



北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.*

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

Stock code: 1858

INTERIM REPORT

2020



* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shi Chunbao (*Chairman*)
Ms. Yue Shujun
Mr. Xie Feng Bao (appointed on 30 June 2020)
Mr. Wang Jianliang (retired on 30 June 2020)

Non-executive Director

Mr. Wang Xin (appointed on 30 June 2020)
Mr. Lin Yiming (resigned on 11 March 2020)

Independent non-executive Directors

Mr. Ge Changyin
Mr. Ho Wai Ip
Mr. Weng Jie (appointed on 30 June 2020)
Mr. Tong Xiaobo (retired on 30 June 2020)

SUPERVISORS

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

AUDIT COMMITTEE

Mr. Ge Changyin (*Chairman*)
Mr. Ho Wai Ip
Mr. Weng Jie (appointed on 30 June 2020)
Mr. Wang Xin (appointed on 30 June 2020)
Mr. Tong Xiaobo (ceased on 30 June 2020)
Mr. Lin Yiming (ceased on 11 March 2020)

REMUNERATION COMMITTEE

Mr. Weng Jie (*Chairman*) (appointed on 30 June 2020)
Mr. Shi Chunbao
Mr. Ge Changyin
Mr. Tong Xiaobo (*Chairman*) (ceased on 30 June 2020)

NOMINATION COMMITTEE

Mr. Ge Changyin (*Chairman*) (re-designated on 9 July 2020)
Ms. Yue Shujun (appointed on 9 July 2020)
Mr. Weng Jie (appointed on 9 July 2020)
Mr. Shi Chunbao (*Chairman*) (ceased on 9 July 2020)
Mr. Ho Wai Ip (ceased on 9 July 2020)

STRATEGY COMMITTEE

Mr. Shi Chunbao (*Chairman*) (appointed on 9 July 2020)
Mr. Xie Feng Bao (appointed on 9 July 2020)
Mr. Wang Xin (appointed on 9 July 2020)

COMPANY SECRETARY

Mr. Ip Pui Sum

AUTHORISED REPRESENTATIVES

Ms. Yue Shujun
Mr. Ip Pui Sum

REGISTERED OFFICE, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20th Floor, Winbase Centre
208 Queen's Road Central
Sheung Wan
Hong Kong

COMPANY'S WEBSITE

<http://www.clzd.com>

AUDITORS

WUYIGE Certified Public Accountants LLP
(Special General Partnership)
Certified Public Accountants

LEGAL ADVISOR AS TO HONG KONG LAW

Zhong Lun Law Firm

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2020, the novel coronavirus pneumonia (COVID-19) broke out across the globe. Many provincial drug regulatory authorities in the PRC promptly initiated the emergency approval procedures for medical devices, and conducted emergency approvals for medical devices urgently needed for the prevention and control of COVID-19. On 5 March 2020, the Central Committee of the Communist Party of China and the State Council formally issued the Opinion on Deepening the Reform of the Medical Security System (《關於深化醫療保障制度改革的意見》) (the “Opinion”), proposing to deepen the reform of the centralized volume-based procurement system for drugs and medical consumables. According to the Opinion, tender and procurement shall be integrated, volume and price shall be linked, and centralized volume-based procurement shall be fully implemented for drugs and medical consumables; provincial bidding and procurement platforms integrating bidding, procurement, transaction, settlement and supervision functions shall be established based on payment through medical insurance, and regional and national alliance-based procurement mechanism shall be constructed to develop a supply guarantee system with sufficient competition, reasonable price and standardized and orderly operation. After the Opinion was issued, many provinces promulgated the implementation measures for the volume-based procurement of medical consumables or the relevant drafts for soliciting opinions.

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

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

BUSINESS REVIEW

We are a reputable orthopedic medical device company in China which focuses on research and development, production and sales of implantable orthopedic medical devices, including joint prosthesis products, spinal products and sports medical 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 six months ended 30 June 2020, we recorded a revenue of approximately RMB407.0 million, representing an increase of 8.54% compared with that for the same period of the previous year (same period of 2019: RMB375.0 million). The gross profit was approximately RMB288.1 million, representing an increase of 13.43% compared with that for the same period of the previous year (same period of 2019: RMB254.0 million). The profit attributable to equity holders of the Company was RMB116.8 million, representing an increase of 7.0% compared with that for the same period of the previous year (same period of 2019: RMB109.2 million). Basic earnings per share was RMB0.34, representing a year-on-year increase of 6.25% (same period of 2019: RMB0.32).

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

MANAGEMENT DISCUSSION AND ANALYSIS

Comprehensive medical device registration certificates

According to the domestic joint products registration index (國產關節類產品註冊檢索) of the National Medical Products Administration (“NMPA”), we are one of the domestic enterprises that hold the most comprehensive medical device registration certificates for joint prosthesis products in the PRC in terms of the numbers and types of certificates.

In May 2020, we obtained BIOLOX®OPTION ceramic head product with cone sleeve, and became the first company in the PRC to own the registration certificate for such ceramic head. In July 2020, we received the registration certificate for the “spinal fusion device” issued by the NMPA, marking the comprehensive coverage of the Company’s spinal product line. As at 30 June 2020, we held 24 medical device registration certificates and recordation certificates in the PRC for the production of medical devices which cover joint prosthesis products for the four major joints, spinal products and sports medical products, of which 12 are Class III medical device registration certificates, 1 is Class II medical device registration certificate and 11 are Class I medical device recordation certificates. As the PRC adopts a strict product registration system for medical device manufacturing enterprises, the possession of comprehensive product registration certificates and recordation certificates is the key factor for enterprises to be more competitive in the market.

In the first half of 2020, we obtained product registration certificates in Philippines and Saudi Arabia. Meanwhile, our anterior cervical vertebrae fixation system, CF posterior spine fixation system, inter-body fusion cage and posterior cervical vertebrae fixation system, hip joint products and knee joint products (the “Products”) successfully obtained the EC certification from the European Union, which indicates that the Company has implemented a number of quality assurance systems required in the European guidelines regarding the design, manufacturing and final inspection of the Products. The EC certificates not only serve as a proof of the qualified performance and the safety of these Products, but also demonstrate that the Company enjoys international leading technical advantages. The possession of registration certificates is a guarantee for our continuous growth in international sales and a manifestation of the Company’s strong competitiveness in the international market.

Diversified product portfolio

Being one of the earliest domestic enterprises in the PRC 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, spinal products and sports medical 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 and spinal fusion systems, including series of fixation systems in anterior and posterior cervical, thoracic and lumbar vertebrae, series of fusion products for cervical, thoracic and lumbar vertebrae, and our sports medical products are non-absorbable suture anchors. 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 Engineering 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 are post-doctoral researchers or possess Doctorate 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 the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was named the “Beijing Engineering Laboratory of Joint Prosthesis” (人工關節北京市工程實驗室) by the Beijing Municipal Development and Reform Commission (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.

In June 2020, the “Porous Tantalum Bone Repair Material and Implantable Product Development and Clinical Application” project (the “Project”) that the Company took the lead in the application was approved by the Ministry of Science and Technology of the PRC as a key special project under the 2020 National Key Research and Development Program – “Research and Development of Bio-medical Materials and Repair and Replacement of Tissues and Organs”. This project is carried out by our Company in conjunction with renowned universities, scientific research institutes, clinical hospitals and enterprises in the PRC, which will promote the synergy and innovation of production, academics, research and development and clinical studies, and accelerate the introduction of our Company’s high-end medical devices to the market.

As of 30 June 2020, the Company has obtained 71 patents and has applied for 200 new patents and 5 PCT patents. As of 30 June 2020, the single knee joint prosthesis (單髌膝關節假體) of the Company, which has obtained special approval for innovative medical instruments (acceptance number: CQTS1700268), has entered the final stage.

As of 30 June 2020, the first post-doctoral researcher was enrolled in the Company’s post – doctoral research workstation, marking the entry into the post-doctoral research stage. Under the support of a post-doctoral research workstation at national level, the Company will improve the comprehensive strength of the research and development team, step up the development of high-end medical device products, and promote the launch of new products.

Advanced ceramic joint prosthesis products

In April 2015, the Company became the first enterprise in the PRC 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. In May 2020, our Company’s BIOLOX@OPTION ceramic head product with cone sleeve was approved and launched into the market, making it the first company in the PRC to have the registration certificate for such ceramic head. For the BIOLOX@OPTION ceramic head with cone sleeve, the exterior is a ceramic ball head made of BIOLOX@delta high-tech ceramics with excellent wear performance, and the interior is a Ti6Al4V titanium alloy cone sleeve. It can be used for primary hip joint replacement and revision surgery, and significantly improves the surgical indications of ceramic ball heads, thus promoting the sales of our Company’s high-end ceramic hip joint prostheses.

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 the PRC 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” (DAMIS千人計劃) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Extensive distribution and sales network

We have built an extensive distribution network covering all provinces, municipalities and autonomous regions in the PRC (excluding Hong Kong, Macau and Taiwan), and our sales network has covered numerous hospitals located in these regions through our distributors. Most of our products are sold in the PRC and some are exported to 38 countries and regions in Asia, South America, Africa, Oceania and Europe under the brand name of “春立 Chunli”.

Others

Except as disclosed in this report, since the date of the latest annual report, there have been no material changes that affect the Company's performance and shall be disclosed in accordance with Appendix 16 to the Listing Rules.

FINANCIAL REVIEW

Operating revenue

Our revenue increased by 8.54% from approximately RMB375.0 million for the six months ended 30 June 2019 to approximately RMB407.0 million for the six months ended 30 June 2020, which was mainly attributable to the growth in the sales volume of joint prosthesis products and the expansion of sales network. The revenue of our major products as compared with that of the previous year is as follows:

Product category	Six months ended 30 June		Increase over corresponding period
	2020 (RMB'000)	2019 (RMB'000)	
Joint prosthesis products	397,707	369,438	7.65%
Spinal products	9,076	5,362	69.27%
Other businesses	207	184	12.50%
Total	406,990	374,984	8.54%

Joint prosthesis products

Joint prosthesis products increased by 7.65% from approximately RMB369.4 million for the six months ended 30 June 2019 to approximately RMB397.7 million for the six months ended 30 June 2020, which was mainly attributable to the increase in ceramic joint prosthesis products.

We are the first enterprise in China to obtain a 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. Ceramic joint prosthesis products experienced growth with the gradual advancement of the tendering, supplementary tendering or hospital registration process in which our ceramic joint prosthesis products have participated in various provinces.

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 efforts into the promotion and application of DAMIS products and techniques, which in turn drove the increase in sales volume of minimal invasion related products.

Gross profit

Our gross profit increased by 13.43% from approximately RMB254.0 million for the six months ended 30 June 2019 to approximately RMB288.1 million for the six months ended 30 June 2020, which was mainly attributable to the growth in the sales of joint prosthesis products.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin increased from 67.73% for the six months ended 30 June 2019 to 70.79% for the six months ended 30 June 2020, which was mainly attributable to 1) the strengthening in bargaining power for procurement leading to a decrease in price for raw material and semi – finished products; and 2) mass production by the Company leading to the relative decrease in fixed cost.

