance performance of the Company in the financial year 2018, which is prepared in accordance with the related requirement of Appendix 27 “Environmental, Social and Governance Reporting Guide” of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and has complied with the “comply or explain” provision set forth in the Guide.

2. ENVIRONMENT

1. Management of emissions and wastes

The Company attaches great importance to the management of emissions and wastes. We strictly comply with the relevant laws and regulations, such as “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》), “Water Pollution Prevention and Control Law of the People’s Republic of China” (《中華人民共和國水污染防治法》), “Detailed Rules for the Implementation of the Water Pollution Prevention and Control Law of the People’s Republic of China” (《中華人民共和國水污染防治法實施細則》), “Integrated Wastewater Discharge Standard” (《污水綜合排放標準》), “Atmospheric Pollution Prevention and Control Law of the People’s Republic of China (new)” (《中華人民共和國大氣污染防治法(新)》), “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste” (《中華人民共和國固體廢物污染環境防治法》) by such doings: dust-proof treatment and recycling system are set up to improve the working environment; professional waste recycling companies are engaged to recycle hazardous wastes. We keep optimizing the management approaches of emissions and wastes at institution level and specific implementation level.

The Company’s products are Class III orthopedic implant products and Class I surgical tools while the emissions and wastes incurred are mainly titanium production wastes, CoCrMo production wastes, water-based cutting fluid, polyethylene wastes and hazardous wastes.

The Company has installed dust removal equipment in benchwork workshops, which could eliminate above 98% of dust, being higher than the national standard of environmental requirement such as Integrated Emission Standard of Air Pollutants and the Hygienic Standard for the Design of Industrial Enterprises of the People’s Republic of China. We have also entrusted a third-party inspection institution to conduct environmental inspection on workshops and the result is above the standard.

We have entrusted Beijing Eco-island Science and Technology Co., Ltd. (北京生態島科技有限責任公司) to recycle the hazardous wastes produced from production and issued the Receipts of Hazardous Wastes Transfer (《危險廢物轉移聯單》), which has enabled hazardous wastes produced from production to be recycled effectively and reasonably. The Company has entered into waste recycling contracts with professional firms to recycle 100% of harmless wastes including titanium production wastes, CoCrMo production wastes, and polyethylene wastes.

In 2018, 1.98 tons of titanium production wastes (per output value of RMB10,000 was 0.04kg); 1.32 tons of CoCrMo production wastes (per output value of RMB10,000 was 0.0265kg); 4.723 tons of cutting fluid (per output value of RMB10,000 was 0.0948kg); and 85kg of polyethylene wastes (per output value of RMB10,000 was 0.0017kg) were produced from production; 9 tons of harmless waste in total; and 1.484 tons of hazardous waste were produced from production.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

Greenhouse gases emission profile in 2018: carbon dioxide emissions for Scope 1 (energy direct emissions) were 117.80 tons, carbon dioxide emissions for Scope 2 (energy indirect emissions) were 30.66 tons and carbon dioxide emissions for Scope 3 (other indirect emissions) were 3.93 tons. The carbon dioxide emissions per product of RMB10,000 were 0.0243 tons. Waste emissions include 0.0015 tons of ammoniacal nitrogen (NH₃) and 0.152 tons of suspended solids (SS).

2. Water saving

Water is the source of life and the indispensable resources used in production and used domestically. The Company always pays special attention to the water preservation and water saving as well as sewage treatment, recycling and reuse. As for sewage treatment, the Company has established sewage treatment stations, so that the standard of water used in production and used domestically discharged after filtration and sedimentation can satisfy, and be even higher than, the national discharge standard. The Company hires professionals to conduct maintenance on sewage treatment equipment per annum to ensure the quality of the water treatment. The Company will pay continuous attention to these issues.

In 2018, 2700 tons of sewage were produced and treated during production and 5500 tons of water resources were used (volume of water usage per output value of RMB10,000 was 0.16 tons).

3. Energy saving

The Company's products are Class III orthopedic implant products and Class I surgical tools and the raw materials used are titanium alloy, CoCrMo alloy, polyethylene and stainless steel.

The Tongzhou Second Production Base of the Company has built up geothermal heat pump air-conditioning. No water is consumed or polluted and no boiler, cooling tower and areas for piled up fuel waste is required during the operation of geothermal heat pump unit, which achieves in effective energy saving and environmental protection.

The Company built lots of solar power generation facilities during the construction of Daxing New Production Base, which will result in effective power saving in the future.

In 2018, we used 24.90 tons of titanium alloy, 22.3 tons of CoCrMo alloy, 8.9 tons of polyethylene and 43.7 tons of stainless steel while 1.60 million kwh electricity was consumed.

In 2018, packaging materials used include 7.2 tons of carton box, 4.02 tons of product packaging box and 2.3 tons of plastic film; the packaging material consumption per product of RMB10,000 was 0.27kg.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

3. EMPLOYEE

1. Recruitment and promotion

The Company insists on the recruitment concept of “persons with both virtue and talent should be given accelerated promotion; persons with virtue but no talent should be retained with training; persons with talent but no virtue should be retained with revision on virtue; and persons with no virtue but with talent should never be retained” (有德有才·提拔重用；有德無才·培養使用；有才無德·修正使用；無德有才·堅決不用) and recruits and trains its employees based on their virtue and ability. We strongly opposed discrimination against employees for their nationality, race, sex, age, marriage, etc.. The Company recruits its employees through diversified channel in order to give fair chance to each applicant. We emphasize the legal rights of the employees and the employees are managed through contract. Our working hours comply with the requirement of the laws and regulations while our holidays are in accordance with the national statutory holidays. Employees that work for more than a year would have additional 5 days annual leave with pay. The Company is concerned about the development of employees and thus there are numerous channels for promotion, such as the technological path and the management path.

In 2018, the Company had a total of 628 employees, of which 622 employees were employed with labor contract, while 6 employees were retained with service agreement. 460 employees were male and the other 168 employees were female. As employees aged 20-35 consists of 77%, Chunli Medical is a young team that full of passion and energy.

2. Health and safety

The Company adopts specific measures to ensure the health and work safety of employees while ensuring the fairness in recruitment and a smooth promotion channel.

The Company adopts medical examination policy for both new employees and old employees. Newly recruited employees are required to bring along medical examination report when they report to work. Welfare medical examination card is issued to employee that work for more than a year to ensure employees' medical examination result and build personal health record.

In order to ensure employees' health, the Company provides 3 daily meals on normal working days. The 3 meals are arranged by the administrative department which ensure employees' nutritional balance. The Company strictly supervises the procurement of food so that food unfit for health will not be procured. The canteen has been equipped with a set of advanced range hood equipment and hires professional range hood facility cleaner to conduct care and maintenance on range hood every two months, which eliminates the pollution of fumes to the external environment.

The Company pays attention to employees' sport activities and provides table tennis, basketball, badminton sports ground and other facilities. The administrative department of the Company held interesting sports competition every month to enrich the employees' life and motivate employees to actively persist in sport activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

We place great emphasis on our responsibility for safety. Production safety is the lifeline of the Company, which we always hang on to. As a responsible medical instruments company, the Company communicates with relevant departments on its responsibilities to ensure that safe and high standards are maintained during production. The Company has signed the Safe Production Target Letter of Responsibility (《安全生產目標責任書》), which stipulates the main steps and targets for safe production. All departments shall abide by and implement the measures and activities stipulated in the Letter of Responsibility. The Company carries out production safety inspection activities every month to investigate whether there is any safety risk in the workplace. Based on the results of investigation, corrective and preventive recommendations will be passed on to responsible departments within a pre-determined period of time for rectification. At the same time, in order to protect the safety of the employee and enhance their self-help ability, fire safety trainings are held on a half-yearly basis to train the team to achieve “safety development, prevention first” (安全發展·預防為主). The Company will continue to provide safety funds annually for the upgrade of protective equipment and the maintenance of safety and protective facilities.

In order to reduce the rate of accidents, the Company has implemented a safety management system and formulated a safety manual, which covers various aspects including the duties and responsibilities of each department, organizations, trainings, inspection system, special equipment management, fire safety facilities management and hazardous substances management, as well as a set of contingency plans such as fire safety production, environmental protection, food poisoning, fights and electric shock. The Company has also established a contingency team for the immediate and effective control and treatment of emergency cases. In 2017, the Company was awarded the “Work Safety Standardization Certificate”(《安全生產標準化證書》) (Certificate No.: BJ112JX000500) and recognized as III-Grade Enterprise of Work Safety Standardization. In 2018, the Company was awarded the Certificate of “‘Golden Safety Enterprise’ in Work Safety Standardization” (《安全生產標準化“金安企業”》).

The Company has conducted layout planning and alteration on the overall fire facilities. The fire facilities and equipment are divided into different areas and managed separately. According to the principle of “who is in charge, who bears the responsibility” (誰主管·誰負責), the Company ensures that the fire facilities and equipment will be in good standby condition at all time. Regular fire equipment inspection is conducted by the professionals on a yearly basis to ensure that they will be in a good standby condition.

In order to improve the working environment, the Company inputs significant manpower, materials and financial resources to grow different kinds of plants such as magnolia, chrysanthemum, boxwood and bamboo in the Company to purify air while concrete flooring is used in other areas to eliminate dust.

In 2018, neither the Company encountered any employees’ death and work injury in relation to work, nor did any losses in working days due to employees’ work injury and death.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

3. Development and training

The Company insists on the principle of corporate culture development of “make the factory our home and be proud of it so as to build a harmonious development between corporate and employees” (以廠為家·以廠為榮·企業與員工和諧發展). The Company pays special attention to employees’ development and provides sufficient opportunities of internal and external training. The Company strongly believes that development of talent is the fundamentals of the development of the Company.

The Company has provided multiple development paths for the development of the employees, such as the technological development path and management development path and has established the employment qualification management system. The Company has also enhanced the ability of the employees through continuous internal training within the Company and external training. As for the newly recruited employees, the Company conducts corporate culture training to help the employees to understand the corporate culture and organizational structure of the Company, its main products, Company’s value, concept and quality principle and also the Company’s systems related to attendance and office environment management, etc.. Targeting employees with demands for different professional skills, the trainings are conducted in different approaches and channels. For example, the skill training provided to new workshop employees adopts a “one-to-one teaching” mode to ensure the learning efficiency and quality of the newly recruited employees.

In 2018, among those employees who received training, 76% of them were male and the average training hours were 57 hours while 29% of them were female and the average training hours were 43 hours. 100% of senior management received training and the average training hours were 62 hours, 99% of middle level management received training and the average training hours were 39 hours, 96% of basic-rank employees received training and the average training hours were 30 hours.

4. Employee care

The Company persists in the principle of corporate culture development of “a harmonious development between corporate and employees” (企業與員工和諧發展). We pay attention to the physical and mental health of the employees and build a healthy, safe and comfortable working environment so as to practically fulfill its duty of employee care.

The Company insists on holding monthly birthday party for employees during their birthday month to give the employees the feeling of home. Hostel is provided to employees who are in need. The newly constructed Daxing New Production Base is equipped with enough number of hostel to ensure the living environment of the employees.

5. Labor Standards

The Company has been paying attention to the prohibition of child labor and mandatory labor consistently. We strictly adhere to “Labor Law of the People’s Republic of China” (《中華人民共和國勞動法》), “Labor Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》), and “Provisions on the Prohibition of Using Child Labor” (《禁止使用童工規定》) by the State Council. We also understand laws and regulations such as “Measures for Lump-sum Compensation to the Disabled or Deceased Employees of Entities Involving Illegal Employment” (《非法用工單位傷亡人員一次性賠償辦法》) formulated by Ministry of Human Resources and Social Security. The measures set out “Overtime/Compensatory Leave Management Measures” (《加班/調休管理辦法》). The Labor Contract specifies the prohibition against the use of child labor and sets out the time, protection and conditions of labor, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

4. OPERATION

1. Product responsibility

The Company's products are Class III orthopedic implant and Class I and Class II surgical tools, which are closely linked with patients' health. The Company persists in the quality principle of "as if it is for self-use and keep innovating" (視如己用、不斷創新) and strictly complies with laws and regulations such as "Regulation on the Supervision and Administration of Medical Devices" (《醫療器械監督管理條例》), "Good Manufacturing Practice Rules for Medical Devices" (《醫療器械生產質量管理規範》), "Measures for the Administration of Medical Device Recalls" (《醫療器械召回管理辦法》). We have built a comprehensive quality management system and corresponding procedures and systems, we have also passed the GMP and obtained the ISO13485 certification.

In order to ensure that quality control is implemented on raw materials procured/products externally procured in the aspects of product intake, process, inspection and release of final products and product recall and to safeguard the adequacy and effectiveness of quality inspection process, the "Procedure for Product Quality Control" (《產品品質控制程序》) is formulated. Quality inspection process is divided into inspection of product intake, process inspection, final product inspection and product recall inspection process. In order to satisfy the requirement of the China Food and Drug Administration on the monitoring of adverse events, product recall and release of advisory notice and control the PRC listed products of the Company in the activities such as monitoring adverse events, product recall and release of advisory notice, the "Procedure for CE Alert System, Adverse Events, Product Recall and Release of Advisory Notice" (《CE警械系統、不良事件、產品召回及忠告性通知發佈程序》) is formulated. According to the procedure, the quality management department is responsible for filling in the "Report of Medical Device Recall Events" (《醫療器械召回事件報告表》) for the recalled products while departments such as market department, sales department and international department would release the information of product recall to relevant customers and report to the competent drug regulatory department. The quality management department is responsible for tracking the implementation of product recall and ensure that all products that required to be recalled are reasonably disposed. In order to achieve identification, verification and protection on orthopedic property controlled or used by the Company, the Company formulates the "Procedure for Orthopedic Property Control" (《骨科財產控制程序》).