Selling expenses

Our selling expenses increased from approximately RMB95.1 million for the six months ended 30 June 2019 to approximately RMB104.5 million for the six months ended 30 June 2020. The increase in selling expenses was mainly attributable to 1) the increase in number of sales staff as a result of the expansion in business scale, which led to the increase in employee remuneration accordingly; and 2) the greater marketing efforts made and the active participation or organization of exhibitions, meetings, academy forums and other online or offline promotion activities to enhance the brand influence and awareness of the Company.

Administrative expenses

Our administrative expenses increased by 23.53% from approximately RMB10.2 million for the six months ended 30 June 2019 to approximately RMB12.6 million for the six months ended 30 June 2020, which was primarily due to the increase in the remunerations of the management personnel and the fees paid to intermediaries.

Research and development expenses

Our research and development expenses increased from approximately RMB25.8 million for the six months ended 30 June 2019 to approximately RMB31.6 million for the six months ended 30 June 2020. Our research and development expenses in the first half of 2020 accounted for 7.76% of the revenue. It was mainly attributed to the continued increase in the investments for the argumentation of research and development projects, research and development staff and material consumption in line with the great importance attached by the Company to the research and development of new products, new technologies and new processes.

Impairment loss of credits

Our impairment loss of credits increased from approximately RMB1.2 million for the six months ended 30 June 2019 to approximately RMB4.7 million for the six months ended 30 June 2020, which was mainly attributable to the increase in our sales income and accounts receivable and the provision made for the impairment of accounts receivable according to the policy for bad debt provision.

Income tax expenses

Our income tax expenses increased from approximately RMB13.2 million for the six months ended 30 June 2019 to approximately RMB23.9 million for the six months ended 30 June 2020, which was mainly attributable to the increase in the profit of our business in January to June 2020.

Net profit

Our net profit increased from approximately RMB109.2 million for the six months ended 30 June 2019 to approximately RMB116.8 million for the six months ended 30 June 2020, which was mainly attributable to the growth in our revenue.

Liquidity and capital resources

Our liquidity decreased by 1.27% from approximately RMB464.2 million as at 31 December 2019 to approximately RMB458.3 million as at 30 June 2020.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds from the global offering

The H shares of the Company were listed on the Main Board on 11 March 2015 with net proceeds received by the Company from the global offering in the amount of approximately RMB185.86 million 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 30 June 2020 (RMB million)	Outstanding amount as of 30 June 2020 (RMB million)
First-installment expense for the development of Daxing New Production Base	50%	92.93	22.46	70.47
Research and development activities	20.20%	37.54	0.80	36.74
Expansion of our existing marketing and distribution network, in order to enhance our market penetration with coverage of more distributors and hospitals for increment of market share	20%	37.17	9.93	27.25
Working capital and other general corporate purposes	9.80%	18.21	18.21	0.00
Total	100%	185.86	51.40	134.46

Inventory

Our inventory increased from approximately RMB191.4 million as of 31 December 2019 to approximately RMB192.2 million as of 30 June 2020, which was mainly attributable to the increase in sales volume and reserve of inventory according to market needs.

Fixed assets and construction in progress

Our fixed assets and construction in progress increased by 0.96% from approximately RMB156.0 million as of 31 December 2019 to approximately RMB157.5 million as of 30 June 2020, which was mainly attributable to the acquisition of product facilities and the increase in construction expenses in January to June 2020.

Net current assets

Our net current assets increased by 16.1% from approximately RMB624.3 million as at 31 December 2019 to approximately RMB724.8 million as of 30 June 2020, which was mainly attributable to the increase in accounts receivable and the decreases in contract liabilities and tax payable.

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital and financial resources

Cash flow analysis

As at 30 June 2020, our net cash inflows generated from operating activities was approximately RMB23.4 million, which was mainly attributable to the cash received from the sales of goods; our net cash outflows generated from investing activities was approximately RMB17.8 million, which was mainly attributable to the acquisition of fixed assets and construction in progress; our net cash outflows generated from financing activities was approximately RMB11.9 million, which was mainly attributable to the payment of dividend; and our cash and cash equivalents decreased by approximately RMB5.9 million as compared with that as at the end of the previous year.

Capital expenditure

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

Contingent liabilities and guarantees

As of 30 June 2020, we did not have any significant contingent liabilities and guarantees.

SUBSEQUENT EVENTS

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

FUTURE PROSPECTS

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

Diversify our product series and develop advanced and individualized joint prosthesis products

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

We are currently developing a new customized joint prosthesis product called advanced 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 and individualized joint prosthesis products have a wider range of application. They are high-end products that can better analyse and cater for specific needs of patients. As such, we believe that advanced and individualized joint prosthesis products can generate higher profit margins. Meanwhile, the relevant regulations issued by the NMPA in 2019 are also more conducive to the development of customized prostheses. We will take this opportunity to promote the rapid development of patents for customized and individualized products.



MANAGEMENT DISCUSSION AND ANALYSIS

Strengthen our innovation ability and increase the research and development resources

In the future, we shall continue our focus on the research and development of standard joint prosthesis products, advanced customized and individualized joint prosthesis products, spinal products and sports medical 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, under the support of the academician and expert workstation, post-doctoral scientific research workstation and Beijing Enterprise Technology Centre, we will focus on cultivating the research and development standards and innovation capabilities of research and development personnel, while continuously optimising the allocation of research and development resources and iterating on corporate innovation mechanism. We can also take advantage of Beijing Enterprise Technology Centre, post-doctoral scientific research and development workstation and academician and expert workstation to strengthen cooperation with renowned medical institutions in the PRC in order to enhance our professional knowledge, technology and competitiveness.

Expand our brand influence

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

Talent development and incentives

We continued to adhere to our existing talent development policy while establishing a new training system for talent development and attract high quality talents with competitive remuneration system. On the other hand, we have established an effective incentive and appraisal system to motivate the work initiative and enthusiasm of employees.

EMPLOYEE

As at 30 June 2020, our Group had approximately a total of 910 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. As of 30 June 2020, the total salary and related cost paid to our employees were approximately RMB65.7 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 subsidiaries purchased, redeemed or sold any of our Company's listed securities throughout the period for the six months ended 30 June 2020.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

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

Save as disclosed above, our Company has complied with all applicable principles and code provisions of the Corporate Governance Code throughout the period for the six months ended 30 June 2020.

COMPLIANCE WITH MODEL CODE

Our Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct for directors' and supervisors' securities transactions. Having made specific enquiry with the directors and supervisors, all of the directors and supervisors confirmed that they have complied with the required standard as set out in the Model Code throughout the period for the six months ended 30 June 2020.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Board has reviewed our Company's consolidated financial statements for the six months ended 30 June 2020, including the accounting principles and practices applied. WUYIGE Certified Public Accountants LLP, auditors of the Group, has reviewed the relevant financial statements.

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

As at 30 June 2020, the interests or short positions of the directors, supervisors and the chief executive officer of the Company in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, will be as follows:

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS OF THE DIRECTORS IN THE SHARES OF OUR COMPANY

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital (Note 1)	Percentage in total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	113,685,435	Beneficial owner	45.47%	32.87%
		95,447,900	Interest of spouse	38.18%	27.60%
Ms. Yue Shujun	Domestic shares	95,447,900	Beneficial owner	38.18%	27.60%
		113,685,435	Interest of spouse	45.47%	32.87%

Saved as disclosed above, as at 30 June 2020, none of the directors, supervisors and the chief executive officer of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, 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 Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital (Note 1)	Percentage in total share capital (Note 2)
Mr. Shi Chunbao	Domestic shares	113,685,435	Beneficial owner	45.47%	32.87%
		95,447,900	Interest of spouse	38.18%	27.60%
Ms. Yue Shujun	Domestic shares	95,447,900	Beneficial owner	38.18%	27.60%
		113,685,435	Interest of spouse	45.47%	32.87%
CITIC Securities Co., Ltd. 中信證券股份有限公司	Domestic shares	19,750,000 (long position)	Interest in a controlled corporation	7.90%	5.71%
中信產業投資基金管理有限公司	Domestic shares	19,750,000 (long position)	Interest in a controlled corporation	7.90%	5.71%
磐茂(上海)投資中心(有限合夥)	Domestic shares	17,250,000 (long position)	Beneficial owner	6.90%	4.99%

CORPORATE GOVERNANCE AND OTHER INFORMATION

Name of Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in	Percentage in
				the relevant class of share capital (Note 1)	total share capital (Note 2)
Morgan Stanley	H shares	6,317,176 (long position)	Interest in a controlled corporation	6.59%	1.83%
		1,107 (short position)		0.00%	0.00%
Y&Z Clean Energy Holding Ltd.	H shares	7,656,500 (long position)	Interest in a controlled corporation	7.99%	2.21%
Zhang Yuxin	H shares	7,656,500 (long position)	Beneficial owner	7.99%	2.21%
Taiping Assets Management (HK) Company Limited	H shares	5,743,100 (long position)	Investment manager	5.99%	1.66%
Taiping Trustees Limited	H shares	5,743,100 (long position)	Trustee	5.99%	1.66%

Notes:

1. The calculation is based on the number of 250,000,000 domestic shares and 95,852,000 H shares of the Company in issue as at 30 June 2020, respectively.
2. The calculation is based on the total number of 345,852,000 shares of the Company in issue as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, 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 Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

REVIEW REPORT



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

We have audited the accompanying financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as the “**Company**”), which comprise the consolidated and parent company’s balance sheets as at 30 June 2020, the consolidated and parent company’s profit statements from January to June 2020, the consolidated and parent company’s cash flow statements and the consolidated and parent company’s statement of changes in Equity from January to June 2020, and notes to the financial statements. The preparation of these financial statements is the responsibility of the Company’s management. Our responsibility is to issue a review report on these financial statements based on our review.

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

Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared in accordance with “Accounting Standard for Business Enterprises” and do not present fairly, in all material respects, the consolidated and parent company’s financial position of the Company as at 30 June 2020, and of its operating results and cash flows from January to June 2020.