The Company insists on the strategy of innovative research and development and establishes the operational concept of "relying on employees to manage the corporate, relying on technology to enhance ability, relying on quality to win customer, relying on innovation to promote development" (靠員工管理企業，靠科技提高能力，靠質量贏得客戶，靠創新促進發展). In 2018, the Company obtained the approval for the two special applications for innovative medical instruments, which are "single knee joint prosthesis" (《單髌膝關節假體》) (acceptance number: CQTS1700268) and "customized and personalized pelvic prosthesis" (《定製個體化骨盆假體》) (acceptance number: CQTS1700269), respectively. Such approvals marked the recognition of national authorities on the Company's innovation as well as research and development capacity. The "customized and personalized pelvic prosthesis", which was jointly developed by the Company and several top oncology experts in China, is awarded "First Prize of Chinese Medical Science and Technology Award in 2013" (2013年中華醫學科技獎一等獎) and "Second Prize of State Science and Technology Improvement Award in 2014" (2014年國家科學技術進步獎二等獎) successively. In order to protect the intellectual property of the Company's products, according to the "Patent law of the People's Republic of China" (《中華人民共和國專利法》), the Company currently has 41 authorized patents and has applied for 57 new patents. In December 2018, the Company obtained the approval for planning a state-level postdoctoral working station for scientific research, which would significantly enhance the overall research and development entity of the Company.

In 2018, no complaint was received by the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (ESG)

2. Supply chain management

In order to ensure that the material procured are up to our requirement, and that we can control the procurement process and suppliers, the Company establishes the “Procedure for Procurement Control” (採購控制程序) in accordance with relevant laws and regulations. This procedure is applicable to the procurement of material that the Company needed for producing products and control on outsourced sterilization as well as the raw materials that the Company needed and the selection, assessment and control on suppliers of supplementary production materials.

The Company manages its materials by dividing them into Class A, B and C according to their level of impact on the quality of the finished products. Class A is materials with high risk (raw material for implant), class B is materials with moderate risk (raw material for device) and class C is materials with low risk (neither implant into human body, nor in contact with patients). If on-site examination is necessary for class A materials, the procurement department will organize on-site examinations for the suppliers and fill in the “supplier investigation form” (《供方調查表》). The procurement department will organize various departments to conduct examination and complete the “supplier assessment form” (《供方評價表》) and the qualified suppliers would be enlisted in the “qualified supplier list” (《合格供方名單》), which is subjected to reassessment annually. The suppliers for Class B materials will be enlisted in the “qualified supplier list-Class B” upon recommendation by the procurement department after approval of factory director and dynamic tracking and control would be conducted. Class C is recommended by procurement staff and will be enlisted in “qualified supplier list-Class C” after approval of the manager of procurement department and dynamic tracking and control would be conducted. Monitoring department conducts strict examination and daily supervision on whole process such as all design development, production process and quality control.

3. Anti-corruption

The Company requires all of its employees to conduct their work in accordance with the “Prevention of Bribery Ordinance” (《防止賄賂條例》) of Hong Kong and the “Criminal Law of the People’s Republic of China” (《中華人民共和國刑法》). The entry training of new employees of the Company and the “Staff Handbook” (《員工手冊》) expressly provided that all employees of the Company should comply with the anti-corruption requirement and set out the penalty for non-compliance.

In 2018, the Company had no corruption litigation cases.

5. INVESTMENT IN SOCIETY

The Company is fully aware of the importance of joint development between the Company and the community. We integrate social contribution into corporate development. In the past, the Company has been initiating proactive collaborations with various charity groups by donations of different approaches (such as donations to The Community Chest (香港公益金), China Health Promotion Foundation (中國健康促進基金會), etc) and is proud of our effort in paying back the society. In 2018, we made donation to Somu’s “Two No Worries, Three Guarantees” collective economic support project organized by the Red Cross in Keyouzhong Banner and awarded the donation certificate (Certificate No.: you hong juan zheng) [2018]No. 21).

Since August 2009, the Company and China Charity Federation have been joining hands in a key medical project, the “Chunli Sunshine Plan (春立陽光計劃)”. Chunli Medical donates joint prosthesis products of RMB1 million to China Charity Federation per annum, providing free internal fixation material needed in joint prosthesis replacement surgery to poor patients with serious joint disease. For the past decade, the charitable project of Chunli Sunshine Plan had become partners with 55 project designated hospitals in 22 provinces, cities and special administrative regions in China. The aiding program successfully implemented more than 530 joint prosthesis replacement surgeries, which helped patients to relief pain and medical burden and received good social feedback.

INDEPENDENT AUDITOR'S REPORT



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WUYIGE shenzi [2019]3-00045

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

I. AUDIT OPINION

We have audited the financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as the "Company"), which comprise the consolidated and parent company's balance sheets as at December 31, 2018, the consolidated and parent company's profit statements, the consolidated and parent company's cash flow statements and the consolidated and parent company's statement of changes in Equity in 2018, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and parent company's financial positions of the Company as at December 31, 2018, and of its consolidated and parent company's operating results and cash flows in 2018 in accordance with the requirements of the Accounting Standards for Business Enterprises.

II. BASIS OF FORMING AUDIT OPINIONS

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

III. KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

(I) Revenue recognition

1. Description of matters

As described in Note V(XXIII) of the financial statements, the Company realized operating revenue 497.9272 million yuan in 2018, which was mainly the sales revenue from joint prosthesis product. Since the appropriateness of operating revenue recognition had material impact on operating result of 2018, there is an inherent risk of manipulation of the timing of revenue recognition by management to meet specific targets or expectations. Therefore, we will identify the income recognition as a key audit item.

2. Method of audit

- (1) Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;
- (2) Implementing analytical review procedure, which include analysis of annual and monthly income of main products, changes in main customers as well as movement in selling price and gross profit margin;
- (3) Selecting samples to check the sales contracts, examine the Company's performance obligation and analyze the appropriateness of management's judgment on the timing of completion of performance obligation by combining contractual terms and actual performance;
- (4) Selecting samples to check the accuracy of the Company's timing of revenue recognition and the compliance of related requirement in ASBE and the requirement of corporate revenue policy; assessing the truthfulness of the Company's revenue by checking the supportive evidence in relation to revenue generation, which include tracing to invoices, delivery notes, customer receipts and etc.;
- (5) Sampling customers to evaluate whether there is any connected relationship between customers and the Company by verifying the industrial and commercial registration information of the customers and comparing it with the Company's information on controlling shareholder and senior management;
- (6) Checking the transaction record between the Company and related parties to assure the necessity and fairness of the transaction;
- (7) Conducting confirmation procedure in respect of the Company's main customers, covering sales amount and resulting balance in the period, and checking main customers' payment;
- (8) Conducting cut-off tests for revenue transactions recorded before and after the balance sheet date.

INDEPENDENT AUDITOR'S REPORT

(II) Recognition of bad debt provision for receivables

1. Description of matters

As described in Note V (II) of the financial statements, the balance of the Company's receivables was 82.6641 million yuan and the amount of bad debt provision was 12.5729 million yuan, representing a relatively high carrying amount. As the management need to apply significant accounting estimation and judgement in assessing the expected recoverable amount of receivables, the financial statements would be significantly influenced if receivables cannot be recovered on time or at all and causes bad debt. Therefore, we consider the recognition of bad debt provision for receivables as a key audit matter.

2. Method of audit

- (1) Understanding and evaluating the effectiveness of the management's design and operation of key internal controls related to the collection of payment;
- (2) Combining customers' historical payment condition, information of historical bad debt losses and the Company's credit policy to evaluate the reasonableness of the Company's accounting estimates in relation to bad debt provision for receivables;
- (3) Obtaining the accounting estimates on bad debt provision for receivables from other company in the same industry with the Company to evaluate whether the Company's accounting estimates on bad debt provision for receivables comply with industry characteristics;
- (4) Obtaining the Company's breakdown of allowance for bad debt to check whether the method was implemented in accordance with the bad debt policy; recalculating the amount of bad debts provision in accordance with the Company's bad debt policy.

IV. OTHER INFORMATION

The management of the Company is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our audit report. The annual report is expected to be made available to us after the date of this audit report.

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

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

If material misstatement was found, we are required by the auditing standards to discuss such matter with the Governance and take appropriate measures.

INDEPENDENT AUDITOR'S REPORT

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

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

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

Governance are responsible for overseeing the Company's financial reporting process.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

WUYIGE Certified Public Accountants. LLP
Beijing · China

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

Chinese Certified Public Accountant:

27 March 2019

CONSOLIDATED BALANCE SHEET

December 31, 2018
(Expressed in Renminbi Yuan)

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

Items	Note	31 December 2018	31 December 2017
Current assets:			
Monetary capital	V.(I)	414,911,994.08	371,618,428.62
Held-for-trading financial assets			
Financial assets at fair value through current profit or loss			
Derivative financial assets			
Notes and accounts receivable	V.(II)	138,643,084.69	96,995,764.83
Including: Notes receivable		68,551,854.01	23,339,770.10
Accounts receivable		70,091,230.68	73,655,994.73
Prepayment	V.(III)	6,059,478.60	1,618,077.61
Other receivables	V.(IV)	1,931,307.18	915,826.53
Including: Interest receivable		1,299,364.38	
Dividend receivable			
Inventories	V.(V)	95,865,664.36	58,947,158.89
Contract assets			
Assets held-for-sale			
Non-current assets due within one year			
Other current assets	V.(VI)	3,788,415.00	116,686.21
Total current assets		661,199,943.91	530,211,942.69
Non-current assets:			
Debt investments			
Available-for-sale financial assets			
Other debt investments			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments			
Other equity instruments investment			
Other non-current financial assets			
Investment property			
Fixed assets	V.(VII)	82,449,533.63	47,580,889.11
Construction in progress	V.(VIII)	21,046,594.23	13,193,700.06
Productive biological assets			
Oil & gas assets			
Intangible assets	V.(IX)	33,114,313.21	33,126,892.76
Development expenditures			
Goodwill			
Long-term prepayments	V.(X)	788,333.39	1,008,333.35
Deferred income tax assets	V.(XI)	9,010,246.12	2,699,036.67
Other non-current assets	V.(XII)	7,131,040.62	5,840,781.71
Total non-current assets		153,540,061.20	103,449,633.66
Total assets		814,740,005.11	633,661,576.35

CONSOLIDATED BALANCE SHEET

December 31, 2018

(Expressed in Renminbi Yuan)

Items	Note	31 December 2018	31 December 2017
Current liabilities:			
Short-term borrowings			
Held-for-trading financial liabilities			
Financial liabilities at fair value through current profit or loss			
Derivative financial liabilities			
Notes and accounts payable	V.(XIII)	51,930,070.41	25,316,462.14
Advances received			
Contract liabilities	V.(XIV)	51,735,316.91	15,891,150.69
Employee remuneration payable	V.(XV)	11,794,138.02	4,503,817.95
Taxes payable	V.(XVI)	16,107,861.02	14,285,556.35
Other payables	V.(XVII)	27,847,722.41	17,621,821.89
Including: Interest payable			
Dividend payable			
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities	V.(XVIII)	12,653,045.87	
Total current liabilities		172,068,154.64	77,618,809.02

CONSOLIDATED BALANCE SHEETDecember 31, 2018
(Expressed in Renminbi Yuan)

Items	Note	31 December 2018	31 December 2017
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee remuneration payable			
Estimated liabilities	V.(XIX)		1,994,981.90
Deferred income	V.(XX)	12,690,682.43	14,822,497.59
Deferred income tax liabilities	V.(XI)	1,841,282.15	753,109.62
Other non-current liabilities			
Total non-current liabilities		14,531,964.58	17,570,589.11
Total liabilities		186,600,119.22	95,189,398.13
Shareholders interest:			
Share capital	V.(XXI)	69,170,400.00	69,170,400.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	V.(XXII)	230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	V.(XXIII)	41,040,495.62	30,599,186.14
Undistributed profit	V.(XXIV)	287,889,810.26	208,663,412.07
Total shareholders interest attributable to the parent company		628,139,885.89	538,472,178.22
Non-controlling shareholders interest			
Total shareholders interests		628,139,885.89	538,472,178.22
Total liabilities & shareholders interests		814,740,005.11	633,661,576.35

Legal representative:

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

PARENT COMPANY'S BALANCE SHEET

December 31, 2018
(Expressed in Renminbi Yuan)

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

Items	Note	31 December 2018	31 December 2017
Current assets:			
Monetary capital		414,549,927.82	371,601,738.39
Held-for-trading financial assets			
Financial assets at fair value through current profit or loss			
Derivative financial assets			
Notes and accounts receivable	XIV.(I)	137,639,112.50	96,680,680.98
Including: Notes receivable		68,551,854.01	23,339,770.10
Accounts receivable		69,087,258.49	73,340,910.88
Prepayment		6,037,478.60	1,618,077.61
Other receivables	XIV.(II)	1,931,307.18	915,826.53
Including: Interest receivable		1,299,364.38	
Dividend receivable			
Inventories		95,195,512.44	58,947,158.89
Contract assets			
Assets held-for-sale			
Non-current assets due within one year			
Other current assets		3,669,383.30	
Total current assets		659,022,721.84	529,763,482.40
Non-current assets:			
Debt investments			
Available-for-sale financial assets			
Other debt investments			
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	XIV.(III)	1,665,263.00	665,263.00
Other equity instruments investment			
Other non-current financial assets			
Investment property			
Fixed assets		82,376,032.77	47,578,914.11
Construction in progress		21,046,594.23	13,193,700.06
Productive biological assets			
Oil & gas assets			
Intangible assets		33,114,313.21	33,126,892.76
Development expenditures			
Goodwill			
Long-term prepayments		788,333.39	1,008,333.35
Deferred income tax assets		8,966,460.56	2,673,316.53
Other non-current assets		7,131,040.62	5,840,781.71
Total non-current assets		155,088,037.78	104,087,201.52
Total assets		814,110,759.62	633,850,683.92

PARENT COMPANY'S BALANCE SHEET

December 31, 2018

(Expressed in Renminbi Yuan)

Items	Note	31 December 2018	31 December 2017
Current liabilities:			
Short-term borrowings			
Held-for-trading financial liabilities			
Financial liabilities at fair value through current profit or loss			
Derivative financial liabilities			
Notes and accounts payable		51,972,280.20	25,314,390.97
Advances received			
Contract liabilities		51,735,316.91	15,891,150.69
Employee remuneration payable		11,794,138.02	4,503,817.95
Taxes payable		15,979,253.59	14,285,556.35
Other payables		29,703,989.19	18,979,139.98
Including: Interest payable			
Dividend payable			
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities		12,653,045.87	
Total current liabilities		173,838,023.78	78,974,055.94
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee remuneration payable			
Estimated liabilities			1,994,981.90
Deferred income		12,690,682.43	14,822,497.59
Deferred income tax liabilities		1,841,282.15	753,109.62
Other non-current liabilities			
Total non-current liabilities		14,531,964.58	17,570,589.11
Total liabilities		188,369,988.36	96,544,645.05
Shareholders interest:			
Share capital		69,170,400.00	69,170,400.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		230,039,180.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		41,040,495.62	30,599,186.14
Undistributed profit		285,490,695.63	207,497,272.72
Total shareholders interests		625,740,771.26	537,306,038.87
Total liabilities & shareholders interests		814,110,759.62	633,850,683.92

Legal representative:

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

CONSOLIDATED INCOME STATEMENT

For the year 2018
(Expressed in Renminbi Yuan)

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

Items	Note	Amount for current period	Amount for previous period
I. Operating revenue	V.(XXV)	497,927,159.92	300,317,298.79
Less: operating cost	V.(XXV)	180,003,222.25	84,062,884.30
Taxes and surcharge	V.(XXVI)	6,092,827.50	4,098,588.47
Selling expenses	V.(XXVII)	143,914,441.19	88,947,859.28
Administrative expenses	V.(XXVIII)	18,307,825.67	23,111,998.17
Research and development expenses	V.(XXIX)	35,454,949.86	21,216,267.23
Financial expense	V.(XXX)	-7,222,544.60	-4,144,972.53
Including: interest expenses			
Interest proceeds		5,399,012.69	5,495,618.81
Assets impairment loss	V.(XXXI)	2,012,949.20	2,897,682.36
Credit impairment loss	V.(XXXII)	2,388,968.15	3,277,544.54
Add: other gains	V.(XXXIII)	2,515,131.60	2,131,772.05
Investment income (losses are presented as “-”)			
Including: investment income from associates and joint ventures			
Net profit on hedging exposure (losses are presented as “-”)			
Gains on changes of fair value (losses are presented as “-”)			
Gains on disposal of assets (losses are presented as “-”)			
II. Operating profit (losses are presented as “-”)		119,489,652.30	78,981,219.02
Add: Non-operating income	V.(XXXIV)	110,000.00	31,723.78
Less: Non-operating expenses	V.(XXXV)	150,400.00	217,295.57
III. Gross profit (total losses are presented as “-”)		119,449,252.30	78,795,647.23
Less: income tax expenses	V.(XXXVI)	13,803,182.23	10,511,660.37
IV. Net profit (net losses are presented as “-”)		105,646,070.07	68,283,986.86
(I) Classified by continuity of operation:			
1. Net profit for continuing operation (net losses are presented as “-”)		105,646,070.07	68,283,986.86
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 “-”)		105,646,070.07	68,283,986.86
2. Non-controlling shareholders’ interest (net losses are presented as “-”)			

CONSOLIDATED INCOME STATEMENT

For the year 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
V. Net other comprehensive income after tax			
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			
3. Change in fair value of other equity instruments investment			
4. Change in fair value of credit risks of the Company			
(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. Change in fair value of other debt investment			
3. Profit or loss from changes in fair value of available-for-sale financial assets			
4. Financial assets reclassified into other comprehensive income			
5. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
6. Provision of credit impairment of other debt investment			
7. Cash flow hedging reserve (Effective part of profit or loss on cash flow hedging)			
8. Translation difference of foreign currency financial statements			
9. Others			
Net other comprehensive income after tax attributable to non-controlling shareholders			
VI. Total comprehensive income		105,646,070.07	68,283,986.86
Total comprehensive income attributable to the shareholders of the parent company			
		105,646,070.07	68,283,986.86
Total comprehensive income attributable to non-controlling shareholders			
VII. Earnings per share			
(I) Basic EPS		1.53	0.99
(II) Diluted EPS		1.53	0.99

Legal representative:

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

PARENT COMPANY'S INCOME STATEMENT

For the year 2018
(Expressed in Renminbi Yuan)

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

Items	Note	Amount for current period	Amount for previous period
I. Operating revenue	XIV.(IV)	496,243,644.03	300,041,246.24
Less: operating cost	XIV.(IV)	180,003,222.25	84,060,813.13
Taxes and surcharge		6,074,747.32	4,098,057.17
Selling expenses		143,914,441.19	88,947,859.28
Administrative expenses		18,038,909.18	22,896,058.44
Research and development expenses		35,454,949.86	21,216,267.23
Financial expense		-7,222,172.50	-4,145,097.39
Including: interest expenses			
Interest proceeds		5,398,080.59	5,495,493.67
Assets impairment loss		2,012,949.20	2,877,204.06
Credit impairment loss		2,316,706.44	3,277,544.54
Add: other gains		2,515,131.60	2,131,772.05
Investment income (losses are presented as “-”)			
Including: investment income from associates and joint ventures			
Net profit on hedging exposure (losses are presented as “-”)			
Gains on changes of fair value (losses are presented as “-”)			
Gains on disposal of assets (losses are presented as “-”)			
II. Operating profit (losses are presented as “-”)		118,165,022.69	78,944,311.83
Add: Non-operating income		110,000.00	31,723.78
Less: Non-operating expenses		150,400.00	217,195.57
III. Gross profit (total losses are presented as “-”)		118,124,622.69	78,758,840.04
Less: income tax expenses		13,711,527.90	10,516,779.95
IV. Net profit (net losses are presented as “-”)		104,413,094.79	68,242,060.09
(I) Net profit for continuing operation (net losses are presented as “-”)		104,413,094.79	68,242,060.09
(II) Net profit for ceased operation (net losses are presented as “-”)			

PARENT COMPANY'S INCOME STATEMENT

For the year 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
V. Net other comprehensive income after tax			
(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			
3. Change in fair value of other equity instruments investment			
4. Change in fair value of credit risks of the Company			
(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. Change in fair value of other debt investment			
3. Profit or loss from changes in fair value of available-for-sale financial assets			
4. Financial assets reclassified into other comprehensive income			
5. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
6. Provision of credit impairment of other debt investment			
7. Cash flow hedging reserve (Effective part of profit or loss on cash flow hedging)			
8. Translation difference of foreign currency financial statements			
9. Others			
VI. Total comprehensive income		104,413,094.79	68,242,060.09
VII. Earnings per share			
(I) Basic EPS		1.51	0.99
(II) Diluted EPS		1.51	0.99

Legal representative:

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

CONSOLIDATED CASH FLOW STATEMENT

For the year 2018
(Expressed in Renminbi Yuan)

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

Items	Note	Amount for current period	Amount for previous period
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		573,964,275.62	335,950,972.34
Receipts of tax refund			
Other cash receipts related to operating activities	V.(XXXVII)	11,137,243.28	1,824,142.01
Subtotal of cash inflows from operating activities		585,101,518.90	337,775,114.35
Cash payments for goods purchased and services received		200,390,846.38	65,725,993.33
Cash paid to and on behalf of employees		63,974,191.70	45,279,492.61
Taxes paid		68,292,601.54	47,934,107.77
Other cash payments related to operating activities	V.(XXXVII)	143,937,676.80	89,002,406.22
Subtotal cash outflows from operating activities		476,595,316.42	247,941,999.93
Net cash flows from operating activities		108,506,202.48	89,833,114.42
II. Cash flows from investing activities:			
Cash received from disinvestments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities	V.(XXXVII)	3,905,141.04	5,495,618.81
Subtotal of cash inflows from investing activities		3,905,141.04	5,495,618.81
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		52,118,270.40	8,982,590.99
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		52,118,270.40	8,982,590.99
Net cash flows from investing activities		-48,213,129.36	-3,486,972.18

CONSOLIDATED CASH FLOW STATEMENT

For the year 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
III. Cash flows from financing activities:			
Cash received from investment			
Including: cash received by subsidiaries from non-controlling shareholders' investments			
Cash received from borrowings			
Cash received from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			
Cash repayments of debt			
Cash paid for distribution of dividends, profits or for interest expenses		15,978,362.40	10,721,412.00
Including: cash paid for distribution of dividends and profits by subsidiaries to non-controlling shareholders			
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities		15,978,362.40	10,721,412.00
Net cash flows from financing activities		-15,978,362.40	-10,721,412.00
IV. Effect of foreign exchange rate changes on cash & cash equivalents		-1,021,145.26	-1,292,091.78
V. Net increase in cash and cash equivalents		43,293,565.46	74,332,638.46
Add: Opening balance of cash and cash equivalents		371,618,428.62	297,285,790.16
VI. Closing balance of cash and cash equivalents		414,911,994.08	371,618,428.62

Legal representative:

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

PARENT COMPANY'S CASH FLOW STATEMENT

For the year 2018
(Expressed in Renminbi Yuan)

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

Items	Note	Amount for current period	Amount for previous period
I. Cash flows from operating activities:			
Cash receipts from sale of goods and rendering of services		572,674,334.75	335,950,972.34
Receipts of tax refund			
Other cash receipts related to operating activities		11,635,259.87	1,819,519.51
Subtotal of cash inflows from operating activities		584,309,594.62	337,770,491.85
Cash payments for goods purchased and services received		199,456,624.67	65,003,288.27
Cash paid to and on behalf of employees		63,970,336.94	45,275,308.12
Taxes paid		68,121,082.71	47,934,107.77
Other cash payments related to operating activities		143,672,249.71	89,649,274.01
Subtotal cash outflows from operating activities		475,220,294.03	247,861,978.17
Net cash flows from operating activities		109,089,300.59	89,908,513.68
II. Cash flows from investing activities:			
Cash received from disinvestments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities		3,905,141.04	5,495,493.67
Subtotal of cash inflows from investing activities		3,905,141.04	5,495,493.67
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		52,046,744.54	8,982,590.99
Cash payments for investments		1,000,000.00	
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		53,046,744.54	8,982,590.99
Net cash flows from investing activities		-49,141,603.50	-3,487,097.32

PARENT COMPANY'S CASH FLOW STATEMENT

For the year 2018

(Expressed in Renminbi Yuan)

Items	Note	Amount for current period	Amount for previous period
III. Cash flows from financing activities:			
Cash received from investment			
Cash received from borrowings			
Cash received from issuing of bonds			
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities			
Cash repayments of debt			
Cash paid for distribution of dividends, profits or for interest expenses		15,978,362.40	10,721,412.00
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities		15,978,362.40	10,721,412.00
Net cash flows from financing activities		-15,978,362.40	-10,721,412.00
IV. Effect of foreign exchange rate changes on cash & cash equivalents		-1,021,145.26	-1,292,091.78
V. Net increase in cash and cash equivalents		42,948,189.43	74,407,912.58
Add: Opening balance of cash and cash equivalents		371,601,738.39	297,193,825.81
VI. Closing balance of cash and cash equivalents		414,549,927.82	371,601,738.39

Legal representative:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2018
(Expressed in Renminbi Yuan)

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

Items	Current period											Non-controlling interest	Total equity
	Other equity instruments				Equity attributable to parent company								
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Subtotal		
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				30,599,186.14	208,663,412.07	538,472,178.22		538,472,178.22
Add: changes of accounting policies													
Error correction of prior period													
Business combination under common control													
Others													
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01				30,599,186.14	208,663,412.07	538,472,178.22		538,472,178.22
III. Amount of current period increase or decrease (decreases are presented as "-")									10,441,309.48	79,226,398.19	89,667,707.67		89,667,707.67
(i) Total comprehensive income										105,646,070.07	105,646,070.07		105,646,070.07
(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									10,441,309.48	-26,419,671.88	-15,978,362.40		-15,978,362.40
1. Appropriation of surplus reserve									10,441,309.48	-10,441,309.48			
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. Other comprehensive income carried over to retained earnings													
6. Others													
(v) Special reserve													
1. Appropriation of current period													
2. Application of current period													
(vi) Others													
IV. Balance at the end of current period	69,170,400.00				230,039,180.01				41,040,495.62	287,889,810.26	628,139,885.89		628,139,885.89

Legal representative:

Person in charge for
accounting work:

Person in charge
of the accounting
agency:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2018

(Expressed in Renminbi Yuan)

Items	Equity attributable to parent company											Non-controlling interest	Total equity	
	Other equity instruments				Capital reserve	Less:		Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit			Subtotal
	Share capital	Preferred shares	Perpetual bonds	Others		treasury shares	Other							
I. Balance at the end of prior year	69,170,400.00				230,039,180.01					23,774,980.13	157,925,043.22	480,909,603.36		480,909,603.36
Add: changes of accounting policies														
Error correction of prior period														
Business combination under common control														
Others														
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01					23,774,980.13	157,925,043.22	480,909,603.36		480,909,603.36
III. Amount of current period increase or decrease (decreases are presented as "-")										6,824,206.01	50,738,368.85	57,562,574.86		57,562,574.86
(I) Total comprehensive income											68,283,986.86	68,283,986.86		68,283,986.86
(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										6,824,206.01	-17,545,618.01	-10,721,412.00		-10,721,412.00
1. Appropriation of surplus reserve										6,824,206.01	-6,824,206.01			
2. Distribution to shareholders											-10,721,412.00	-10,721,412.00		-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. Other comprehensive income carried over to retained earnings														
6. Others														
(V) Special reserve														
1. Appropriation of current period														
2. Application of current period														
(VI) Others														
IV. Balance at the end of current period	69,170,400.00				230,039,180.01					30,599,186.14	208,663,412.07	538,472,178.22		538,472,178.22