WUYIGE Certified Public Accountants. LLP
Beijing · China

Chinese Certified Public Accountant:

Chinese Certified Public Accountant:

20 August 2020

CONSOLIDATED BALANCE SHEET

30 June 2020

Expressed in Renminbi Yuan

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

Item	Note	30 June 2020	31 December 2019
Current assets:			
Monetary capital	V.(I)	458,259,663.53	464,177,034.53
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable	V.(II)	84,885,248.75	91,125,434.24
Accounts receivable	V.(III)	232,982,656.84	161,641,978.16
Finance receivables			
Prepayment	V.(IV)	14,685,051.06	15,893,149.87
Other receivables	V.(V)	613,063.76	4,357,283.91
Including: Interests receivable			
Dividends receivable			
Inventories	V.(VI)	192,204,246.27	191,375,248.49
Contract assets			
Assets held-for-sale			
Non-current assets due within one year			
Other current assets	V.(VII)	8,051,929.90	6,826,402.79
Total current assets		991,681,860.11	935,396,531.99
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments			
Other investments in equity instruments			
Other non-current financial assets			
Investment property			
Fixed assets	V.(VIII)	100,263,577.40	103,630,798.32
Construction in progress	V.(IX)	57,266,404.10	52,395,024.57
Productive biological assets			
Oil & gas assets			
Right-of-use assets			
Intangible assets	V.(X)	102,293,536.05	103,158,996.78
Development expenditures			
Goodwill			
Long-term prepayments	V.(XI)	458,333.45	568,333.43
Deferred income tax assets	V.(XII)	14,151,778.75	14,164,164.60
Other non-current assets	V.(XIII)	3,956,024.04	
Total non-current assets		278,389,653.79	273,917,317.70
Total assets		1,270,071,513.90	1,209,313,849.69

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting
agency:

CONSOLIDATED BALANCE SHEET

30 June 2020

Expressed in Renminbi Yuan

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

Item	Note	30 June 2020	31 December 2019
Current liabilities:			
Short-term borrowings			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes payable			
Accounts payable	V.(XIV)	88,287,712.92	86,403,666.10
Advances received	V.(XV)	17,907,983.47	5,569,501.39
Contract liabilities	V.(XVI)	54,261,532.47	88,907,576.59
Employee remuneration payable	V.(XVII)	13,615,957.59	23,707,828.46
Taxes payable	V.(XVIII)	26,527,920.48	44,606,035.12
Other payables	V.(XIX)	43,053,253.16	39,350,327.75
Including: Interests payable			
Dividends payable			1,500,000.00
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities	V.(XX)	23,189,115.36	22,507,731.18
Total current liabilities		266,843,475.45	311,052,666.59
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee remuneration payable			
Estimated liabilities			
Deferred income	V.(XXI)	86,507,189.84	88,600,151.62
Deferred income tax liabilities	V.(XII)	3,672,661.46	3,070,394.97
Other non-current liabilities			
Total non-current liabilities		90,179,851.30	91,670,546.59
Total liabilities		357,023,326.75	402,723,213.18
Shareholders' equity:			
Share capital	V.(XXII)	345,852,000.00	138,340,800.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	V.(XXIII)	22,527,980.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Specific reserve			
Surplus reserve	V.(XXIV)	64,622,661.83	64,622,661.83
Undistributed profits	V.(XXV)	480,045,545.31	373,587,994.67
Total interests attributable to shareholders of the Parent Company		913,048,187.15	806,590,636.51
Minority interests			
Total shareholders' equity		913,048,187.15	806,590,636.51
Total liabilities and shareholders' equity		1,270,071,513.90	1,209,313,849.69

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting
agency:

PARENT COMPANY'S BALANCE SHEET

30 June 2020
Expressed in RMB Yuan
Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Item	Note	30 June 2020	31 December 2019
Current assets:			
Monetary capital		390,263,789.94	391,048,792.58
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable		84,427,408.75	91,125,434.24
Accounts receivable	XIV.(I)	233,262,586.09	161,819,449.01
Finance receivables			
Prepayment		14,570,656.35	15,820,655.20
Other receivables	XIV.(II)	2,786,660.61	5,021,454.14
Including: Interests receivable			
Dividends receivable			
Inventories		189,046,733.90	187,747,283.98
Contract assets			
Assets held-for-sale			
Non-current assets due within one year			
Other current assets		7,600,011.22	6,527,242.04
Total current assets		921,957,846.86	859,110,311.19
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	XIV.(III)	3,665,263.00	3,665,263.00
Other investments in equity instruments			
Other non-current financial assets			
Investment property			
Fixed assets		98,189,608.97	102,873,450.01
Construction in progress		56,463,560.41	52,395,024.57
Productive biological assets			
Oil & gas assets			
Right-of-use assets			
Intangible assets		102,293,536.05	103,158,996.78
Development expenditures			
Goodwill			
Long-term prepayments		458,333.45	568,333.43
Deferred income tax assets		14,143,839.92	14,157,040.29
Other non-current assets		438,843.54	
Total non-current assets		275,652,985.34	276,818,108.08
Total assets		1,197,610,832.20	1,135,928,419.27

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting
agency:

PARENT COMPANY'S BALANCE SHEET

30 June 2020

Expressed in RMB Yuan

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

Item	Note	30 June 2020	31 December 2019
Current liabilities:			
Short-term borrowings			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes payable			
Accounts payable		88,321,059.83	84,425,567.35
Advances received		17,907,983.47	5,569,501.39
Contract liabilities		54,261,532.47	88,907,576.59
Employee remuneration payable		13,457,012.33	23,615,901.57
Taxes payable		26,260,777.54	44,580,786.65
Other payables		47,264,393.36	42,850,156.77
Including: Interests payable			
Dividends payable			1,500,000.00
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities		23,189,115.36	22,507,731.18
Total current liabilities		270,661,874.36	312,457,221.50
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee remuneration payable			
Estimated liabilities			
Deferred income		15,194,511.75	17,149,016.62
Deferred income tax liabilities		3,672,661.46	3,070,394.97
Other non-current liabilities			
Total non-current liabilities		18,867,173.21	20,219,411.59
Total liabilities		289,529,047.57	332,676,633.09
Shareholders' equity:			
Share capital		345,852,000.00	138,340,800.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		22,527,980.01	230,039,180.01
Less: treasury shares			
Other comprehensive income			
Specific reserve			
Surplus reserve		64,622,661.83	64,622,661.83
Undistributed profits		475,079,142.79	370,249,144.34
Total shareholders' equity		908,081,784.63	803,251,786.18
Total liabilities and shareholders' equity		1,197,610,832.20	1,135,928,419.27

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting
agency:

CONSOLIDATED INCOME STATEMENT

January to June 2020
Expressed in RMB Yuan
Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Item	Note	Amount for current period	Amount for previous period
I. Revenue	V. (XXVI)	406,990,258.22	374,983,818.92
Less: Cost of sales	V. (XXVI)	118,878,053.93	120,991,634.02
Taxes and levies	V. (XXVII)	3,268,600.54	2,403,344.31
Selling expenses	V. (XXVIII)	104,500,796.96	95,145,173.02
Administrative expenses	V. (XXIX)	12,602,082.24	10,205,274.76
Research and development expenses	V. (XXX)	31,583,164.61	25,782,253.80
Finance expenses	V. (XXXI)	-4,317,198.07	-1,690,978.15
Including: Interest expenses			
Interest proceeds		3,653,938.19	3,135,056.54
Add: Other gains	V. (XXXII)	5,016,829.97	1,537,833.81
Investment income (losses are presented as “-”)			
Including: investment income from associates and joint ventures			
Income from derecognition of financial assets at amortised cost (losses are presented as “-”)			
Net profit on hedging exposure (losses are presented as “-”)			
Gains on changes of fair value (losses are presented as “-”)			
Loss on credit impairment (losses are presented as “-”)	V. (XXXIII)	-4,711,150.21	-1,199,289.98
Loss on asset impairment (losses are presented as “-”)	V. (XXXIV)	-148,055.49	
Gains on disposal of assets (losses are presented as “-”)	V. (XXXV)	29.74	-67,826.39
II. Operating profit (losses are presented as “-”)		140,632,412.02	122,417,834.60
Add: Non-operating income	V. (XXXVI)	79,253.82	2,380.00
Less: Non-operating expenses	V. (XXXVII)	25,983.91	10,000.00
III. Gross profit (total losses are presented as “-”)		140,685,681.93	122,410,214.60
Less: income tax expenses	V. (XXXVIII)	23,852,571.29	13,221,001.44
IV. Net profit (net losses are presented as “-”)		116,833,110.64	109,189,213.16
(I) Classified by continuity of operation:			
1. Net profit for continuing operation (net losses are presented as “-”)		116,833,110.64	109,189,213.16
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 “-”)		116,833,110.64	109,189,213.16
2. Non-controlling shareholders' profit or loss (net losses are presented as “-”)			
V. Net other comprehensive income after tax			
VI. Total comprehensive income		116,833,110.64	109,189,213.16
(I) Total comprehensive income attributable to the shareholders of the parent company		116,833,110.64	109,189,213.16
(II) Total comprehensive income attributable to non-controlling shareholders			
VII. Earnings per share			
(I) Basic earnings per share		0.34	0.32
(II) Diluted earnings per share		0.34	0.32

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

PARENT COMPANY'S INCOME STATEMENT

January to June 2020

Expressed in RMB Yuan

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

Item	Note	Amount for current period	Amount for previous period
I. Revenue	XIV. (IV)	406,413,794.06	374,033,911.80
Less: Cost of sales	XIV. (IV)	120,594,312.11	120,991,634.02
Taxes and levies		3,261,062.42	2,385,036.92
Selling expenses		104,500,796.96	95,145,173.02
Administrative expenses		12,249,341.78	9,985,064.21
Research and development expenses		31,221,491.53	25,782,253.80
Finance expenses		-4,042,371.46	-1,690,474.84
Including: Interest expenses			
Interest proceeds		3,375,183.78	3,133,863.23
Add: Other gains		4,877,583.68	1,537,833.81
Investment income (losses are presented as "-")			
Including: investment income from associates and joint ventures			
Income from derecognition of financial assets at amortised cost (losses are presented as "-")			
Net profit on hedging exposure (losses are presented as "-")			
Gains on changes of fair value (losses are presented as "-")			
Loss on credit impairment (losses are presented as "-")		-4,698,571.49	-1,221,087.13
Loss on asset impairment (losses are presented as "-")		-148,055.49	
Gains on disposal of assets (losses are presented as "-")		29.74	-67,826.39
II. Operating profit (losses are presented as "-")		138,660,147.16	121,684,144.96
Add: Non-operating income		79,253.82	2,380.00
Less: Non-operating expenses		14,057.72	10,000.00
III. Gross profit (total losses are presented as "-")		138,725,343.26	121,676,524.96
Less: income tax expenses		23,519,784.81	13,208,994.90
IV. Net profit (net losses are presented as "-")		115,205,558.45	108,467,530.06
(I) Net profit for continuing operation (net losses are presented as "-")		115,205,558.45	108,467,530.06
(II) Net profit for ceased operation (net losses are presented as "-")			
V. Net other comprehensive income after tax			
VI. Total comprehensive income		115,205,558.45	108,467,530.06