Legal representative:

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

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2018
(Expressed in Renminbi Yuan)

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

Items	Other equity instruments				Current period						Total equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				30,599,186.14	207,497,272.72	537,306,038.87
Add: changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01				30,599,186.14	207,497,272.72	537,306,038.87
III. Amount of current period increase or decrease (decreases are presented as "-")									10,441,309.48	77,993,422.91	88,434,732.39
(I) Total comprehensive income										104,413,094.79	104,413,094.79
(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									10,441,309.48	-26,419,671.88	-15,978,362.40
1. Appropriation of surplus reserve									10,441,309.48	-10,441,309.48	
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. Other comprehensive income carried over to retained earnings											
6. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
IV. Balance at the end of current period	69,170,400.00				230,039,180.01				41,040,495.62	285,490,695.63	625,740,771.26

Legal representative:

Person in charge for
accounting work:

Person in charge
of the accounting
agency:

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2018

(Expressed in Renminbi Yuan)

Items	Share capital	Other equity instruments			Capital reserve	Previous period			Surplus reserve	Undistributed profit	Total equity
		Preferred shares	Perpetual bonds	Others		Less: treasury shares	Other comprehensive income	Special reserve			
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				23,774,980.13	156,800,830.64	479,785,390.78
Add: changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	69,170,400.00				230,039,180.01				23,774,980.13	156,800,830.64	479,785,390.78
III. Amount of current period increase or decrease (decreases are presented as "-")									6,824,206.01	50,696,442.08	57,520,648.09
(I) Total comprehensive income										68,242,060.09	68,242,060.09
(II) Capital contributed and withdrawn by 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									6,824,206.01	-17,545,618.01	-10,721,412.00
1. Appropriation of surplus reserve									6,824,206.01	-6,824,206.01	
2. Distribution to shareholders										-10,721,412.00	-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. Other comprehensive income carried over to retained earnings											
6. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
IV. Balance at the end of current period	69,170,400.00				230,039,180.01				30,599,186.14	207,497,272.72	537,306,038.87

Legal representative:

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

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 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 69.1704 million yuan, and total shares are 69.1704 million shares (each with par value of one yuan), of which, 50 million shares are restricted shares, and 19.1704 million shares are outstanding shares. The Company’s shares were listed and traded on Hong Kong Stock Exchanges on March 11, 2015, with Chunli Medical as its stock abbreviation and 01858.HK as its stock code.

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 subsidiaries Beijing Zhao Yi Te Medical Devices Co., Ltd.* (北京兆億特醫療器械有限公司) and Hebei Chunli Hangnuo New Materials Technology Co., Ltd.* (河北春立航諾新材料科技有限公司) 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 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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 31 December 2018, its results of operations and cash flows in 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 to 31 December 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

1. 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.

2. 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.

3. Offsetting in consolidated financial statements

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

4. 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.

5. Accounting for disposal of subsidiary

For the disposal of a portion of long-term equity investments in a subsidiary without losing control, in the consolidated financial statements, the difference between disposal price and share of net assets of the subsidiary enjoyed correspondingly in the disposal of the long-term equity investment, which is continuously calculated from the acquisition date or combination date, shall be used to adjust the capital reserve (capital premium or share premium). If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

Where the control over the investee is lost due to the disposal of partial equity investment or other reasons, the residual equity will be remeasured based on the fair value thereof on the date when the control is lost in the preparation of the consolidated financial statements. The balance of the sum of the consideration obtained from the equity disposal and the fair value of the residual equity after deduction of the share of the net assets of the original subsidiaries calculated continuously in proportion to the original shareholding percentage from the acquisition date or combination date shall be included in the investment profit for the period in which the control is lost, with goodwill being offset simultaneously. Other comprehensive incomes relating to the equity investment of the original subsidiaries shall be transferred to investment profit for the period when the control is lost.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

(VIII) Translation of foreign currency business

Foreign currency transactions of the Company are translated into and recorded in the functional currency at spot rate 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

A financial instrument is a contract that forms the financial assets of a party and forms the financial liabilities or equity instruments of other parties.

(1) Financial assets

The Company classifies a financial asset as financial asset measured at amortised cost if it fulfill the following conditions: ① where the Company's business model for managing financial assets is aimed at collecting contractual cash flows; ② the contractual terms of that financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

The Company classifies a financial asset as financial assets at fair value through other comprehensive income if it fulfill the following conditions: ① where the Company's business model for managing financial assets is aimed at both collecting contractual cash flows and selling such financial asset; ② the contractual terms of that financial asset stipulate that the cash flows generated on a specific date are only the payment of the principal and interest based on the outstanding principal amount.

For investments in non-trading equity instruments, the Company may, at the time of initial recognition, irrevocably designate it as a financial asset at fair value through other comprehensive income. The designation is based on a single investment and the relevant investment is in line with the definition of the equity instrument from the issuer's perspective.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

1. Classification and reclassification of financial instruments (Continued)

(1) Financial assets (Continued)

For those financial assets other than financial assets measured at amortised cost and financial assets at fair value through other comprehensive income, the Company classifies it as financial assets at fair value through profit or loss. On initial recognition, the Company may irrevocably designate a financial asset as at fair value through profit or loss if doing so eliminates or reduces an accounting mismatch.

When the Company changes the business model for managing financial assets, it shall reclassify all relevant financial assets as affected on the first day of the first reporting period after the business model changes, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

(2) Financial liabilities

On initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss; financial liabilities formed when transfer of financial assets does not meet the conditions of derecognition or continues to be involved in the transferred financial assets; financial liabilities at amortised cost. All financial liabilities are not reclassified.

2. Measurement of financial instruments

On initial recognition, the Company's financial instruments are measured at fair value. Transaction expenses on financial assets and financial liabilities at fair value through profit or loss are expensed directly, while transaction expenses of other types of financial assets or financial liabilities are classified in its initial recognized amount. Accounts receivable or notes receivable arising from sales of goods or rendering services, without significant financing component, are initially recognised based on the transaction price expected to be entitled by the Company. Subsequent measurement of financial instruments depends on their classifications.

(1) Financial Assets

① Financial assets at amortised cost

After initial recognition, such financial assets are measured at amortised cost using the effective interest method. Gains or losses arising from financial assets at amortised cost and that are not parts of any hedging relationships are included in profit or loss in the period which they incurred when derecognised, reclassified, amortised or recognised the impairment under the effective interest method.

② Financial assets at fair value through profit or loss

After initial recognition, gain or loss (including interest and dividend income) arisen from subsequent measurement of the financial assets at fair value is included in profit and loss in the period which they incurred, unless the financial assets are parts of the hedging relationships.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 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 (Continued)

(1) Financial Assets (Continued)

- ③ Investment in debt instruments at fair value through other comprehensive income
After initial recognition, such financial assets are subsequently measured at fair value. Interest, impairment loss or gain and exchange gain and loss calculated using the effective interest method is included in profit or loss in the period which they incurred, and other gains or losses are recognised in other comprehensive income. When derecognised, the accumulated gains or losses previously recognised in other comprehensive income are transferred out from other comprehensive income and included in profit or loss in the period which they incurred.

After initial recognition, such financial assets are subsequently measured at fair value. Except for dividend (other than recovery of part of the investment cost) which is recognized in current profit or loss, other related gains and losses are recognized in other comprehensive income and would not transfer to current profit or loss subsequently.

(2) Financial Liabilities

- ① Financial liabilities at fair value through profit or loss
Such financial liabilities include financial liabilities for trading purpose (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss. After initial recognition, the financial liabilities are subsequently measured at fair value. Except for those involving the hedge accounting, the gains or losses (including interest expenses) arisen from change in fair value on financial liabilities for trading purpose are included in profit or loss in the period which they incurred.

For financial liabilities designated as at fair value through profit or loss, the change in the fair value of such financial liability caused by the change in the credit risk of the enterprise shall be included in other comprehensive income, while other changes in the fair value shall be included in the profit or loss. If presenting the effects of changes in the financial liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, the Company would include all the gains or losses of the financial liability in the current profit and loss.

- ② Financial liabilities at amortised cost
After initial recognition, such financial liabilities are measured at amortised cost by using the effective interest method.

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

3. The Company's method for recognition of fair value of financial instruments

If there is an active market for the financial instruments, the quoted prices in the active market shall be used to determine their fair values; If there is no active market for the financial instruments, valuation techniques would be adopted to determine their fair values. Valuation techniques mainly include market method, income method and cost method.

4. Basis and measurement method for determining transfer of financial assets and financial liabilities

(1) Financial assets

The Company's financial asset will be derecognized if it satisfy any of the following criteria: ① the contractual rights to collect the cash flows from the financial asset expire; ② the financial asset has been transferred, and the Company substantially transferred all risks and rewards related to the ownership of the financial assets; ③ the financial asset has been transferred, and the Company neither transferred nor retained substantially all rewards related to the ownership of the financial assets, but retain its control over the said financial assets.

If the Company neither transferred nor retained substantially all rewards related to the ownership of the financial assets, and did not retain its control over the said financial assets, the Company recognizes the financial asset to the extent of its continuing involvement in the financial asset transferred and recognizes an associated liability accordingly.

If the transfer of an financial asset generally satisfies the conditions for derecognition, the difference between the two amounts below is recorded in profit or loss: ① the carrying amount of the transferred financial assets as at the date of derecognition; ② the sum of the consideration received from transferring financial asset and, when the transferred financial asset is classified as financial asset at fair value through other comprehensive income, the accumulative amount in changes of the fair value originally recorded in other comprehensive income directly for the part derecognized.

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, firstly apportioned according to their respective relative fair value on transfer date, and then the difference between the two amounts below is recorded in profit or loss: ① the carrying amount of the derecognized part as at the date of derecognition; ② the sum of the consideration received from derecognized part and, when the transferred financial asset is classified as financial asset at fair value through other comprehensive income, the accumulative amount in changes of the fair value originally recorded in other comprehensive income for the part derecognized.

(2) Financial liabilities

Once the present obligation of financial liabilities (or parts of them) has been lifted, financial liabilities (or parts of them) of the Company has been derecognized.

The difference between the carrying amount of financial liabilities (or parts of them) and consideration paid (including transferred non-cash assets or liabilities) is recognized in profit or loss, when financial liabilities (or parts of them) are derecognized.

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1 January 2018 to 31 December 2018

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) The determination and accounting method of expected credit loss

Based on expected credit losses, the Company conducts impairment accounting treatment for and recognizes impairment losses of financial assets at amortised cost (including notes and trade receivables and other receivables) as well as debt investments, lease receivables, contract assets classified at fair value through other comprehensive income.

At each balance sheet date, the Company assesses whether the credit risk on related financial instrument has increased significantly since initial recognition and divides the process of financial instrument being credit-impaired into three stages. Different accounting method would be applied on different stage of impairment on financial instrument: (1) At first stage, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses and calculates the interest income by applying the effective interest rate to its gross carrying amount (i.e. before impairment allowance); (2) At second stage, the credit risk on a financial instrument has increased significantly since initial recognition but not to the point that it is considered credit-impaired, the Company measures the loss allowance for that financial instrument at an amount equal to full lifetime expected credit losses and calculates the interest income by applying the effective interest rate to its gross carrying amount; (3) At third stage, financial instrument is considered credit-impaired since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to full lifetime expected credit losses and calculates the interest income by applying the effective interest rate based on the amortised cost, which is gross carrying amount less loss allowance.

1. Measurement of loss provision for financial instruments with lower credit risk

For financial instruments with lower credit risk on balance sheet date, the Company assumes that its credit risk has not increased significantly since its initial recognition, and the loss allowance will be measured by adopting a simplified approach, i.e. an amount equal to 12-month expected credit losses.

2. Measurement of loss provision for accounts receivable, contract assets and lease receivable

(1) Accounts receivable and contract assets that exclude significant financing component
For accounts receivable or contract assets that exclude significant financing component arising from transactions regulated by the “ASBE No.14 – Revenue”, the Company adopts simplified approach, i.e. always measures the loss provision based on the amount of full lifetime expected credit losses.

(2) Accounts receivable, contract assets and lease receivable that include significant financing component
For accounts receivable or contract assets that include significant financing component and lease receivable regulated by the “ASBE No.21 – Lease”, the Company measures loss provision based on general approach, i.e. “three stages” model.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) The determination and accounting method of expected credit loss (Continued)

3. Measurement of loss provision for other financial assets

For financial assets other than the above-mentioned, such as debt investment, other debt investment, other receivables, long term receivables other than lease receivable, the Company measures loss provision based on general approach, i.e. “three stages” model.

While measuring whether a financial instrument has been credit-impaired, the Company taken into account the following factors to assess whether credit risk has increased significantly: (1) Whether internal price indicator resulted from change in credit risk has changed significantly; (2) If the existing financial instruments are derived into or issued as new financial instruments at the reporting date, whether interest rates or other terms of the above financial instruments have changed significantly; (3) Whether external market indicators of credit risk for the same financial instrument or financial instruments with shared expected lifetime have changed significantly; (4) Whether external credit rating of the financial instrument is actually or is expected to change significantly; (5) Whether the debtor’s internal credit rating is actually lowered or is expected to be lowered; (6) Whether expected detrimental changes in business, financial or economic conditions that would affect debtor’s ability to perform repayment obligation have changed significantly; (7) Whether the actual or expected operating result of the debtor has changed significantly; (8) Whether credit risk of other financial instruments issued by the same debtor has increased significantly; (9) Whether supervisory, economic or technical environment for the debtor has significant detrimental changes; (10) Whether the value of the collateral supporting the obligation or in the quality of the collateral or credit enhancement provided by a third party has changed significantly; (11) Whether the expected economic motive that will lower the debtor’s repayment based on contractual stipulation has changed significantly; (12) Expected changes in the loan contract including an expected breach of contract that may lead to covenant waivers or amendments, grant of interest-free period, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the financial instrument; (13) Whether the debtor’s expected performance and repayment activities have changed significantly; (14) Whether the Company’s credit management measures on financial instruments have changed.