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

CONSOLIDATED CASH FLOW STATEMENT

January to June 2020
Expressed in RMB Yuan
Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Item	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		340,811,043.46	355,826,184.61
Receipts of tax refund			
Other cash receipts related to operating activities	V. (XXXIX)	14,405,408.84	11,282,622.38
Subtotal of cash inflows from operating activities		355,216,452.30	367,108,806.99
Cash payments for goods purchased and services received		90,017,793.67	156,581,812.58
Cash paid to and on behalf of employees		65,761,719.23	52,598,048.10
Taxes paid		74,591,612.36	48,747,664.32
Other cash payments related to operating activities	V. (XXXIX)	101,428,310.63	91,923,418.47
Subtotal cash outflows from operating activities		331,799,435.89	349,850,943.47
Net cash flows from operating activities		23,417,016.41	17,257,863.52
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		39,400.00	312,500.00
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			2,770,660.06
Subtotal of cash inflows from investing activities		39,400.00	3,083,160.06
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		17,812,479.54	21,402,014.23
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		17,812,479.54	21,402,014.23
Net cash flows from investing activities		-17,773,079.54	-18,318,854.17

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

CONSOLIDATED CASH FLOW STATEMENT

January to June 2020

Expressed in RMB Yuan

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

Item	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			
Other cash receipts related to financing activities			
<hr/>			
Subtotal of cash inflows from financing activities			
<hr/>			
Cash repayments of debt			
Cash paid for distribution of dividends, profits or for interest expenses		11,875,560.00	14,608,613.80
Including: cash paid for distribution of dividends and profits by subsidiaries to non-controlling shareholders			
Other cash payments related to financing activities			
<hr/>			
Subtotal of cash outflows from financing activities		11,875,560.00	14,608,613.80
<hr/>			
Net cash flows from financing activities		-11,875,560.00	-14,608,613.80
<hr/>			
IV. Effect of foreign exchange rate changes on cash and cash equivalents		314,252.13	-72,761.84
<hr/>			
V. Net increase in cash and cash equivalents		-5,917,371.00	-15,742,366.29
Add: Opening balance of cash and cash equivalents		464,177,034.53	414,911,994.08
<hr/>			
VI. Closing balance of cash and cash equivalents		458,259,663.53	399,169,627.79

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

PARENT COMPANY'S CASH FLOW STATEMENT

January to June 2020
Expressed in RMB Yuan
Presenting unit: Beijing Chunlizhengda Medical Instruments Co., Ltd.

Item	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		339,799,900.32	354,654,486.63
Receipts of tax refund			
Other cash receipts related to operating activities		14,136,460.59	14,233,532.00
<hr/>			
Subtotal of cash inflows from operating activities		353,936,360.91	368,888,018.63
<hr/>			
Cash payments for goods purchased and services received		90,065,634.72	156,233,061.06
Cash paid to and on behalf of employees		64,826,456.27	52,451,548.49
Taxes paid		74,437,976.67	48,452,485.71
Other cash payments related to operating activities		100,993,852.59	95,086,690.95
<hr/>			
Subtotal cash outflows from operating activities		330,323,920.25	352,223,786.21
<hr/>			
Net cash flows from operating activities		23,612,440.66	16,664,232.42
<hr/>			
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		39,400.00	312,500.00
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			2,770,660.06
<hr/>			
Subtotal of cash inflows from investing activities		39,400.00	3,083,160.06
<hr/>			
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		12,875,535.43	20,991,383.70
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			
<hr/>			
Subtotal of cash outflows from investing activities		12,875,535.43	21,991,383.70
<hr/>			
Net cash flows from investing activities		-12,836,135.43	-18,908,223.64

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

PARENT COMPANY'S CASH FLOW STATEMENT

January to June 2020

Expressed in RMB Yuan

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

Item	Note	Amount for current period	Amount for previous period
III. Cash flows from financing activities:			
Cash received from investment			
Cash received from borrowings			
Other cash receipts related to financing activities			
<hr/>			
Subtotal of cash inflows from financing activities			
<hr/>			
Cash repayments of debt			
Cash paid for distribution of dividends, profits or for interest expenses		11,875,560.00	14,608,613.80
Other cash payments related to financing activities			
<hr/>			
Subtotal of cash outflows from financing activities		11,875,560.00	14,608,613.80
<hr/>			
Net cash flows from financing activities		-11,875,560.00	-14,608,613.80
<hr/>			
IV. Effect of foreign exchange rate changes on cash and cash equivalents		314,252.13	-72,761.84
<hr/>			
V. Net increase in cash and cash equivalents		-785,002.64	-16,925,366.86
Add: Opening balance of cash and cash equivalents		391,048,792.58	414,549,927.82
<hr/>			
VI. Closing balance of cash and cash equivalents		390,263,789.94	397,624,560.96

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January to June 2020

Expressed in RMB Yuan

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

Item	Share capital	Other equity instruments			Equity attributable to parent company				Subtotal	Non-controlling interest	Total equity	
		Preferred shares	Perpetual bonds	Others	Capital reserve	Treasury shares	Other comprehensive income	Surplus reserve				Undistributed profit
I. Balance at the end of prior year	133,340,800.00				230,039,180.01				64,622,861.83	373,587,994.67	806,590,636.51	806,590,636.51
Add: changes of accounting policies												
Error correction of prior period												
Business combination under common control												
Others												
II. Balance at the beginning of current year	133,340,800.00				230,039,180.01				64,622,861.83	373,587,994.67	806,590,636.51	806,590,636.51
III. Amount of current period increase or decrease (decreases are presented as "-")												
(I) Total comprehensive income												
(II) Capital contributed and withdrawn by shareholders												
1. Ordinary shares contributed by shareholders	207,511,200.00				-207,511,200.00					106,457,560.64	106,457,560.64	106,457,560.64
2. Capital contributed by holders of other equity instruments										116,833,110.64	116,833,110.64	116,833,110.64
3. Amount of share-based payment included in equity												
4. Others												
(III) Profit distribution												
1. Appropriation of surplus reserve										-10,375,560.00	-10,375,560.00	-10,375,560.00
2. Distribution to shareholders												
3. Others												
(IV) Internal carry-over within shareholders interest												
1. Transfer of capital reserve to share capital	207,511,200.00				-207,511,200.00							
2. Transfer of surplus reserve to share capital	207,511,200.00				-207,511,200.00							
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 in current period												
2. Application in current period												
(VI) Others												
IV. Balance at the end of current period	345,652,000.00				22,527,980.01				64,622,861.83	480,045,545.31	913,048,187.15	913,048,187.15

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January to June 2020

Expressed in RMB Yuan

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

Item	Other equity instruments				Equity attributable to parent company				Previous period			Total equity	
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Treasury shares	Comprehensive income	Other	Surplus reserve	Undistributed profit	Subtotal		Non-controlling interest
I. Balance at the end of prior year	69,170,400.00				230,039,180.01				41,040,495.62	287,899,610.26	628,139,885.89		628,139,885.89
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				41,040,495.62	287,899,610.26	628,139,885.89		628,139,885.89
III. Amount of current period increase or decrease (decreases are presented as "-")													
(I) Total comprehensive income	69,170,400.00												
(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	69,170,400.00												
1. Appropriation of surplus reserve													
2. Distribution to shareholders	69,170,400.00												
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 in current period													
2. Application in current period													
(VI) Others													
IV. Balance at the end of current period	138,340,800.00				230,039,180.01				41,040,495.62	279,973,536.22	689,394,011.85		689,394,011.85

Legal representative:

Person in charge for accounting work:

Person in charge of the accounting agency:

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

January to June 2020

Expressed in RMB Yuan

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

Item	Other equity instruments			Current period					Total equity		
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Treasury shares	Other comprehensive income	Special reserve		Surplus reserve	Undistributed profit
I. Balance at the end of prior year	138,340,800.00				230,039,160.01				64,622,861.83	370,249,144.34	803,251,786.18
Add: changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	138,340,800.00				230,039,160.01				64,622,861.83	370,249,144.34	803,251,786.18
III. Amount of current period increase or decrease (decreases are presented as "-")											
(I) Total comprehensive income											
(II) Capital contributed and withdrawn by shareholders	207,511,200.00				-207,511,200.00						
1. Ordinary shares contributed by shareholders											
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution											
1. Appropriation of surplus reserve											
2. Distribution to shareholders											
3. Others											
(IV) Internal carry-over within shareholders interest	207,511,200.00				-207,511,200.00						
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 in current period											
2. Application in current period											
(VI) Others											
IV. Balance at the end of current period	345,852,000.00				22,527,960.01				64,622,861.83	475,079,142.79	908,061,784.63

Person in charge of the accounting agency:

Person in charge for accounting work:

Legal representative:

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

January to June 2020

Expressed in RMB Yuan

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

Item	Share capital	Other equity instruments			Previous period			Total equity			
		Preferred shares	Perpetual bonds	Others	Capital reserve	Treasury shares	Less: comprehensive income		Special reserve	Surplus reserve	Undistributed profit
I. Balance at the end of prior year	69,170,400.00				230,039,180.01			41,040,495.62		285,490,695.63	625,740,771.26
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			41,040,495.62		285,490,695.63	625,740,771.26
III. Amount of current period increase or decrease (decreases are presented as "-")											
(I) Total comprehensive income	69,170,400.00									-8,637,957.14	60,532,442.86
(II) Capital contributed and withdrawn by shareholders										108,467,530.06	108,467,530.06
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	69,170,400.00									-117,105,487.20	-47,935,087.20
1. Appropriation of surplus reserve											
2. Distribution to shareholders	69,170,400.00										
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 in current period											
2. Application in current period											
(VI) Others											
IV. Balance at the end of current period	138,340,800.00				230,039,180.01			41,040,495.62		276,852,738.49	686,273,214.12

Legal representative: _____ Person in charge of the accounting agency: _____

Person in charge for accounting work: _____

Person in charge of the accounting agency: _____

NOTES TO FINANCIAL STATEMENTS

(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 12 February 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 345.8520 million yuan, and total shares are 345.8520 million shares (each with par value of one yuan), of which, 250 million shares are restricted shares, and 95.8520 million shares are outstanding shares. The Company’s shares were listed and traded on Hong Kong Stock Exchanges on 11 March 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; production of platelet-rich plasma preparation systems, medical centrifuges, repair and reconstruction and replacement implants for soft tissues damaged by sports injury, medical endoscope systems; production of non-medical masks (only for life support during COVID-19); import and export of goods; technology promotion; sales of non-medical masks; technical testing.

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), Hebei Chunli Hangnuo New Materials Technology Co., Ltd.* (河北春立航諾新材料科技有限公司) and Pilot Medical Device Co., Limited into the current consolidated financial statements’ scope. Please refer to Note VII. 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

(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 30 June 2020, its results of operations and cash flows from January to June 2020.

(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

(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 a 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

(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: ①where the Company's business model for managing financial assets is aimed at collecting contractual cash flows; ②the 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: ①where the Company's business model for managing financial assets is aimed at both collecting contractual cash flows and selling such financial asset; ②the 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

(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 recognised 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 recognised 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.

NOTES TO FINANCIAL STATEMENTS

(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

- 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.
- 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 recognised in current profit or loss, other related gains and losses are recognised 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

(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 derecognised if it satisfy any of the following criteria: ①the contractual rights to collect the cash flows from the financial asset expire; ②the financial asset has been transferred, and the Company substantially transferred all risks and rewards related to the ownership of the financial assets; ③the 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 recognises the financial asset to the extent of its continuing involvement in the financial asset transferred and recognises 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: ①the carrying amount of the transferred financial assets as at the date of derecognition; ②the 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 derecognised.