Based on the nature of financial instruments, the Company assesses whether the credit risk has increased significantly on the basis of a single financial asset or a group of financial assets. The Company divides notes receivables and receivables into certain portfolios based on credit risk characteristic while measuring expected credit loss based on portfolio. The basis to determine the portfolio is as follows:

Receivables portfolio 1: Related party receivables portfolio within the consolidation scope

Receivables portfolio 2: Individually assessed risk portfolio.

Receivables portfolio 3: Similar risk portfolio; Portfolio for receivables with similar credit risk and tested receivables in portfolio 2 with no credit loss.

Notes receivables portfolio 1: Bank acceptance note portfolio.

Notes receivables portfolio 2: Commercial acceptance note portfolio.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) The determination and accounting method of expected credit loss (Continued)

3. Measurement of loss provision for other financial assets (Continued)

For the trade receivable classified as a group, the Company refers to the historical credit loss experience, combined with the current condition and forecast of the future economic condition to calculate the expected credit loss according to the account receivable age and expected credit loss rate through full life time in reference. For the notes receivable classified as a group, the Company refers to the historical credit loss experience, combined with the current condition and forecast of the future economic condition to calculate the expected credit loss according to the default risk exposure and expected credit loss rates throughout the lifetime.

In order to reflect the changes in the credit risk of financial instruments since its initial recognition, the Company re-measures the expected credit loss on each balance sheet date, and the increase or reversal of the loss provision resulting therefrom shall be deemed as impairment loss or gain to be included in profit or loss in the current period. The loss provision is offset against the carrying amount of the financial asset shown on the balance sheet or included in expected liabilities (loan commitments or financial guarantee contracts) or included in other comprehensive income (debt investments at fair value through other comprehensive income) based on types of financial instrument.

(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, goods sold, stock inventory, 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 to 31 December 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 in the carrying amount of net assets in the ultimate controlling party's consolidated financial statements shall be recognised as the initial investment cost of long-term equity investments on the date of combination; for business combination not under common control, the combination cost as determined on the date of acquisition shall be recognised as the initial investment cost of long-term equity investments; 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 is 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 "ASBE 7 – Exchange of Non-monetary Assets".

2. Subsequent measurement and recognition method of gain or loss

Where the Company 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 Company 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 shall be accounted for by the Company 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.

(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.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

2. Classification and depreciation method of fixed assets

The fixed assets of the Company mainly comprise: buildings and structures, machinery, electronic facilities, transport 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.

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1 January 2018 to 31 December 2018

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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.

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(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 ASBEs 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 to 31 December 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.

(XX) Revenue

The Company recognizes revenue based on the transaction price allocated to such performance obligation when a performance obligation in the contract is satisfied, i.e. when customer obtained the right to control the relevant goods. Obtaining the right to control the relevant goods means that it is able to dominate the use of the goods and derive almost all economic benefits therefrom. A performance obligation represents the contractual commitment that a distinct good shall be transferred by the Company to the customer. Transaction price refers to the consideration that the Company is expected to receive due to the transfer of goods to customer, but it does not include payments received on behalf of third parties and amounts that the Company expects to return to the customer.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Revenue (Continued)

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.

In actual business, revenue from domestic sales of the Company is recognized if, and only if, the following conditions are all met: the Company has delivered goods to the purchaser based on contractual agreements; the customer has accepted the goods and obtained the control and ownership of the goods.

Revenue from overseas sales of the Company is recognized if, and only if, the following conditions are all met: the Company has declared goods to the customs based on contractual agreements; the customer obtained the bill of lading and thus gained the right to receive the goods and its ownership.

(XXI) Government grants

1. Types of government grants and accounting treatment

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. A government grant in monetary asset shall be recognized at the amount received or to be received. A government grant in non-monetary asset shall be recognised at its fair value; if the fair value is not reliably measured, the grant is measured at nominal amount.

The government grants related to business activities are recognized as other income in the light of the nature of such business. The government grants non-related to business activities are recognized as non-operating income or expense.

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXI) Government grants (Continued)

1. Types of government grants and accounting treatment (Continued)

The government grants which are clearly defined in the government documents to be used for acquisition, construction or other project that forms a long-term asset are recognized as asset-related government grants. Regarding the government grant not clearly defined in the official documents and can form long-term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income. Any government grants related to assets are recognized as deferred income, the amount of which shall be recorded in the current profit or loss in installments with a reasonable and systematic method over the useful lives of relevant assets.

The government grants other than those related to assets are recognized as government grants related to income. The income-related government grants used to compensate relevant expenses or losses to be incurred by the enterprise in subsequent periods are recognized as deferred income and recorded in profit and loss for the current period when such expenses are recognized while those used to compensate relevant expenses or losses that have been incurred by the enterprise are recorded directly in profit or loss for the current period.

The Company has obtained policy-related loan interest discounts. Where the finance function allocates the interest discount funds to the lending bank, and the lending bank offers loans for the Company at a policy-related interest rate, the actual borrowing amount received is recognized as the value of borrowing and the relevant borrowing expenses are measured in accordance with the principal amount of the borrowing and such policy-related interest rate discount; Where the finance directly allocates the interest discount funds to the Company, the corresponding loan interest will be used to offset the relevant borrowing expenses.

2. Timing for recognition of governmental grants

A government grants shall be recognised when the enterprise fulfills the conditions attaching to the grant and the enterprise can receive the grant. 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.

(XXII) Deferred tax assets and deferred tax liabilities

- 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.
- 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.

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1 January 2018 to 31 December 2018

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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) Critical judgements in applying accounting policies and key assumptions and uncertainties in accounting estimates

In the application of accounting policies described in Note (III), the Company is required to make judgements, estimates and assumptions about the carrying amounts of items in the statements that cannot be measured accurately. These judgements, estimates and assumptions are based on historical experience of the Company's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates of the Company. The key assumptions and uncertainties in accounting estimates of the Company that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods are as follow:

Expected credit losses of receivables

As stated in Note III(X), the Company calculates the expected credit losses of receivables through default exposures of receivables and expected credit loss rates, and determines the expected credit loss rate based on default probability and default loss rate. In determining the expected credit loss rate, the Company uses data such as internal historical credit loss experience, and adjusts historical data in combination with current status and forward-looking information. In considering forward-looking information, the Company uses indicators such as the risk of an economic slowdown, the external market environment, the industry risk and changes in the customer situation.

Provisions for declines in the value of inventories

As stated in Note III(XI), the Company's inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price of inventories less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. If the management of the Company revise the estimated selling price and estimated costs of completion and cost necessary to make the sale, it will affect the estimation of net realisable value of inventories and thus affect the provision for declines in the value of inventories so prepared.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIV) Critical judgements in applying accounting policies and key assumptions and uncertainties in accounting estimates (Continued)

Expected useful life and net residual value of fixed assets

As stated in note III(XIII), the Company determines the expected useful life and net residual value of a fixed asset based on the historical experience of the actual useful life of fixed assets of similar nature or function. Technological innovation or fierce competition in the industry will have a relatively significant impact on the estimation of the useful life of a fixed asset. The actual net residual value may also differ from the expected net residual value. If the actual useful life and net residual value are different from the initial expected amounts, the Company will make adjustments to the them.

(XXV) Explanation of Changes in Critical Accounting Policies and Changes in Accounting Estimates

Ministry of Finance, in 2017, promulgated the revised “Accounting Standard for Business Enterprises No. 14 – Revenue”(hereinafter “New Revenue Standard”), “Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets”, “Accounting Standard for Business Enterprises No. 24 – Hedging Accounting”, “Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments”(hereinafter collectively as “New Standards of Financial Instruments”)

Ministry of Finance, in June 2018, promulgated the Notice on Revised Format of General Financial Statements of Enterprises for 2018 (Cai Kuai [2018] No. 15)(hereinafter “Format of Financial Statements”)

The Company has implemented the New Revenue Standard, New Standards of Financial Instruments and the Notice since January 1, 2018 and adjusted the relevant accounting policies.

(1) New Revenue Standard

New Revenue Standard replaces the “Accounting Standard for Business Enterprises No. 14 – Revenue and Accounting Standard for Business Enterprises No. 15 – Construction Contracts” issued by MOF in 2006 (collectively as “Original Revenue Standard”). Under the Original Revenue Standard, the Company considers the transfer of risks and rewards as the standard of determining the point of time for revenue recognition. The New Revenue Standard introduces the “5-step approach” for revenue recognition and measurement and provide more guidelines on specific transactions or matters. Under the New Revenue Standard, the Company considers the transfer of control as the standard of determining the point of time for revenue recognition. Please refer to note III(XX) for specific accounting policies of revenue recognition and measurement.

The Company has adjusted the relevant accounting policies in accordance with the specific regulations of the New Revenue Standard relating to specific matters or transactions. In accordance with the regulations of the New Revenue Standard, contract assets or contract liabilities are presented in the balance sheet based on the correlation between the satisfaction of performance obligations and payment from customers. Meanwhile, the Company provides more disclosures in accordance with the New Revenue Standard and the disclosure requirements on revenue-related information, such as significant contracts or information related to the business and performance obligations and information related to the transaction price allocated to the remaining performance obligations, including the usual time of satisfaction of performance obligation, key payment terms, nature of the goods the Company guarantees to transfer (including the claim on whether the Company acts as an agent),the obligations of the expected refund amount to customer undertaken by the Company and the like, type of quality guarantee and relevant obligations, etc.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXV) Explanation of Changes in Critical Accounting Policies and Changes in Accounting Estimates (Continued)

(1) New Revenue Standard (Continued)

The Company reviews the source of revenue and the process of customer contracts to assess the impact of the New Revenue Standard on the financial statements. The revenue of the Company is mainly the revenue from sales of joint prosthesis, and the revenue derives from the sales contract of goods signed by customers with approved prices, where the revenue are recognized upon delivery to the customers. Adoption of the New Revenue Standard has no significant impact on the Company except for the presentation of financial statements.

(2) New Standards of Financial Instruments

The New Standards of Financial Instruments divides the financial assets into three categories: (1) financial assets measured by amortized cost, (2) financial assets measured by fair value through other comprehensive revenue, (3) financial assets measure by fair value through current profit or loss. Under the New Standards of Financial Instruments, the categorization of financial assets is determined based on the business model on which the Company manages the financial assets and the characteristics of the contract cash flow of that asset. The New Standards of Financial Instruments cancels the three categories of held-to-maturity securities, loans and receivables and financial assets available-for-sale as stipulated in the original standard of financial instruments. The New Standards of Financial Instruments replaces the “incurred loss” model of the original standard of financial instruments by the “expected credit loss” model. Under the New Standards of Financial Instruments, please refer to note III (IX)(X) for specific accounting policies of the Company.

The implementation of the New Standards of Financial Instruments by the Company has no significant impact on the financial statements of the current period and that at the beginning of the period.

In accordance with the New Standards of Financial Instruments, the Company does not have to adjust the categorization and measurement (including impairment) of the financial instrument retrospectively.

(3) Impact of the implementation of Format of Financial Statements

In accordance with the requirements on the format of financial statements, apart from the changes in presentation due to the implementation of the New Revenue Standard and the New Standards of Financial Instruments, the Company consolidates “notes receivable” and “accounts receivable” to the newly-added item of “notes payable and accounts receivable”, “fixed assets clearance” to “fixed assets”, “construction materials” to “construction in progress”, “notes payable” and “accounts payable” to the newly added “notes payable and accounts payable”, “special payables” to “long-term payables”; it splits “research and development expenses” from “administrative expenses” in the statement of profit or loss, breakdown of “interest expenses” and “interest revenue” from “financial expenses”; it adds “changes in defined benefit plan carried forward to retained earnings” in the statement of changes in equity. The Company has adjusted the corresponding period-to-period statement retrospectively. The change in accounting policy does not affect mergers, the Company’s net profit or the shareholders’ interests.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 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 sales	17%, 16%
Urban maintenance and construction tax	Turnover tax payable	5%
Enterprise income tax	Taxable income	15%, 25%

Name of Taxable Entity	Income tax rates
Beijing Chunlizhengda Medical Instruments Co., Ltd.*	15%
Beijing Zhao Yi Te Medical Devices Co., Ltd.*	25%
Hebei Chunli Hangnuo New Materials Technology Co., Ltd.*	25%

(II) Significant preferential tax and official approval

The Company passed the certification of high and new technology enterprise review on September 10, 2018 and obtained the High and New Technology Enterprise Certificate (Certificate No.:GR201811003011; Validity: 3 years) issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office, SAT; The enterprise income tax rate of 2018 was levied at the preferential tax rate of 15%.

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET

(I) Monetary Funds

Type	Closing balance	Opening balance
Cash	559,410.66	39,859.89
Cash in bank	414,352,583.42	371,578,568.73
Total	414,911,994.08	371,618,428.62
Including: the total amount deposited overseas	166,735,651.62	163,728,662.16

(II) Notes receivable and accounts receivable

Type	Closing balance	Opening balance
Notes receivable	68,551,854.01	23,339,770.10
Accounts receivable	82,664,137.05	85,334,866.72
Less: bad debt provision	12,572,906.37	11,678,871.99
Total	138,643,084.69	96,995,764.83

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(II) Notes receivable and accounts receivable (Continued)

1. Notes receivable

Type	Closing balance	Opening balance
Bank acceptance bills	66,751,543.61	21,281,588.10
Commercial acceptance bills	1,800,310.40	2,058,182.00
Less: bad debt provision		
Total	68,551,854.01	23,339,770.10

Note 1: The acceptor of the commercial acceptance bills receivable is a hospital of public institution nature, the expected credit loss rate is 0.