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 derecognised 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: ①the carrying amount of the derecognised part as at the date of derecognition; ②the sum of the consideration received from derecognised 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 derecognised.

(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 derecognised.

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

NOTES TO FINANCIAL STATEMENTS

(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

Based on expected credit losses, the Company conducts impairment accounting treatment for and recognises 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

(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

(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 amortised using one-off method.

NOTES TO FINANCIAL STATEMENTS

(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 recognised 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.

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets

1. *Recognition conditions of fixed assets*

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

2. *Classification and depreciation method of fixed assets*

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

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Intangible assets

1. *Measurement method of intangible assets*

Intangible assets of the Company are initially measured at cost. The actual cost of a purchased intangible asset includes the considerations and relevant expenses paid. The actual cost of an intangible asset contributed by investors is the price contained in the investment contract or agreement. If the price contained in the investment contract or agreement 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 amortised 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 amortised 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 amortised 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 cannot 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*

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

NOTES TO FINANCIAL STATEMENTS

(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 recognised 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 recognised 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 recognised, 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 amortised over the benefit period. If a long-term prepayment cannot bring benefit in future accounting periods, its residue value not yet amortised 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.

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Employee remuneration (Continued)

1. *Short-term benefits*

In the accounting period in which employees provide service for the Company, short-term benefits actually incurred are recognised 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 recognise the corresponding employees benefits payables according to the appropriation basis and proportion as stipulated by relevant requirements, recognise 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.

2. *Post-employment benefits*

During the accounting period in which an employee provides service, the amount payable calculated under defined contribution scheme shall be recognised 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 or 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 recognises 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 recognises 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 recognised 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 recognised; if there are several items involved, every possible result and its relevant probability are taken into account for the best estimate to be recognised.

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



NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Revenue

The Company recognises 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.

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 have 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 recognised 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 recognised 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.

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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 recognised 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 recognised 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 recognised 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 recognised as deferred income and recorded in profit and loss for the current period when such expenses are recognised 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 recognised 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 recognised 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 recognised at the actual time of receiving such grants.

NOTES TO FINANCIAL STATEMENTS

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Deferred tax assets and deferred tax liabilities

1. Deferred income tax assets or deferred income tax liabilities are calculated and recognised based on the difference between the carrying amount and tax base of assets and liabilities (for items not recognised as assets and liabilities but with their tax base being able to be determined according to tax laws, tax base is recognised as the difference) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.
2. A deferred income tax asset is recognised 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 unrecognised in prior periods are recognised. 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.
3. As for taxable temporary difference related to the investments of subsidiaries and associated enterprises, the deferred income tax liabilities shall be recognised 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 recognised 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 unrecognised financing expenses and amortised using effective interest rate method over the lease term. The balance derived from deducting the unrecognised 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:

NOTES TO FINANCIAL STATEMENTS

(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 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 revises 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.

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 them.

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

There was no change in critical accounting policies and change in accounting estimates.

NOTES TO FINANCIAL STATEMENTS

(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	13%
Urban maintenance and construction tax	Turnover tax payable	5%
Enterprise income tax	Taxable income	5%, 15%, 25%

Name of Taxable Entity	Income tax rates
Beijing Chunlizhengda Medical Instruments Co., Ltd.	15%
Beijing Zhao Yi Te Medical Devices Co., Ltd.	5%
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 10 September 2018 and obtained the High and New Technology Enterprise Certificate (Certificate No.:GR201811003011; valid for 3 years) jointly issued by Beijing Municipal Science & Technology Commission, Beijing Municipal Bureau of Finance and Beijing Municipal Tax Service of State Taxation Administration. The enterprise income tax rate of January to June 2020 was levied at the preferential tax rate of 15%.

V. NOTES TO SIGNIFICANT ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(I) Monetary Funds

Type	Closing balance	Opening balance
Cash	429,818.48	379,353.33
Cash in bank	457,829,845.05	463,797,681.20
Total	458,259,663.53	464,177,034.53
Including: the total amount deposited overseas	148,093,578.67	146,667,076.04

NOTES TO FINANCIAL STATEMENTS

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

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

(II) Notes receivable

Type	Closing balance	Opening balance
Bank acceptance bills	83,606,766.75	90,995,693.24
Commercial acceptance bills	1,278,482.00	129,741.00
Less: bad debt provision		
Total	84,885,248.75	91,125,434.24

Note: the amount of unexpired bank acceptance bills derecognised is 15,606,815.72 yuan. As of 30 June 2020, the Company has no notes receivable used for pledge and there is no conversion of notes to accounts receivable due to non-performance of the drawer.

(III) Accounts receivable

Type	Closing balance			
	Book balance Amount	Proportion (%)	Bad debt provision Amount	Proportion (%)
Accounts receivable with provision assessed for bad debts on an individual basis				
Accounts receivable with provision made for bad debts using portfolios	257,890,090.85	100.00	24,907,434.01	9.66
Including: portfolios with similar credit risk features	257,890,090.85	100.00	24,907,434.01	9.66
Total	257,890,090.85	100.00	24,907,434.01	9.66

NOTES TO FINANCIAL STATEMENTS

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

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

(III) Accounts receivable (Continued)

Type	Book balance		Opening balance	
	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	181,637,104.18	100.00	19,995,126.02	11.01
Including: portfolios with similar credit risk features	181,637,104.18	100.00	19,995,126.02	11.01
Total	181,637,104.18	100.00	19,995,126.02	11.01

(1) Accounts receivable 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	232,135,884.47	5.00	11,606,794.22	162,741,929.10	5.00	8,137,096.46
1-2 years	13,354,083.32	15.00	2,003,112.50	6,284,887.18	15.00	942,733.08
2-3 years	2,205,191.54	50.00	1,102,595.77	3,389,982.85	50.00	1,694,991.43
Over 3 years	10,194,931.52	100.00	10,194,931.52	9,220,305.05	100.00	9,220,305.05
Total	257,890,090.85	9.66	24,907,434.01	181,637,104.18	11.01	19,995,126.02

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

NOTES TO FINANCIAL STATEMENTS

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

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

(III) Accounts receivable (Continued)

(2) *Provisions made, collected or reversed for bad debts during the current period*
Provision for bad debts made in the current period totaled 4,912,307.99 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	77,357,785.78	30.01	4,022,529.29

(IV) Prepayments

1. *Prepayments shown by age*

Ages	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	14,425,109.64	98.23	15,750,881.17	99.10
1-2 Years	259,941.42	1.77	142,268.70	0.90
Total	14,685,051.06	100.00	15,893,149.87	100.00

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

Name of the party	Closing balance	Proportion to total prepayment (%)
Total of top 5	13,092,794.22	89.17

NOTES TO FINANCIAL STATEMENTS

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

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

(V) OTHER RECEIVABLES

Type	Closing balance	Opening balance
Interest receivable		
Other receivables	1,050,340.98	4,995,718.91
Less: bad debt provision	437,277.22	638,435.00
Total	613,063.76	4,357,283.91

Other Receivables

- (1) Other receivables categorized by nature

Type	Closing balance	Opening balance
Petty cash	310,693.21	258,700.01
Deposit, guarantee deposit	424,769.52	3,466,327.29
Others	314,878.25	1,270,691.61
Less: bad debt provision	437,277.22	638,435.00
Total	613,063.76	4,357,283.91

NOTES TO FINANCIAL STATEMENTS

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

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

(V) OTHER RECEIVABLES (Continued)

Other Receivables (Continued)

(2) Disclosure of other receivables by category

① Aging analysis of other receivables

Ages	Closing balance		Opening balance	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	453,909.22	43.22	4,544,509.38	90.97
1-2 years	211,000.00	20.09	20,000.00	0.40
2-3 years	5,000.00	0.48	46,000.00	0.92
Over 3 years	380,431.76	36.21	385,209.53	7.71
Total	1,050,340.98	100.00	4,995,718.91	100.00

② Bad debt provision

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss over the next 12 months	Lifetime expected credit loss – not credit-impaired	Lifetime expected credit loss – credit-impaired	
Opening balance in 2020	638,435.00			638,435.00
Opening balance after reassessment for the current period	638,435.00			638,435.00
Provision for the current period	-201,157.78			-201,157.78
Reversal for the current period				
Write-off for the current period				
Other changes				
Balance as at 30 June 2020	437,277.22			437,277.22

NOTES TO FINANCIAL STATEMENTS

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

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

(V) 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 -201,157.78 yuan, and no provision for bad debts were collected or reversed in the current period.

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

Name of debtors	Nature of receivables	Closing balance	Ages	Proportion to the total closing balance of other receivables (%)	Balance of bad debt provision
Debtor A	Deposit	128,828.00	Over 3 years	12.27	128,828.00
Debtor B	Petty cash	120,000.00	1-2 years	11.42	18,000.00
Debtor C	Petty cash	116,724.00	Within 1 year	11.11	5,836.20
Debtor D	Guarantee deposit	102,000.00	Within 1 year	9.71	5,100.00
Debtor E	Others	82,402.24	Over 3 years	7.85	82,402.24
Total		549,954.24		52.36	240,166.44

(VI) 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 material	67,721,012.74	169,380.87	67,551,631.87	46,960,592.09	196,828.15	46,763,763.94
Goods sold	368,656.89		368,656.89	3,345,235.96		3,345,235.96
Work in progress	29,190,384.58	290,533.59	28,899,850.99	38,411,088.23	246,510.98	38,164,577.25
Stock inventory	103,216,029.45	7,831,922.93	95,384,106.52	112,769,224.22	9,667,552.88	103,101,671.34
Total	200,496,083.66	8,291,837.39	192,204,246.27	201,486,140.50	10,110,892.01	191,375,248.49

NOTES TO FINANCIAL STATEMENTS

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

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

(VI) Inventories (Continued)

2. Movement in provision for inventory write-down

Type of inventory	Opening balance	Provision for the current period	Decrease in the current period		Closing balance
			Reversal	Write-off	
Raw material	196,828.15			27,447.28	169,380.87
Work in progress	246,510.98	91,758.72		47,736.11	290,533.59
Stock inventory	9,667,552.88	56,296.77		1,891,926.72	7,831,922.93
Total	10,110,892.01	148,055.49		1,967,110.11	8,291,837.39

Note 1: The Company confirmed that the net realisable value of inventories is determined based on the amount of the estimated selling price less the selling expenses and taxes.

(VII) Other current assets

Item	Closing balance	Opening balance
Input tax before deduction	451,918.68	299,160.75
Prepaid other taxes	129,669.43	
Cost of return receivable	7,470,341.79	6,527,242.04
Total	8,051,929.90	6,826,402.79

(VIII) Fixed assets

Type	Closing balance	Opening balance
Fixed assets	100,263,577.40	103,630,798.32
Fixed assets clearance		
Less: Provision for impairment		
Total	100,263,577.40	103,630,798.32

NOTES TO FINANCIAL STATEMENTS

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

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

(VIII) Fixed assets (Continued)

1. Details of fixed assets

Item	Buildings and structure	Mechanical equipment	Transport facilities	Electronic Device	Total
I. Original carrying amount					
1. Opening balance	21,500,529.56	119,225,474.29	3,079,773.62	2,188,684.92	145,994,462.39
2. Increase in the current period		2,216,101.77		542,961.51	2,759,063.28
Acquisition		2,216,101.77		542,961.51	2,759,063.28
3. Decrease in the current period					
Disposal or retirement	128,249.85	323,274.36		16,904.73	468,428.94
4. Closing balance	21,372,279.71	121,118,301.70	3,079,773.62	2,714,741.70	148,285,096.73
II. Accumulated depreciation					
1. Opening balance	4,491,287.57	34,965,526.07	1,841,600.96	1,065,249.47	42,363,664.07
2. Increase in the current period	364,758.36	5,290,957.02	209,288.35	213,283.04	6,078,286.77
Provision	364,758.36	5,290,957.02	209,288.35	213,283.04	6,078,286.77
3. Decrease in the current period					
Disposal or retirement	121,837.36	282,534.66		16,059.49	420,431.51
4. Closing balance	4,734,208.57	39,973,948.43	2,050,889.31	1,262,473.02	48,021,519.33
III. Provision for impairment					
1. Opening balance					
2. Increase in the current period					
3. Decrease in the current period					
4. Closing balance					
IV. Carrying amount					
1. Closing carrying amount	16,638,071.14	81,144,353.27	1,028,884.31	1,452,268.68	100,263,577.40
2. Opening carrying amount	17,009,241.99	84,259,948.22	1,238,172.66	1,123,435.45	103,630,798.32

Note: Original value of fixed assets that continued to be used upon full provision for impairment at the end of the period totaled 12,734,840.62 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

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

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

(IX) Construction in progress

Type	Closing balance	Opening balance
Projects of construction in progress	57,266,404.10	52,395,024.57
Less: Provision for impairment		
Total	57,266,404.10	52,395,024.57

1. Basic situation of projects of construction in progress

Item	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	54,830,352.86		54,830,352.86	52,042,352.00		52,042,352.00
Biomaterials industrial park project	1,633,207.55		1,633,207.55			
Equipment installation work	802,843.69		802,843.69	352,672.57		352,672.57
Total	57,266,404.10		57,266,404.10	52,395,024.57		52,395,024.57

NOTES TO FINANCIAL STATEMENTS

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

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

(IX) Construction in progress (Continued)

2. Changes in significant projects of construction in progress

Name of project	Budgets (0'000)	Opening balance	Increase in the 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	52,042,352.00	2,788,000.86			54,830,352.86
Total	18,429.65	52,042,352.00	2,788,000.86			54,830,352.86

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 the 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	29.75	29.75				Self-generated funds and publicly raised fund
Total	29.75	29.75				

NOTES TO FINANCIAL STATEMENTS

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

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

(X) Intangible assets

Item	Land use right	Software	Total
I. Original carrying amount			
1. Opening balance	108,469,610.33	1,642,195.85	110,111,806.18
2. Increased amount in the current period		384,466.02	384,466.02
(1) Acquisition		384,466.02	384,466.02
3. Decreased amount in the current period			
4. Closing balance	108,469,610.33	2,026,661.87	110,496,272.20
II. Accumulated amortization			
1. Opening balance	5,981,760.56	971,048.84	6,952,809.40
2. Increased amount in the current period	1,137,063.41	112,863.34	1,249,926.75
(1) Provision	1,137,063.41	112,863.34	1,249,926.75
3. Decreased amount in the current period			
4. Closing balance	7,118,823.97	1,083,912.18	8,202,736.15
III. Provision for impairment			
1. Opening balance			
2. Increased amount in the current period			
3. Decreased amount in the current period			
4. Closing balance			
IV. Carrying amount			
1. Closing carrying amount	101,350,786.36	942,749.69	102,293,536.05
2. Opening carrying amount	102,487,849.77	671,147.01	103,158,996.78

(XI) Long term prepayments

Type	Opening balance	Increase in current period	Amortization in the current period	Other decrease	Closing balance
Renovation costs	568,333.43		109,999.98		458,333.45
Total	568,333.43		109,999.98		458,333.45

NOTES TO FINANCIAL STATEMENTS

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

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

(XII) 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	5,030,161.14	33,636,548.62	4,597,419.08	30,744,451.34
Expected sales rebate	5,643,250.31	37,621,668.73	6,190,585.84	41,270,572.27
Return payables	3,478,367.30	23,189,115.36	3,376,159.68	22,507,731.18
Subtotal	14,151,778.75	94,447,332.71	14,164,164.60	94,522,754.79
Deferred income tax liabilities:				
Cost of return receivable	1,120,551.27	7,470,341.79	979,086.31	6,527,242.04
Accelerated depreciation of fixed assets	2,552,110.19	17,014,067.90	2,091,308.66	13,942,057.71
Subtotal	3,672,661.46	24,484,409.69	3,070,394.97	20,469,299.75

(XIII) Other non-current assets

Item	Closing balance	Opening balance
Prepayment for the acquisition of long-term assets	3,956,024.04	
Total	3,956,024.04	

NOTES TO FINANCIAL STATEMENTS

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

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

(XIV) ACCOUNTS PAYABLE

(1) Details

Item	Closing balance	Opening balance
Acquired materials	73,641,250.62	66,176,334.78
Acquired machines and equipment	14,646,462.30	20,227,331.32
Total	88,287,712.92	86,403,666.10

(2) By age

Item	Closing balance	Opening balance
Within 1 year (inclusive)	84,954,787.24	81,576,425.16
Over 1 year	3,332,925.68	4,827,240.94
Total	88,287,712.92	86,403,666.10

Note: The aging analysis of accounts payable is based on the month in which the business bills actually issued. The business which occurs first has priority in settlement with respect to turnover.

NOTES TO FINANCIAL STATEMENTS

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

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

(XV) Advances received

By age

Item	Closing balance	Opening balance
Within 1 year (inclusive)	9,694,948.11	519,139.39
Over 1 year	8,213,035.36	5,050,362.00
Total	17,907,983.47	5,569,501.39

(XVI) Contract liabilities

By age

Item	Closing balance	Opening balance
Within 1 year (inclusive)	45,744,154.16	76,384,931.12
Over 1 year	8,517,378.31	12,522,645.47
Total	54,261,532.47	88,907,576.59

Note: Amount of RMB58,777,327.43 included in contract liabilities at the beginning of the year was recognised as revenue in January to June 2020.

NOTES TO FINANCIAL STATEMENTS

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

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

(XVII) Employee remuneration payable

1. *Employee remuneration payable shown by category*

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Short-term remuneration	23,038,941.30	54,977,703.05	64,583,673.82	13,432,970.53
Post-employment benefits – defined contribution plan	668,887.16	591,453.20	1,077,353.30	182,987.06
Total	23,707,828.46	55,569,156.25	65,661,027.12	13,615,957.59

2. *Remuneration of short-term employees*

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Wage, bonus, allowance and subsidy	20,219,438.92	49,098,129.48	59,657,002.80	9,660,565.60
Employee welfare premium		869,624.80	869,624.80	
Social welfare premium	578,990.90	1,701,257.03	1,936,453.23	343,794.70
Including: Medicare premium	511,927.82	1,638,300.90	1,827,348.12	322,880.60
Occupational injuries premium	24,352.58	15,737.28	29,632.81	10,457.05
Maternity premium	42,710.50	47,218.85	79,472.30	10,457.05
Housing provident funds	94,968.00	1,590,957.00	1,590,957.00	94,968.00
Trade union fund and employee education fund	2,145,543.48	1,717,734.74	529,635.99	3,333,642.23
Total	23,038,941.30	54,977,703.05	64,583,673.82	13,432,970.53

3. *Defined contribution plan*

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic endowment insurance premium	637,063.62	564,943.37	1,027,733.61	174,273.38
Unemployment insurance premium	31,823.54	26,509.83	49,619.69	8,713.68
Total	668,887.16	591,453.20	1,077,353.30	182,987.06

NOTES TO FINANCIAL STATEMENTS

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

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

(XVIII) Taxes payable

Taxes	Closing balance	Opening balance
VAT	12,635,281.33	14,901,672.53
Enterprise income tax	12,687,128.19	27,932,388.50
Individual income tax	228,164.01	328,856.12
Urban maintenance and construction tax	415,646.51	633,128.78
Education surcharge	249,387.90	379,877.26
Local education surcharge	166,258.61	258,094.30
Stamp duty	146,053.93	172,017.63
Total	26,527,920.48	44,606,035.12

(XIX) Other payables

Type	Closing balance	Opening balance
Dividends payable		1,500,000.00
Other payables	43,053,253.16	37,850,327.75
Total	43,053,253.16	39,350,327.75

1. Dividends payable

Name	Closing balance	Opening balance
Ordinary share dividend		1,500,000.00
Total		1,500,000.00

2. Other payables

Categorized by nature

Nature	Closing balance	Opening balance
Accruals for sales services	22,615,216.66	21,215,261.96
Guarantee deposits	18,649,321.21	16,039,662.65
Others	1,788,715.29	595,403.14
Total	43,053,253.16	37,850,327.75

NOTES TO FINANCIAL STATEMENTS

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

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

(XX) Other current liabilities

Type	Closing balance	Opening balance
Return payables	23,189,115.36	22,507,731.18
Total	23,189,115.36	22,507,731.18

(XXI) Deferred income

1. Deferred income shown by category

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance	Reasons
Government grants	88,600,151.62		2,092,961.78	86,507,189.84	
Total	88,600,151.62		2,092,961.78	86,507,189.84	

NOTES TO FINANCIAL STATEMENTS

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

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

(XXI) Deferred income (Continued)

2. Items of government grants

Item	Opening balance	Amount of grants increased for the period	Amount included in the current profit or loss	Other changes	Closing balance	Related to assets/related to income
Grant for industrialization of ceramic femoral head on ceramic hip joint prostheses	2,687,115.76		283,500.00		2,403,615.76	Related to assets
Grant for PEEK interbody fusion cage	1,264,450.00		99,825.00		1,164,625.00	Related to assets
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	5,706,000.00		475,500.00		5,230,500.00	Related to assets
Grant for clinical study and construction project of pilot production capacity of spinal artificial vertebral fixation system	1,144,666.67		85,400.02		1,059,266.65	Related to assets
Grant for National Innovation Clinical Research on Class III Medical Device – Minimal Invasion Single Knee Joint Prosthesis Achievement	4,346,784.19		250,000.00		4,096,784.19	Related to assets
Incentive payment for 2019 key support program for development of high-precision industry – Medicine and medical Instruments from Beijing Municipal Bureau of Economy and Information Technology (北京市通州區經濟和信息化局2019年度高精類產業發展重點支撐項目-藥品醫療器械獎勵款)	300,000.00				300,000.00	Related to assets
Incentive payment for 2019 key support program for development of high-precision industry – Stable development of enterprise from Beijing Municipal Bureau of Economy and Information Technology (北京市通州區經濟和信息化局2019年度高精類產業發展重點支撐項目-企業平穩發展獎勵款)	700,000.00		19,016.22		680,983.78	Related to assets
Nurturing program for leading scientist at the Capital (首都科技領軍人才培養工程)	1,000,000.00		741,263.63		258,736.37	Related to income
Industrial guidance and subsidies (產業引導扶持資金)	71,451,135.00		138,456.91		71,312,678.09	Related to assets/ Related to income
Total	88,600,151.62		2,092,961.78		86,507,189.84	