Note 2: Endorsed or discounted and undue bank acceptance bills and commercial acceptance bills at the balance sheet date of the Company at the end of the period are 3,319,227.00 yuan and 0 yuan respectively.

2. Accounts receivable

Type	Closing balance			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with provision assessed for bad debts on an individual basis				
Accounts receivable with provision made for bad debts using portfolios Including: portfolios with similar credit risk features	82,664,137.05	100.00	12,572,906.37	15.21
	82,664,137.05	100.00	12,572,906.37	15.21
Total	82,664,137.05	100.00	12,572,906.37	15.21

Type	Opening balance			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with provision assessed for bad debts on an individual basis	876,752.69	1.03	657,564.52	75.00
Accounts receivable with provision made for bad debts using portfolios Including: portfolios with similar credit risk features	84,458,114.03	98.97	11,021,307.47	13.05
	84,458,114.03	98.97	11,021,307.47	13.05
Total	85,334,866.72	100.00	11,678,871.99	13.69

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET (Continued)

(II) Notes receivable and accounts receivable (Continued)

2. Accounts receivable (Continued)

- (1) Accounts receivable with provision made for bad debts using portfolios
Portfolios with similar credit risk features

Ages	Closing balance			Opening balance		
	Book balance	Expected credit loss rate (%)	Bad debt provision	Book balance	Expected credit loss rate (%)	Bad debt provision
Within 1 year	64,320,449.77	5.00	3,216,022.49	64,718,290.70	5.00	3,235,914.54
1-2 years	7,658,880.68	15.00	1,148,832.10	11,316,833.33	15.00	1,697,525.00
2-3 years	4,953,509.65	50.00	2,476,754.83	4,670,244.15	50.00	2,335,122.08
Over 3 years	5,731,296.95	100.00	5,731,296.95	3,752,745.85	100.00	3,752,745.85
Total	82,664,137.05	15.21	12,572,906.37	84,458,114.03	13.05	11,021,307.47

- (2) Provisions made, collected or reversed for bad debts during the current period
Provision for bad debts made in current period totaled 894,034.38 yuan, and no provision for bad debts were collected or reversed in the current period.
- (3) Details of the top 5 accounts receivable by closing balance of debtors

Name of Party	Closing balance	Proportion to total accounts receivable (%)	Balance of provision for bad debts
Total of top 5	29,977,649.39	36.26	1,735,265.82

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(III) Prepayments

1. Prepayment shown by ages

Ages	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	6,059,478.60	100.00	1,537,227.61	95.00
2-3 years			80,850.00	5.00
Total	6,059,478.60	100.00	1,618,077.61	100.00

2. Details of the top 5 parties with largest prepayment balances

Name of party	Closing balance	Proportion to total prepayment (%)
Total of top 5	3,153,872.46	52.05

(IV) Other receivables

Type	Closing balance	Opening balance
Interest receivable	1,299,364.38	
Other receivables	2,478,267.05	1,267,217.01
Less: bad debt provision	1,846,324.25	351,390.48
Total	1,931,307.18	915,826.53

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(IV) Other receivables (Continued)

Other receivables

Type	Closing balance			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with provision assessed for bad debts on an individual basis	1,375,000.10	55.48	1,375,000.10	100.00
Other receivables with provision made for bad debts using portfolios	1,103,266.95	44.52	471,324.15	42.72
Including: portfolios with similar credit risk features	1,103,266.95	44.52	471,324.15	42.72
Total	2,478,267.05	100.00	1,846,324.25	74.50

Type	Opening balance			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with provision assessed 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
Including: portfolios with similar credit risk features	1,267,217.01	100.00	351,390.48	27.73
Total	1,267,217.01	100.00	351,390.48	27.73

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(IV) Other receivables (Continued)

Other receivables (Continued)

(1) Other receivables with provision assessed for bad debts on an individual basis at the end of the period

Name of debtor	Book balance	Amount of bad debts	Provision proportion (%)	Reason of Provision
Debtor A	1,375,000.10	1,375,000.10	100.00	Debtor has no executable property, expected non-recovery
Total	1,375,000.10	1,375,000.10	100.00	

(2) Other receivables with provision made for bad debts using portfolios
Portfolios with similar credit risk features

Ages	Book balance	Closing balance		Book balance	Opening balance	
		Expected credit loss rate (%)	Bad debt provision		Expected credit loss rate (%)	Bad debt provision
Within 1 year	405,468.76	5.00	20,273.44	659,150.25	5.00	32,957.51
1-2 years	93,731.43	15.00	14,059.71	336,151.52	15.00	50,422.73
2-3 years	334,151.52	50.00	167,075.76	7,810.00	50.00	3,905.00
Over 3 year	269,915.24	100.00	269,915.24	264,105.24	100.00	264,105.24
Total	1,103,266.95	42.72	471,324.15	1,267,217.01	27.73	351,390.48

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(IV) Other receivables (Continued)

Other receivables (Continued)

(3) Provisions made, collected or reversed for bad debts during the current period
Provision for bad debts made in current period totaled 1,494,933.77 yuan, and no provision for bad debts were collected or reversed in the current period.

(4) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	179,476.58	491,938.82
Deposit, guarantee deposit	609,779.52	659,779.52
Others	1,689,010.95	115,498.67
Total	2,478,267.05	1,267,217.01

(5) Details of the top 5 other receivables by closing balance of debtors

Name of debtor	Nature of receivables	Closing balance	Age	Proportion to the balance of other receivables (%)	Balance of bad debt provision
Debtor A	Others	1,375,000.10	Over 3 years	55.48	1,375,000.10
Debtor B	Deposit	200,000.00	2-3 years	8.07	100,000.00
Debtor C	Deposit	128,828.00	Over 3 years	5.20	128,828.00
Debtor D	Deposit	120,000.00	Within 1 year	4.84	6,000.00
Debtor E	Deposit	97,151.52	2-3years	3.92	48,575.76
Total		1,920,979.62		77.51	1,658,403.86

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(V) Inventories

1. Category of inventories

Type of inventory	Closing balance			Opening balance		
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw materials	19,658,914.75	1,357,235.95	18,301,678.80	15,272,958.94	226,382.59	15,046,576.35
Goods sold	2,233,143.51		2,233,143.51	4,047,687.78		4,047,687.78
Work in progress	24,306,417.94	260,135.53	24,046,282.41	12,164,517.19	924,109.03	11,240,408.16
Stock inventory	55,026,842.32	3,742,282.68	51,284,559.64	31,361,741.30	2,749,254.70	28,612,486.60
Total	101,225,318.52	5,359,654.16	95,865,664.36	62,846,905.21	3,899,746.32	58,947,158.89

2. Movement in provision for inventory write-down

Type of inventory	Opening balance	Provision for current period	Decrease in current period		Closing balance
			Reversal	Write-off	
Raw materials	226,382.59	1,130,853.36			1,357,235.95
Work in progress	924,109.03			553,041.36	371,067.67
Stock inventory	2,749,254.70	882,095.84			3,631,350.54
Total	3,899,746.32	2,012,949.20		553,041.36	5,359,654.16

Note 1: The Company carried out a write-off test on inventory at the end of the period and there was no impairment under the test.

Note 2: The Company confirmed that the net realizable value of inventories is determined based on the amount of the estimated selling price less the selling expenses and taxes.

(VI) Other current assets

Items	Closing balance	Opening balance
Input tax before deduction	119,031.70	116,686.21
Cost of return receivable	3,669,383.30	
Total	3,788,415.00	116,686.21

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(VII) Fixed assets

Type	Closing balance	Opening balance
Fixed assets	82,449,533.63	47,580,889.11
Fixed assets clearance		
Less: Provision for impairment		
Total	82,449,533.63	47,580,889.11

1. Details of fixed assets

Items	Buildings and structures	Mechanical equipment	Transport facilities	Electronic Devices	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		40,978,323.73		323,047.42	41,301,371.15
(1) Acquisition		40,978,323.73		323,047.42	41,301,371.15
3. Decrease in current period					
4. Closing balance	20,379,712.55	92,455,370.18	2,646,786.01	1,359,256.44	116,841,125.18
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	706,292.36	5,291,114.68	288,342.80	146,976.79	6,432,726.63
(1) Provision	706,292.36	5,291,114.68	288,342.80	146,976.79	6,432,726.63
3. Decrease in current period					
4. Closing balance	3,935,130.32	27,926,445.68	1,737,311.68	792,703.87	34,391,591.55
III. Provision for impairment					
1. Opening balance					
2. Increase in current period					
(1) Provision					
3. Decrease in current period					
(1) Disposal or retirement					
4. Closing balance					
IV. Carrying amount					
1. Closing carrying amount	16,444,582.23	64,528,924.50	909,474.33	566,552.57	82,449,533.63
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 fixed assets continued to be used upon full provision for impairment at the end of the period totaled 8,339,969.64 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 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(VII) Fixed assets (Continued)

2. Details of fixed assets temporarily idle as at December 31, 2018

Type	Original carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount	Remarks
Mechanical equipment	2,296,895.41	1,496,632.42		800,262.99	
Total	2,296,895.41	1,496,632.42		800,262.99	

(VIII) Construction in progress

Categories	Closing balance	Opening balance
Construction in progress	21,046,594.23	13,193,700.06
Less: Provision for impairment		
Total	21,046,594.23	13,193,700.06

1. Basic situation of projects of construction 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	14,339,697.68		14,339,697.68	13,193,700.06		13,193,700.06
Equipment installation work	6,706,896.55		6,706,896.55			
Total	21,046,594.23		21,046,594.23	13,193,700.06		13,193,700.06

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(VIII) Construction in progress (Continued)

2. Changes in significant projects of construction in progress

Name of project	Budgets (0'000)	Opening balance	Increase in current period	Transferred to fixed assets	Other decrease	Closing balance
Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – First stage construction work	18,429.65	13,193,700.06	1,145,997.62			14,339,697.68
Total	18,429.65	13,193,700.06	1,145,997.62			14,339,697.68

Name of project	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 (%)	Source of Funding
Expansion of production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park (Daxing New Production Base) – First stage construction work	7.78	7.78				Self-generated funds and publicly raised fund
Total						

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(IX) Intangible assets

Items	Land use right	Software	Total
I. Original carrying amount			
1. Opening balance	37,052,810.33	670,287.17	37,723,097.50
2. Increased amount in current period		971,908.68	971,908.68
(1) Acquisition		971,908.68	971,908.68
3. Decreased amount in current period			
4. Closing balance	37,052,810.33	1,642,195.85	38,695,006.18
II. Accumulated amortization			
1. Opening balance	4,154,349.45	441,855.29	4,596,204.74
2. Increased amount in current period	771,359.16	213,129.07	984,488.23
(1) Provision	771,359.16	213,129.07	984,488.23
3. Decreased amount in current period			
4. Closing balance	4,925,708.61	654,984.36	5,580,692.97
III. Provision for impairment			
1. Opening balance			
2. Increased amount in current period			
3. Decreased amount in current period			
4. Closing balance			
IV. Carrying amount			
1. Closing carrying amount	32,127,101.72	987,211.49	33,114,313.21
2. Opening carrying amount	32,898,460.88	228,431.88	33,126,892.76

(X) Long term prepayments

Type	Opening balance	Increase in current period	Amortization in current period	Other decrease	Closing balance
Renovation costs	1,008,333.35		219,999.96		788,333.39
Total	1,008,333.35		219,999.96		788,333.39

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XI) Deferred income tax assets and deferred income tax liabilities

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

Item	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	2,984,346.94	19,778,884.78	2,399,789.38	15,930,008.79
Expected sales rebate	4,127,942.30	27,519,615.42		
Return payables	1,897,956.88	12,653,045.87	299,247.29	1,994,981.90
Subtotal	9,010,246.12	59,951,546.07	2,699,036.67	17,924,990.69
Deferred income tax liabilities:				
Cost of return receivable	550,407.50	3,669,383.30		
Accelerated depreciation of fixed assets	1,290,874.65	8,605,831.09	753,109.62	5,020,730.85
Subtotal	1,841,282.15	12,275,214.39	753,109.62	5,020,730.85

2. Breakdown of unrecognized deferred tax assets

Items	Closing balance	Opening balance
Deductible temporary difference		
Deductible loss	23,857.09	981,869.42
Total	23,857.09	981,869.42

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

Year	Closing balance	Opening balance	Remarks
2018		136,692.89	
2019		142,221.96	
2020		169,611.79	
2021		533,342.78	
2022	23,857.09		
Total	23,857.09	981,869.42	

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET (Continued)

(XII) Other non-current assets

Items	Closing balance	Opening balance
Prepayment for the acquisition of long-term assets	7,131,040.62	5,840,781.71
Total	7,131,040.62	5,840,781.71

(XIII) Notes payable and accounts payable

Items	Closing balance	Opening balance
Notes payable		
Accounts payable	51,930,070.41	25,316,462.14
Total	51,930,070.41	25,316,462.14

Accounts payable

(1) Details

Items	Closing balance	Opening balance
Acquired materials	47,773,363.18	25,032,183.14
Acquired machines and equipment	4,156,707.23	284,279.00
Total	51,930,070.41	25,316,462.14

(2) By age

Items	Closing balance	Opening balance
Within 1 year (inclusive)	50,623,375.80	24,199,043.00
Over 1 year	1,306,694.61	1,117,419.14
Total	51,930,070.41	25,316,462.14

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XIV) Contract liabilities

By age

Items	Closing balance	Opening balance
Within 1 year (inclusive)	47,422,370.26	15,891,150.69
Over 1 year	4,312,946.65	
Total	51,735,316.91	15,891,150.69

(XV) Employee remuneration payable

1. Employee remuneration payable shown by category

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Short-term remuneration	4,047,321.67	67,057,581.91	59,877,310.77	11,227,592.81
Post-employment benefits – defined contribution plan	456,496.28	4,103,014.64	3,992,965.71	566,545.21
Total	4,503,817.95	71,160,596.55	63,870,276.48	11,794,138.02