NOTES TO FINANCIAL STATEMENTS

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

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

(XXII) Share capital

Item	Opening balance	Issue of new shares	Movements for the period (+, -)			Subtotal	Closing balance
			Bonus shares	Reserves transferred to shares	Others		
Held by domestic natural persons	100,000,000.00			150,000,000.00		150,000,000.00	250,000,000.00
H shares	38,340,800.00			57,511,200.00		57,511,200.00	95,852,000.00
Total shares	138,340,800.00			207,511,200.00		207,511,200.00	345,852,000.00

Note: In April 2020, the transfer of capital reserve to the ordinary shares of the Company has been approved at an extraordinary general meeting of the Company, under which 15 capitalised shares will be allotted and issued to shareholders for every 10 existing shares held by them. Following the completion of such transfer, the total number of shares of the Company is 345,852,000.00 shares.

(XXIII) Capital reserve

Type	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
I. Capital premium		228,239,180.01	207,511,200.00	20,727,980.01
II. Other capital reserve		1,800,000.00		1,800,000.00
Total		230,039,180.01	207,511,200.00	22,527,980.01

(XXIV) Surplus reserve

Type	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Statutory surplus reserve		64,622,661.83		64,622,661.83
Total		64,622,661.83		64,622,661.83

(XXV) Undistributed profits

Item	Closing balance	
	Amount	Proportion of appropriation or distribution
Balance before adjustment at the end of preceding period	373,587,994.67	
Total balance at the beginning of the adjustment (Increase+, decrease-)		
Balance after adjustment at the beginning of the period	373,587,994.67	
Add: Net profit attributable to owners of the parent company for the current period	116,833,110.64	
Less: Appropriation of statutory surplus reserve		
Dividend payable on ordinary shares	10,375,560.00	
Ordinary share dividend transferred to share capital		
Undistributed profits at end of period	480,045,545.31	

NOTES TO FINANCIAL STATEMENTS

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

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

(XXVI) Operating revenue and operating cost

1. Operating revenue and operating cost by major category

Item	Amount for the current period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
I. Subtotal from main operation	406,783,344.54	118,708,181.35	374,799,625.32	120,700,996.06
Medical device	406,783,344.54	118,708,181.35	374,799,625.32	120,700,996.06
II. Subtotal from other operation	206,913.68	169,872.58	184,193.60	290,637.96
Waste materials	206,913.68	169,872.58	184,193.60	290,637.96
Total	406,990,258.22	118,878,053.93	374,983,818.92	120,991,634.02

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	406,783,344.54	206,913.68
Total	406,783,344.54	206,913.68

(XXVII) Taxes and surcharges

Item	Amount for the current period	Amount for the previous period
Urban maintenance and construction tax	1,492,780.64	1,016,575.91
Education surcharge	895,665.81	609,945.75
Local education surcharge	597,110.56	406,630.35
Stamp duty	147,344.10	198,648.48
Housing property tax	91,895.04	91,895.04
Land use tax	37,774.39	75,548.78
Vehicle and vessel use tax	6,030.00	4,100.00
Total	3,268,600.54	2,403,344.31

NOTES TO FINANCIAL STATEMENTS

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

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

(XXVIII) Selling expenses

Item	Amount for the current period	Amount for the previous period
Market development expenses	75,865,174.90	71,633,441.49
Employee benefits	24,809,637.40	20,800,007.53
Office expenses	1,471,481.43	945,597.52
Transportation expenses	1,160,675.56	942,955.66
Others	1,193,827.67	823,170.82
Total	104,500,796.96	95,145,173.02

(XXIX) Administrative expenses

Item	Amount for the current period	Amount for the previous period
Employee benefits	5,397,724.70	4,853,192.16
Agency fees	3,228,748.73	1,683,726.11
Depreciation and amortization expenses	1,335,183.82	708,972.98
Office and travelling expenses	425,375.63	319,725.36
Rentals and property expenses	719,933.96	619,769.05
Business entertainment expenses	287,499.74	416,305.31
Others	1,207,615.66	1,603,583.79
Total	12,602,082.24	10,205,274.76

(XXX) Research and development expenses

Item	Amount for the current period	Amount for the previous period
Employee benefits	9,350,336.78	6,577,338.94
Supplies consumed	8,554,811.84	10,998,009.19
Technical services expenses	4,844,410.49	2,599,477.94
Travel and meeting expenses	3,781,394.81	2,572,992.24
Depreciation and amortization	1,919,209.25	1,501,829.74
Fuel expenses	635,415.57	603,443.34
Examination and testing expenses	1,430,873.83	559,393.68
Other	1,066,712.04	369,768.73
Total	31,583,164.61	25,782,253.80

NOTES TO FINANCIAL STATEMENTS

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

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

(XXXI) Financial expenses

Item	Amount for the current period	Amount for the previous period
Interest expenses		
Less: Interest income	3,653,938.19	3,135,056.54
Foreign exchange gains or losses	-733,625.71	1,383,653.07
Handling fee expenses	70,365.83	60,425.32
Total	-4,317,198.07	-1,690,978.15

(XXXII) Other income

Item	Amount for the current period	Amount for the previous period	Related to assets/ Related to income
Government grants	5,016,829.97	1,537,833.81	Related to assets/ Related to income
Total	5,016,829.97	1,537,833.81	

Note: Among the government grants included in other income of the Company during the current period, deferred income of 2,092,961.78 yuan was carried forward, as detailed in Note V. (XXI).

(XXXIII) Credit impairment loss

Item	Amount for the current period	Amount for the previous period
Credit impairment loss of accounts receivable	-4,912,307.99	-2,448,609.58
Credit impairment loss of other receivables	201,157.78	1,249,319.60
Total	-4,711,150.21	-1,199,289.98

(XXXIV) Assets impairment loss

Item	Amount for the current period	Amount for the previous period
Inventory write-down loss	-148,055.49	
Total	-148,055.49	

NOTES TO FINANCIAL STATEMENTS

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

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

(XXXV) Gain from disposal of assets

Item	Amount for the current period	Amount for the previous period
Disposal gains or losses arising from the disposal of fixed assets, construction in progress, productive biological assets and intangible assets not classified as held for sale	29.74	-67,826.39
Total	29.74	-67,826.39

(XXXVI) Non-operating income

1. Non-operating income by item

Item	Amount for the current period	Amount for the previous period	Amount charged to the current non-recurring profit or loss
Penalty income and others	79,253.82	2,380.00	79,253.82
Total	79,253.82	2,380.00	79,253.82

(XXXVII) Non-operating expenses

Item	Amount for the current period	Amount for the previous period	Amount charged to the current non-recurring profit or loss
External donations		10,000.00	
Losses from retirement of non-current assets	12,696.12		12,696.12
Delay charges and others	13,287.79		13,287.79
Total	25,983.91	10,000.00	25,983.91

NOTES TO FINANCIAL STATEMENTS

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

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

(XXXVIII) Income tax expenses

1. *Details of income tax expenses*

Item	Amount for the current period	Amount for the previous period
Income tax expenses for the current period calculated according to tax laws and relevant requirements	23,237,918.95	13,576,041.71
Deferred income tax expenses	614,652.34	-355,040.27
Total	23,852,571.29	13,221,001.44

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

Item	Amount
Total profit	140,685,681.93
Income tax expenses based on statutory/applicable tax rate	21,102,852.29
Effect of different tax rate applicable to subsidiaries	111,654.85
Effect of prior income tax adjustment	5,791,561.66
Effect of non-deductible costs, expenses and losses	351,485.86
Effect of deductible temporary differences or deductible losses not recognised as deferred income tax assets in current period	-97,420.98
Effect of deductible temporary differences or deductible losses not recognised as deferred income tax assets in current period	104,855.41
Effect of research and development expenses and additional deductions	-3,512,417.80
Income tax expenses	23,852,571.29

NOTES TO FINANCIAL STATEMENTS

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

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

(XXXIX) Cash flow statement

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

Item	Amount for the current period	Amount for the previous period
Other cash receipts related to operating activities	14,405,408.84	11,282,622.38
Including: Net receipts from current accounts	7,748,348.64	4,513,559.75
Amount of government grant received	2,923,868.19	5,490,393.00
Interest receipts from deposit and others	3,733,192.01	1,278,669.63
Other cash payment related to operating activities	101,428,310.63	91,923,418.47
Including: Expenses of cash payment	101,344,657.01	91,852,993.15
Handling fee and other expenses	83,653.62	70,425.32

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

Item	Amount for the current period	Amount for the previous period
Other cash receipts related to investment activities		2,770,660.06
Including: Interest receipts from fixed deposit		2,770,660.06

NOTES TO FINANCIAL STATEMENTS

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

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

(XL) Supplemental information to the cash flow statement

1. Supplemental information to the cash flow statement

Item	Amount for the current period	Amount for the previous period
1. Reconciliation of net profit to cash flow from operating activities		
Net profit	116,833,110.64	109,189,213.16
Add: Credit impairment loss	4,711,150.21	1,199,289.98
Provision for assets impairment	148,055.49	
Depreciation of fixed assets, oil and gas assets, productive biological assets	6,078,286.77	4,846,377.05
Amortization of intangible assets	1,249,926.75	452,737.46
Amortization of long term prepayments	109,999.98	109,999.98
Loss on disposal of fixed assets, intangible assets and other long term assets (Gain represented by “-”)	-29.74	67,826.39
Fixed assets retirement loss (Gain represented by “-”)	12,696.12	
Net loss on hedging exposure (Gain represented by “-”)		
Losses on changes in fair value (Gain represented by “-”)		
Financial expenses (Gain represented by “-”)	-314,252.13	-1,786,005.07
Investments losses (Gain represented by “-”)		
Decrease of deferred income tax assets (Increase represented by “-”)	12,385.85	-862,685.47
Increase of deferred income tax liabilities (Decrease represented by “-”)	602,266.49	507,645.20
Decrease in inventories (Increase represented by “-”)	-977,053.27	-77,207,623.86
Decrease in operating receivables (Increase represented by “-”)	-66,084,851.55	-61,953,168.32
Increase of operating payables (Decrease represented by “-”)	-38,964,675.20	42,694,257.02
Others		
Net cash flow from operating activities	23,417,016.41	17,257,863.52
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	458,259,663.53	399,169,627.79
Less: Opening balance of cash	464,177,034.53	414,911,994.08
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase of cash and cash equivalents	-5,917,371.00	-15,742,366.29

NOTES TO FINANCIAL STATEMENTS

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

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

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

2. Cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	458,259,663.53	464,177,034.53
Including: Cash on hand	429,818.48	379,353.33
Cash in bank on demand for payment	457,829,845.05	463,797,681.20
II. Cash equivalents		
III. Closing balance of cash and cash equivalents	458,259,663.53	464,177,034.53

(XLI) Monetary items in foreign currencies

Item	Closing balance in foreign currencies	Exchange rate	Closing balance converted to RMB
Monetary capital			20,919,500.61
Including: USD	1,126,963.26	7.0795	7,978,336.40
HKD	14,168,123.73	0.9134	12,941,164.21
Accounts receivable			49,592,907.89
Including: USD	7,005,142.72	7.0795	49,592,907.89
Total	-	-	70,512,408.50

NOTES TO FINANCIAL STATEMENTS

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

VI. CHANGE IN SCOPE OF CONSOLIDATION

Pilot Medical Device Co., Limited was included in consolidation scope in the current period.

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	Hebei Province	300.00	Hebei Province	Manufacture and sales of alloy materials	100.00		Through capital contribution to establish a new company
Pilot Medical Device Co., Limited	Company with limited liability	Hong Kong	50.00 (USD)	Hong Kong	Research and sales of medical devices	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.

NOTES TO FINANCIAL STATEMENTS

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Credit risk (Continued)

2. *Receivables*

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

As the Company's credit risks of accounts receivable fall into several business partners and customers, as of 30 June 2020, 30.01% (31 December 2019: 30.03%) 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.

(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 optimise financing structures, and finally maintains a balance between financing sustainability and flexibility.

(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.

NOTES TO FINANCIAL STATEMENTS

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

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 is shown below:

Item	30 June 2020	31 December 2019
Gearing ratio	28.11%	33.30%

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	32.87	32.87
Yue Shujun	PRC	Executive Director and Deputy General Manager	27.60	27.60

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

NOTES TO FINANCIAL STATEMENTS

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

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(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	-124,374.13	-0.03	-296,739.80	-0.08

(v) Receivables from or payable to related parties

Receivables

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable	Beijing Gaoyang Materials Centre			3,894,844.04	584,226.61

XI. COMMITMENTS AND CONTINGENCIES

(I) Commitments

As of 30 June 2020, the Company has no commitments needed to be disclosed.

(II) Contingencies

As of 30 June 2020, the Company has no contingencies needed to be disclosed.

XII. EVENTS AFTER THE BALANCE SHEET DATE

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

NOTES TO FINANCIAL STATEMENTS

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

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	200,000.00	200,000.00

(III) Emoluments of directors, supervisors and employees

1. Emoluments of directors and supervisors

Director/supervisor	Fees	Wage, allowance, subsidy and bonus			Social insurance premium and housing provident fund	Pension	Others	Total
		Basic salary	Allowance and subsidy	Bonus				
Director								
Shi Chunbao		300,230.00			4,990.56			305,220.56
Wang Jianliang		117,286.00		62,222.85	4,990.56			184,499.41
Yue Shujun		210,230.00			4,990.56			215,220.56
Lin Yiming								-
Tong Xiaobo	50,000.00							50,000.00
Ge Changyin	50,000.00							50,000.00
Ho Wai Ip	50,000.00							50,000.00
Subtotal for directors	150,000.00	627,746.00		62,222.85	14,971.68			854,940.53
Supervisor								
Zhang Jinyong								
Pei Xiaohui								
Zhang Lanlan		68,939.53		16,444.00	4,752.21			90,135.74
Subtotal for supervisors		68,939.53		16,444.00	4,752.21			90,135.74
Total	150,000.00	696,685.53		78,666.85	19,723.89			945,076.27

Note 1: Mr. Lin Yiming's remuneration was not paid by the Company during his term of office and he resigned as the non-executive Director of the Company on 11 March 2020.

Note 2: Zhang Jinyong and Pei Xiaohui's remunerations were not paid by the Company during their terms of office.

NOTES TO FINANCIAL STATEMENTS

(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 one director, whose emoluments are reflected in the emoluments of directors and supervisors, the emoluments of the remaining four highest paid employees for the year are as follows:

Item	Amount for the current period
Wage, allowance and subsidy	575,109.51
Bonus	614,124.37
Social insurance premium and housing provident funds	11,998.66
Total	1,201,232.54

Note: Of the emoluments paid to the above four employees for the period, the emoluments of all of them were within 1,000,000.00 yuan.

XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

(I) Accounts receivable

Type	Closing balance		Bad debt provision	
	Book balance Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables with provision assessed for bad debts on an individual basis				
Accounts receivables with provision made for bad debts using portfolios	258,098,433.27	100.00	24,835,847.18	9.62
Including: portfolios with similar credit risk features	256,458,354.27	99.36	24,835,847.18	9.68
Portfolio of related parties within the scope of consolidation	1,640,079.00	0.64		
Total	258,098,433.27	100.00	24,835,847.18	9.62

Type	Opening balance		Bad debt provision	
	Book balance Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables with provision assessed for bad debts on an individual basis				
Accounts receivables with provision made for bad debts using portfolios	181,754,491.10	100.00	19,935,042.09	10.97
Including: portfolios with similar credit risk features	180,435,425.60	99.27	19,935,042.09	11.05
Portfolio of related parties within the scope of consolidation	1,319,065.50	0.73		
Total	181,754,491.10	100.00	19,935,042.09	10.97

NOTES TO FINANCIAL STATEMENTS

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

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

(I) Accounts receivable (Continued)

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	230,704,147.89	5.00	11,535,207.39	161,540,250.52	5.00	8,077,012.53
1-2 years	13,354,083.32	15.00	2,003,112.50	6,284,887.18	15.00	942,733.08
2-3 years	2,205,191.54	50.00	1,102,595.77	3,389,982.85	50.00	1,694,991.43
Over 3 years	10,194,931.52	100.00	10,194,931.52	9,220,305.05	100.00	9,220,305.05
Total	256,458,354.27	9.68	24,835,847.18	180,435,425.60	11.05	19,935,042.09

- (2) Provisions made, collected or reversed for bad debts during the current period
Provision for bad debts made in current period totaled 4,900,805.09 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	77,357,785.78	29.96	4,022,529.29

(II) Other receivables

Type	Closing balance	Opening balance
Other receivables	3,140,458.08	5,577,485.21
Less: Bad debt provision	353,797.47	556,031.07
Total	2,786,660.61	5,021,454.14

NOTES TO FINANCIAL STATEMENTS

(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)

1. Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Within the scope of combination	2,194,069.55	664,202.32
Petty cash	295,954.01	258,700.01
Deposit, guarantee deposit	421,769.52	3,466,327.29
Others	228,665.00	1,188,255.59
Less: Bad debt provision	353,797.47	556,031.07
Total	2,786,660.61	5,021,454.14

(1) Disclosure of other receivables

① Aging analysis of other receivables

Ages	Closing balance		Opening balance	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	2,626,428.56	83.63	5,208,677.92	93.39
1-2 years	211,000.00	6.72	20,000.00	0.36
2-3 years	5,000.00	0.16	46,000.00	0.82
Over 3 years	298,029.52	9.49	302,807.29	5.43
Total	3,140,458.08	100.00	5,577,485.21	100.00

NOTES TO FINANCIAL STATEMENTS

(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)

1. Other receivables categorized by nature (Continued)

(1) Disclosure of other receivables (Continued)

② Bad debt provision

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss over the next 12 months	Expected credit loss – not credit-impaired	Lifetime expected credit loss – credit-impaired	
Opening balance	556,031.07			556,031.07
Opening balance after reassessment for the current period	556,031.07			556,031.07
Provision for the current period	-202,233.60			-202,233.60
Reversal for the current period				
Write-off for the current period				
Other changes				
Closing balance	353,797.47			353,797.47

(2) Provisions made, collected or reversed for bad debts during the current period
Provision for bad debts made in current period totaled -202,233.60 yuan, and no provision for bad debts were collected or reversed in the current period.

(3) 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	Within the scope of combination	2,194,069.55	Within 1 year	69.86	
Debtor B	Deposit	128,828.00	Over 3 years	4.10	128,828.00
Debtor C	Petty cash	120,000.00	1-2 years	3.82	18,000.00
Debtor D	Petty cash	116,724.00	Within 1 year	3.72	5,836.20
Debtor E	Deposit	102,000.00	Within 1 year	3.25	5,100.00
Total		2,661,621.55		84.75	157,764.20

NOTES TO FINANCIAL STATEMENTS

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

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

(III) Long-term equity investments

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investment in subsidiaries	3,665,263.00		3,665,263.00	3,665,263.00		3,665,263.00
Total	3,665,263.00		3,665,263.00	3,665,263.00		3,665,263.00

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
Hebei Chunli Hangnuo New Materials Technology Co., Ltd.*	3,000,000.00			3,000,000.00		
Total	3,665,263.00			3,665,263.00		

(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	406,206,880.38	120,424,439.53	373,849,718.20	120,700,996.06
Medical device	406,206,880.38	120,424,439.53	373,849,718.20	120,700,996.06
II. Subtotal from other operation	206,913.68	169,872.58	184,193.60	290,637.96
Waste materials	206,913.68	169,872.58	184,193.60	290,637.96
Total	406,413,794.06	120,594,312.11	374,033,911.80	120,991,634.02

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	406,206,880.38	206,913.68
Total	406,206,880.38	206,913.68

NOTES TO FINANCIAL STATEMENTS

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

XV. SUPPLEMENTARY INFORMATION

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

Items	Amount	Remarks
1. Gain and loss from disposal of non-current assets, including write-off of provision for asset impairment	-12,666.38	
2. 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)	5,016,829.97	
3. Other non-operating income and expenses other than aforesaid items	65,966.03	
4. Impact of income tax	-773,093.57	
Total	4,297,036.05	

(II) RONA and EPS

Profit of the reporting period	Weighted average RONA (%)		EPS			
	January to June 2020	January to June 2019	Basic EPS		Diluted EPS	
	January to June 2020	January to June 2019	January to June 2020	January to June 2019	January to June 2020	January to June 2019
Net profit attributable to shareholders of ordinary shares	13.56	16.25	0.34	0.32	0.34	0.32
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	13.06	16.06	0.33	0.31	0.33	0.31

Note: The transfer of capital reserve has been passed in the Extraordinary General Meeting for the Period. The earnings per Share for the same period of last year were recalculated according to the "Accounting Standards for Business Enterprises – Earnings per Share".

Beijing Chunlizhengda Medical Instruments Co., Ltd.*
20 August 2020

The Notes to Financial Statements from page 29 to page 86 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: _____