2. Remuneration of short-term employees

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Wage, bonus, allowance and subsidy	3,367,398.53	58,681,707.02	51,775,089.35	10,274,016.20
Employee welfare premium		928,600.98	928,600.98	
Social insurance premium	371,877.65	3,450,294.64	3,374,981.75	447,190.54
Including: Medicare premium	311,015.77	2,987,151.57	2,905,932.02	392,235.32
Occupational injuries premium	34,084.08	220,698.25	232,978.24	21,804.09
Maternity premium	26,777.80	242,444.82	236,071.49	33,151.13
Housing provident funds	101,295.00	1,917,019.00	1,923,346.00	94,968.00
Trade union fund and employee education fund	206,750.49	2,079,960.27	1,875,292.69	411,418.07
Total	4,047,321.67	67,057,581.91	59,877,310.77	11,227,592.81

3. Defined contribution plan

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic endowment insurance premium	436,800.20	3,939,236.05	3,833,703.42	542,332.83
Unemployment insurance premium	19,696.08	163,778.59	159,262.29	24,212.38
Total	456,496.28	4,103,014.64	3,992,965.71	566,545.21

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XVI) Taxes payable

Taxes	Closing balance	Opening balance
VAT	2,831,120.80	7,763,495.91
Enterprise income tax	11,649,130.13	5,460,873.41
Urban maintenance and construction tax	734,773.21	400,344.30
Individual income tax	112,020.12	215,935.34
Education surcharge	440,863.93	240,206.58
Local education surcharge	298,752.09	164,980.51
Stamp duty	41,200.74	39,720.30
Total	16,107,861.02	14,285,556.35

(XVII) Other payables

Type	Closing balance	Opening balance
Interests payable		
Dividends payable		
Other payables	27,847,722.41	17,621,821.89
Total	27,847,722.41	17,621,821.89

Other payables categorized by nature

Nature of other payables	Closing balance	Opening balance
Sales rebate		8,136,969.09
Accruals for sales service	13,902,400.00	7,200,000.00
Guarantee deposits	13,235,543.00	1,641,880.00
Others	709,779.41	642,972.80
Total	27,847,722.41	17,621,821.89

(XVIII) Other current liabilities

Type	Closing balance	Opening balance
Return payables	12,653,045.87	
Total	12,653,045.87	

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XIX) Expected liabilities

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Expected Sales return	1,994,981.90		1,994,981.90	
Total	1,994,981.90		1,994,981.90	

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.

(XX) Deferred income

1. Deferred income shown by category

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance	Reasons
Government grants	14,822,497.59		2,131,815.16	12,690,682.43	
Total	14,822,497.59		2,131,815.16	12,690,682.43	

2. Items of government grants

Items	Opening balance	Amount of grants increased for the period	Amount included in current profit or loss	Other changes	Closing balance	Related to assets/related to income	Remarks
Grant for industrialization of ceramic femoral head on ceramic hip joint prostheses	4,084,747.59		830,631.83		3,254,115.76	Related to assets	Note 1
Grant for PEEK interbody fusion cage	1,663,750.00		199,650.00		1,464,100.00	Related to assets	Note 2
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	7,608,000.00		951,000.00		6,657,000.00	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		150,533.33		1,315,466.67	Related to assets	Note 4
Total	14,822,497.59		2,131,815.16		12,690,682.43		

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXI) 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 shares	69,170,400.00						69,170,400.00

(XXII) Capital reserve

Type	Opening balance	Increase in the current period	Decrease in the 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

(XXIII) Surplus reserve

Type	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Statutory surplus reserve	30,599,186.14	10,441,309.48		41,040,495.62
Total	30,599,186.14	10,441,309.48		41,040,495.62

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXIV) Undistributed profit

Items	Closing balance	
	Amount	Proportion 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	105,646,070.07	
Less: Appropriation of statutory surplus reserve	10,441,309.48	10%
Dividend payable on ordinary shares	15,978,362.40	2.31 yuan per 10 shares (tax inclusive)
Undistributed profits at end of period	287,889,810.26	

(XXV) Operating revenue and operating cost

1. Operating revenue and operating cost by major categories

Items	Amount for the current period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
I. Subtotal from main operation	497,847,611.12	180,003,222.25	300,317,298.79	84,062,884.30
Medical device	497,847,611.12	180,003,222.25	300,317,298.79	84,062,884.30
II. Subtotal from other operation	79,548.80			
Waste materials	79,548.80			
Total	497,927,159.92	180,003,222.25	300,317,298.79	84,062,884.30

2. Operating revenue for the current period by time of revenue recognition

Time of revenue recognition	Medical device products	Revenue from other operation
Recognition at a point of time	497,847,611.12	79,548.80
Total	497,847,611.12	79,548.80

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXVI) Taxes and surcharge

Items	Amount for the current period	Amount for the previous period
Urban maintenance and construction tax	2,814,977.08	1,802,346.14
Education surcharge	1,701,221.01	1,081,407.68
Local education surcharge	1,113,756.11	720,938.45
Stamp duty	196,784.44	309,440.90
Housing property tax	183,790.08	103,325.22
Land use tax	75,548.78	75,548.78
Vehicle and vessel use tax	6,750.00	5,581.30
Total	6,092,827.50	4,098,588.47

(XXVII) Selling expenses

Items	Amount for the current period	Amount for the previous period
Market development expenses	117,208,354.13	63,321,691.27
Employee benefits	23,076,244.19	11,283,448.95
Office expenses	1,342,081.17	2,574,077.93
Transportation expenses	1,438,681.44	1,192,479.88
Sales rebate		8,136,969.09
Others	849,080.26	2,439,192.16
Total	143,914,441.19	88,947,859.28

(XXVIII) Administrative expenses

Items	Amount for the current period	Amount for the previous period
Employee benefits	8,202,756.38	11,870,125.31
Agency fees	2,973,880.55	5,274,718.34
Depreciation and amortization expenses	2,125,541.99	1,864,087.67
Office and travelling expenses	710,957.93	1,379,630.37
Rentals and property expenses	1,061,548.06	1,110,303.08
Business entertainments expenses	474,003.73	340,258.23
Others	2,759,137.03	1,272,875.17
Total	18,307,825.67	23,111,998.17

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXIX) Research and development expenses

Items	Amount for the current period	Amount for the previous period
Employee benefits	11,910,578.21	7,043,174.03
Supplies consumed	9,386,405.92	4,082,785.10
Technical services expenses	8,063,720.49	7,494,886.00
Travel and meeting expenses	2,416,566.64	702,737.70
Depreciation and amortization	1,134,387.48	748,041.84
Fuel expenses	961,499.12	536,016.65
Examination and testing expenses	676,881.04	180,397.84
Others	904,910.96	428,228.07
Total	35,454,949.86	21,216,267.23

(XXX) Financial expenses

Items	Amount for the current period	Amount for the previous period
Interest expenses		
Less: Interest income	5,399,012.69	5,495,618.81
Foreign exchange losses		1,264,104.90
Less: Foreign exchange gains	1,919,572.56	
Handling fee expenses	96,040.65	86,541.38
Total	-7,222,544.60	-4,144,972.53

(XXXI) Assets impairment loss

Items	Amount for the current period	Amount for the previous period
Inventory write-down loss	2,012,949.20	3,277,544.54
Total	2,012,949.20	3,277,544.54

(XXXII) Credit Impairment loss

Items	Amount for the current period	Amount for the previous period
Bad debt loss	2,388,968.15	2,897,682.36
Total	2,388,968.15	2,897,682.36

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXXIII) Other income

Items	Amount for the current period	Amount for the previous period	Related to assets/related to income
Government grant	2,515,131.60	2,131,772.05	Related to assets
Total	2,515,131.60	2,131,772.05	

Note: Among the government grants included in other income in the year by the Company, deferred income of 2,131,815.16 yuan was carried forward, as detailed in note V(XX).

(XXXIV) 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	110,000.00		110,000.00
Others		31,723.78	
Total	110,000.00	31,723.78	110,000.00

(XXXV) Non-operating income

Items	Amount for the current period	Amount for the previous period	Amount charged to current non-recurring profit or loss
External donation	150,000.00	215,195.57	150,000.00
Others	400.00	2,100.00	400.00
Total	150,400.00	217,295.57	150,400.00

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXXVI) Income tax expenses

1. Details of income tax expenses

Items	Amount for the current period	Amount for the previous period
Current period income tax expenses according to tax laws and relevant requirements	19,026,219.15	11,408,297.24
Deferred income tax expenses	-5,223,036.92	-896,636.87
Total	13,803,182.23	10,511,660.37

2. Reconciliation between accounting profit and income tax expenses

Items	Amount
Total profit	119,449,252.30
Income tax expenses based on statutory/applicable tax rate	17,917,387.85
Effect of different tax rate applicable to subsidiaries	132,462.96
Effect of prior income tax adjustment	-312,497.98
Effect of non-taxable income	
Effect of non-deductible costs, expenses and losses	294,014.34
Effect of utilization of deductible temporary differences or deductible losses not recognized as deferred income tax assets in prior periods	-245,467.35
Effect of deductible temporary differences or deductible losses not recognized as deferred income tax assets in current period	5,964.27
Effects of research and development expenses and additional deductions	-3,988,681.86
Income tax expenses	13,803,182.23

(XXXVII) Cash flow statement

1. Other cash receipts or payments related to operating activities

Items	Amount for the current period	Amount for the previous period
Other cash receipts related to operating activities	11,137,243.28	1,824,142.01
Including: Net receipts from current accounts	10,449,419.57	1,641,880.00
Amount of government grants received	493,316.44	149,000.51
Interest receipts from deposit and others	194,507.27	33,261.50
Other cash payment related to operating activities	143,937,676.80	89,002,406.22
Including: Expenses of cash payment	143,691,236.15	88,698,569.27
Handling fee and other expenses	246,440.65	303,836.95

2. Other cash receipts or payments related to investing activities

Items	Amount for the current period	Amount for the previous period
Other cash receipts related to investing activities	3,905,141.04	5,495,618.81
Including: Interest receipts from fixed deposit	3,905,141.04	5,495,618.81

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET
(Continued)

(XXXVIII) 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	105,646,070.07	68,283,986.86
Add: Provision for assets impairment	2,012,949.20	2,897,682.36
Credit impairment loss	2,388,968.15	3,277,544.54
Depreciation of fixed assets, oil and gas assets, productive biological assets	6,432,726.63	5,618,661.79
Amortization of intangible assets	984,488.23	889,024.20
Amortization of long term prepayments	219,999.96	91,666.65
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 “-”)		
Financial expenses (Gain represented by “-”)	-4,183,360.16	-4,203,527.03
Investments losses (Gain represented by “-”)		
Decrease of deferred income tax assets (Increase represented by “-”)	-6,311,209.45	-1,227,579.16
Increase of deferred income tax liabilities (Decrease represented by “-”)	1,088,172.53	330,942.29
Decrease in inventories (Increase represented by “-”)	-38,378,413.31	-2,633,336.98
Decrease in operating receivables (Increase represented by “-”)	-52,418,575.42	-20,031,241.52
Increase of operating payables (Decrease represented by “-”)	91,024,386.05	36,539,290.42
Others		
Net cash flow from operating activities	108,506,202.48	89,833,114.42
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		
Closing balance of cash	414,911,994.08	371,618,428.62
Less: Opening balance of cash	371,618,428.62	297,285,790.16
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase of cash and cash equivalents	43,293,565.46	74,332,638.46

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

V. NOTES TO SIGNIFICANT ITEMS OF THE CONSOLIDATED BALANCE SHEET (Continued)

(XXXVIII) Supplemental information to the cash flow statement (Continued)

2. Cash and cash equivalents

Items	Closing balance	Opening balance
I. Cash	414,911,994.08	371,618,428.62
Including: Cash on hand	559,410.66	39,859.89
Cash in bank on demand for payment	414,352,583.42	371,578,568.73
II. Cash equivalents		
III. Closing balance of cash and cash equivalents	414,911,994.08	371,618,428.62
Including: Parent company or subsidiaries of the Group using restricted cash and cash equivalents		

(XXXIX) Monetary items in foreign currencies

Items	Closing balance in foreign currencies	Exchange rate	Closing balance converted to RMB
Monetary capita			10,853,413.86
Including: USD	481,617.19	6.8632	3,305,435.10
HKD	8,614,447.34	0.8762	7,547,978.76
Accounts receivable			6,136,434.61
Including: USD	894,106.92	6.8632	6,136,434.61

VI. CHANGE IN SCOPE OF CONSOLIDATION

(I) Other reasons for change in scope of consolidation

On August 2, 2018, the Company contributed to the establishment of a wholly-owned subsidiary Hebei Chunli Hangnuo New Materials Technology Co., Ltd.*, which was included in the scope of consolidation of the consolidated financial statements of 2018.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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VII. INTEREST IN OTHER ENTITIES

Interest in subsidiaries

Composition of the corporate group

Name of subsidiaries	Type of corporation	Place of registration	Registered capital (0'000)	Principal place of operation	Nature of business	Proportion of shareholding (%)		Acquisition method
						Directly	Indirectly	
Beijing Zhao Yi Te Medical Devices Co., Ltd.*	Company with limited liability	Beijing	66.00	Beijing	Sales of medical devices	100.00		Through capital contribution to establish a new company
Hebei Chunli Hangnuo New Materials Technology Co., Ltd.*	Company with limited liability	Hubei Province	300.00	Hubei Province	Manufacture and sales of alloy materials	100.00		Through capital contribution to establish a new company

VIII. 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 December 31, 2018, 36.26% (December 31, 2017: 33.95%) of the total 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 to 31 December 2018

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

VIII. 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	December 31, 2018				Total
	Within 1 year	1-2 years	2-3 years	Over 3 year	
Financial assets					
Monetary capital	414,911,994.08				414,911,994.08
Accounts receivable – original value	82,664,137.05				82,664,137.05
Other receivables – original value	2,478,267.05				2,478,267.05
Subtotal	500,054,398.18				500,054,398.18
Financial liabilities					
Accounts payable	51,930,070.41				51,930,070.41
Other payables	27,847,722.41				27,847,722.41
Subtotal	79,777,792.82				79,777,792.82

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(III) Market risk

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

1. Interest risk

Interest risk is the risk that an enterprise may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market interest. The Company does not have interest-bearing borrowings, and the risk of changes in market interest rates is not significant.

2. Foreign currency risk

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

IX. CAPITAL MANAGEMENT

The objective of the Company's capital management policy is to ensure that the Company continues to operate as a going concern, so as to provide returns to the shareholders and income to other stakeholders, while maintaining the optimum capital structure to lower the cost of capital.

The Company uses the gearing ratio to monitor the condition of capital management. The gearing ratio of the Company are shown below:

Items	December 31, 2018	December 31, 2017
Gearing ratio	22.90%	15.02%

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(I) Actual controllers of the Company

Actual controllers	Nationality	Position in the Company	Proportion of shareholding over the Company (%)	Proportion of voting rights 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 "VII. 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, person-in-charge of the corporation is the husband of Shi Chunbao's cousin.

(IV) Related party transactions

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	Method of pricing and procedure of decision-making 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	7,588,346.21	1.52	12,819,153.84	4.27

(v) Receivables from or payable to related parties

Receivables

Items	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Notes receivable	Beijing Gaoyang Materials Centre			1,736,600.00	
Accounts receivables	Beijing Gaoyang Materials Centre	5,467,470.64	273,373.53	9,853,497.22	492,674.86

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XI. COMMITMENTS AND CONTINGENCIES

(I) **Commitments**

As of December 31, 2018, the Company has no commitments needed to be disclosed.

(II) **Contingencies**

As of December 31, 2018, the Company has no contingencies needed to be disclosed.

XII. EVENTS AFTER THE BALANCE SHEET DATE

On February 15, 2019, the Extraordinary General Meeting resolved to pass the distribution of the 2018 interim dividend of RMB15,978,362.40 based on its total share capital of 69,170,400 shares; on February 15, 2019, the Extraordinary General Meeting resolved to pass the issue of bonus shares, based on the basis of one bonus share for every one existing share held by the shareholders whose names appear on the register of members of the Company on February 15, 2019.

The board of the Company proposed to declare a final dividend of RMB0.231 per share (tax inclusive) for the year ended December 31, 2018, based on the aggregate issued share capital of 138,340,800 shares as at the date of this announcement, which totaled RMB31,956,724.80 (tax inclusive).

As of the date of this report, there was no other events after the balance sheet date that require explanation.

XIII. 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.

(II) **Auditor's remuneration**

Auditor's remuneration	Amount for the current period	Amount for the previous period
Total	700,000.00	780,000.00

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIII. OTHER SIGNIFICANT EVENTS (Continued)

(III) Emoluments of directors, supervisors and employees

1. Emoluments of directors and supervisors

Director/supervisor	Wage, allowance, subsidy and bonus							Total
	Fees	Basic salary	Allowance and subsidy	Bonus	Social insurance premium and housing provident fund	Pension	Others	
Director								
Shi Chunbao		600,230.00		900,000.00	19,919.04			1,520,149.04
Wang Jianliang		261,325.60		39,400.00	18,353.28			319,078.88
Yue Shujun		420,230.00		800,000.00	19,919.04			1,240,149.04
Lin Yiming								
Tong Xiaobo	100,000.00							100,000.00
Ge Changyin	100,000.00							100,000.00
Ho Wai Ip	54,444.00							54,444.00
Cheung Ying Kwan	26,370.00							26,370.00
Subtotal for directors	280,814.00	1,281,785.60		1,739,400.00	58,191.36			3,360,190.96
Supervisor								
Zhang Jinyong								
Pei Xiaohui								
Zhang Lanlan		71,706.74			18,234.48			89,941.22
Subtotal for supervisors		71,706.74			18,234.48			89,941.22
Total	280,814.00	1,353,492.34		1,739,400.00	76,425.84			3,450,132.18

Note 1: Lin Yiming's remuneration was not paid by the Company during his term of office.

Note 2: Cheung Ying Kwan resigned as independent non-executive director of the Company on March 16, 2018; Ho Wai Ip was appointed as independent non-executive director of the Company from March 16, 2018.

Note 3: Zhang Jinyong and Pei Xiaohui's remunerations were not paid by the Company during their terms of office.

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIII. OTHER SIGNIFICANT EVENTS (Continued)

(III) Emoluments of directors, supervisors and employees (Continued)

2. Five highest paid employees

The five highest paid employees for the year include three directors, their emoluments are reflected in the emoluments of directors and supervisors, the emoluments of the remaining two highest paid employees for the year are as follows:

Items	Amount for the current period
Wage, allowance, subsidy and bonus	1,088,729.69
Social insurance premium and housing provident funds	36,706.56
Total	1,125,436.25

Of the emoluments paid to the above two employees for the year, the emoluments of two of them were within 1,000,000.00 yuan.

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

(I) Notes receivable and accounts receivable

Type	Closing balance	Opening balance
Notes receivable	68,551,854.01	23,339,770.10
Accounts receivable	81,567,424.85	84,999,304.57
Less: Bad debt provision	12,480,166.36	11,658,393.69
Total	137,639,112.50	96,680,680.98

Disclosure of accounts receivable by category

Type	Closing balance			
	Book balance Amount	Proportion (%)	Bad debt provision Amount	Proportion (%)
Accounts receivables with provision assessed for bad debts on an individual basis				
Accounts receivables with provision made for bad debts using portfolios				
Including: portfolios with similar credit risk features	80,809,336.85	99.07	12,480,166.36	15.44
Portfolio of related parties with the scope of consolidation	758,088.00	0.93		
Subtotal for portfolio	81,567,424.85	100.00	12,480,166.36	15.44
Total	81,567,424.85	100.00	12,480,166.36	15.44

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)

(I) Notes receivable and accounts receivable (Continued)

Disclosure of accounts receivable by category (Continued)

Type	Book balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables with provision assessed for bad debts on an individual basis	876,752.69	1.03	657,564.52	75.00
Accounts receivables with provision made for bad debts using portfolios				
Including: portfolios with similar credit risk features	84,048,548.03	98.88	11,000,829.17	13.09
Portfolio of related parties with the scope of consolidation	74,003.85	0.09		
Subtotal for portfolio	84,122,551.88	98.97	11,000,829.17	13.09
Total	84,999,304.57	100.00	11,658,393.69	13.72

1. Accounts receivables with provision made for bad debts using portfolios

(1) Portfolios with similar credit risk features

Ages	Book balance	Closing balance		Book balance	Opening balance	
		Expected credit loss rate (%)	Bad debt provision		Expected credit loss rate (%)	Bad debt provision
Within 1 year	62,465,649.57	5.00	3,123,282.48	64,308,724.70	5.00	3,215,436.24
1-2 years	7,658,880.68	15.00	1,148,832.10	11,316,833.33	15.00	1,697,525.00
2-3 years	4,953,509.65	50.00	2,476,754.83	4,670,244.15	50.00	2,335,122.08
Over 3 years	5,731,296.95	100.00	5,731,296.95	3,752,745.85	100.00	3,752,745.85
Total	80,809,336.85	15.44	12,480,166.36	84,048,548.03	13.09	11,000,829.17

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

Provision for bad debts made in current period totaled 821,772.67 yuan, and no provision for bad debts were collected or reversed in the current period.

2. Details of the top 5 accounts receivable by closing balance of debtors

Name of party	Closing balance	Proportion to total accounts receivable (%)	Balance of bad debt provision
Total of top 5	29,977,649.39	36.75	1,735,265.82

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)

(II) Other receivables

Type	Closing balance	Opening balance
Interest receivable	1,299,364.38	
Dividend receivable		
Other receivables	2,395,864.81	1,184,814.77
Less: Bad debt provision	1,763,922.01	268,988.24
Total	1,931,307.18	915,826.53

Disclosure of other receivables by category

Type	Closing balance			
	Book balance Amount	Proportion (%)	Bad debt provision Amount	Proportion (%)
Other receivables with provision assessed for bad debts on an individual basis	1,375,000.10	57.39	1,375,000.10	100.00
Other receivables with provision made for bad debts using portfolios	1,020,864.71	42.61	388,921.91	38.10
Including: portfolios with similar credit risk features	1,020,864.71	42.61	388,921.91	38.10
Total	2,395,864.81	100.00	1,763,922.01	73.62

Type	Opening balance			
	Book balance Amount	Proportion (%)	Bad debt provision Amount	Proportion (%)
Other receivables with provision assessed for bad debts on an individual basis				
Other receivables with provision made for bad debts using portfolios	1,184,814.77	100.00	268,988.24	18.27
Including: portfolios with similar credit risk features	1,184,814.77	100.00	268,988.24	18.27
Total	1,184,814.77	100.00	268,988.24	18.27

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)

(II) Other receivables (Continued)

Disclosure of other receivables by category (Continued)

1. Other receivables with provision assessed for bad debts on an individual basis at the end of the period

Name of debtor	Book balance	Amount of bad debts	Provision	
			Proportion (%)	Reason of Provision
Debtor A	1,375,000.10	1,375,000.10	100.00	Debtor has no executable property, expected non-recovery
Total	1,375,000.10	1,375,000.10	100.00	

2. Other receivables with provision made for bad debts using portfolios
Portfolios with similar credit risk features

Ages	Book balance	Closing balance		Book balance	Opening balance	
		Expected credit loss rate (%)	Bad debt provision		Expected credit loss rate (%)	Bad debt provision
Within 1 year	405,468.76	5.00	20,273.44	659,150.25	5.00	32,957.51
1-2 years	93,731.43	15.00	14,059.71	336,151.52	15.00	50,422.73
2-3 years	334,151.52	50.00	167,075.76	7,810.00	50.00	3,905.00
Over 3 years	187,513.00	100.00	187,513.00	181,703.00	100.00	181,703.00
Total	1,020,864.71	38.10	388,921.91	1,184,814.77	22.70	268,988.24

3. Provisions made, collected or reversed for bad debts during the current period
Provision for bad debts made in current period totaled 1,494,933.77 yuan, and no provision for bad debts were collected or reversed in the current period.

4. Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Petty cash	179,476.58	491,938.82
Deposit, guarantee deposit	609,779.52	659,779.52
Others	1,606,608.71	33,096.43
Total	2,395,864.81	1,184,814.77

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS
(Continued)

(II) Other receivables (Continued)

Disclosure of other receivables by category (Continued)

5. Details of the top 5 other receivables by closing balance of debtors

Name of debtor	Nature of receivables	Closing balance	Ages	Proportion to the total closing balance of other receivables (%)	Balance of bad debt provision
Debtor A	Others	1,375,000.10	Over 3 years	55.48	1,375,000.10
Debtor B	Deposit	200,000.00	2-3 year	8.07	100,000.00
Debtor C	Deposit	128,828.00	Over 3 years	5.20	128,828.00
Debtor D	Deposit	120,000.00	Within 1 year	4.84	6,000.00
Debtor E	Deposit	97,151.52	2-3 years	3.92	48,575.76
Total		1,920,979.62		77.51	1,658,403.86

(III) Long-term equity investments

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investment in subsidiaries	1,665,263.00		1,665,263.00	665,263.00		665,263.00
Total	1,665,263.00		1,665,263.00	665,263.00		665,263.00

Investment in subsidiaries

Investees	Opening balance	Increase for the period	Decrease for the period	Closing balance	Provision for impairment made in current period	Closing balance of
						provision for impairment
Beijing Zhao Yi Te Medical Devices Co., Ltd.*	665,263.00			665,263.00		
Hebei Chunli Hangnuo New Materials Technology Co., Ltd.*		1,000,000.00		1,000,000.00		
Total	665,263.00	1,000,000.00		1,665,263.00		

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(IV) Operating revenue and operating cost

1. Operating revenue and operating cost by major category

Items	Amount for the current period		Amount for the previous period	
	Revenue	Costs	Revenue	Costs
I. Subtotal from main operation	496,164,095.23	180,003,222.25	300,041,246.24	84,060,813.13
Medical device	496,164,095.23	180,003,222.25	300,041,246.24	84,060,813.13
II. Subtotal from other operation	79,548.80			
Waste materials	79,548.80			
Total	496,243,644.03	180,003,222.25	300,041,246.24	84,060,813.13

2. Operating revenue for the current period by time of revenue recognition

Time of revenue recognition	Medical device products	Revenue from other operation
Recognition at a point of time	496,164,095.23	79,548.80
Total	496,164,095.23	79,548.80

XV. 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)	2,625,131.60	
2. Other non-operating income and expenses other than aforesaid items	-150,400.00	
3. Impact of income tax	-371,209.74	
Total	2,103,521.86	

NOTES TO FINANCIAL STATEMENTS

1 January 2018 to 31 December 2018

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

XV. SUPPLEMENTARY INFORMATION (Continued)

(II) RONA and EPS

Profit of the reporting period	Weighted average RONA(%)		EPS			
			Basic EPS		Diluted EPS	
	Current year	Previous year	Current year	Previous year	Current year	Previous year
Net profit attributable to shareholders of ordinary shares	18.11	13.40	1.53	0.99	1.53	0.99
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	17.75	13.07	1.50	0.96	1.50	0.96

Beijing Chunlizhengda Medical Instruments Co., Ltd.*

March 27, 2019

The notes to the Financial Statements from page 71 to page 128 are signed by the following persons in charge:

Legal Representative	Person in charge for accounting work	Person in charge of the accounting agency
Signature: _____	Signature: _____	Signature: _____
Date: _____	Date: _____	Date: _____