



**北京市春立正達醫療器械股份有限公司**

**Beijing Chunlizhengda Medical Instruments Co., Ltd.\***

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

Stock code: 1858



ANNUAL REPORT  
**2021**

\* For identification purpose only

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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Shi Chunbao (*Chairman*)  
Ms. Yue Shujun  
Mr. Xie Feng Bao

#### Non-executive Director

Mr. Wang Xin

#### Independent non-executive Directors

Mr. Ge Changyin  
Mr. Weng Jie  
Mr. Wong Tak Shing

### SUPERVISORS

Mr. Zhang Jie (*Chairman*)  
Ms. Zhang Lanlan  
Mr. Wei Zhangli

### AUDIT COMMITTEE

Mr. Ge Changyin (*Chairman*)  
Mr. Weng Jie  
Mr. Wang Xin  
Mr. Wong Tak Shing

### REMUNERATION COMMITTEE

Mr. Weng Jie (*Chairman*)  
Mr. Shi Chunbao  
Mr. Ge Changyin

### NOMINATION COMMITTEE

Mr. Ge Changyin (*Chairman*)  
Ms. Yue Shujun  
Mr. Weng Jie

### STRATEGY COMMITTEE

Mr. Shi Chunbao (*Chairman*)  
Mr. Xie Feng Bao  
Mr. Wang Xin

### COMPANY SECRETARY

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

### AUTHORISED REPRESENTATIVES

Ms. Yue Shujun  
Mr. Ip Pui Sum (CPA (Practising), FCCA, ACMA, ACIS, ACS)



## CORPORATE INFORMATION

### REGISTERED OFFICE

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

### HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### LEGAL ADVISOR AS TO HONG KONG LAW

Zhong Lun Law Firm LLP

### H SHARE REGISTRAR

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### PRINCIPAL BANK

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



## FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2017	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total current assets	530,212	661,200	935,397	1,251,994	<b>2,447,764</b>
Total non-current assets	103,449	153,540	273,917	289,854	<b>551,893</b>
Total assets	633,661	814,740	1,209,314	1,541,847	<b>2,999,657</b>
Total current liabilities	77,619	172,068	311,053	368,845	<b>439,619</b>
Total non-current liabilities	17,570	14,532	91,671	93,414	<b>90,961</b>
Total liabilities	95,189	186,600	402,723	462,259	<b>530,580</b>
Total shareholder's equity	538,472	628,140	806,591	1,079,588	<b>2,469,077</b>
Net current assets	452,593	489,132	624,344	883,148	<b>2,008,145</b>
Total assets less current liabilities	556,042	642,672	898,261	1,173,002	<b>2,560,038</b>
Revenue	300,317	497,927	855,327	937,686	<b>1,108,140</b>
Operating profit	78,981	119,490	273,540	330,096	<b>367,592</b>
Profit before tax for the year	78,796	119,449	273,001	329,847	<b>367,379</b>
Net profit for the year	68,284	105,646	236,761	283,373	<b>322,361</b>



# CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the Board (the “**Board**”) of Directors of **Beijing Chunlizhengda Medical Instruments Co., Ltd.** (the “**Company**”), I am pleased to propose the annual report of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 (“**during the year**”).

In 2021, The epidemic continued within and outside PRC, and the volume-based procurement of artificial joint by the state implements. Against this backdrop, the Company accelerated the research and development of new products and paid effort on expanding the market share in both local and overseas markets, by adhering to the operation objective and key task requirement established during the beginning of the year, and under the guidance of the rationale of “as if it is for self-use and keep innovating (視如己用、不斷創新)”. On the other hand, under the proactive leadership of the Board, the management of the Company strengthened the management and internal control of the Company by regulating different systems and processes, and promoting the activeness of each department on work, which resulted in a steady growth in the operating business of the Company. Despite the influences of a number of factors, we completed the annual working plan and achieved the operating target set by the Board in a better level.

## 1. THE DEVELOPMENT OF THE COMPANY IN 2021

In 2021, the Company overcame the influence of COVID-19 epidemic, and responded to the state policy on volume-based procurement of artificial joint, which resulted in a steady development of the principal business of the Company with a continuous growth in the overall results. In 2021, we recorded a revenue of approximately RMB1,108.1395 million, representing a year-on-year increase of 18.18%. Net profit attributable to shareholders of the listed company and the net profit attributable to shareholders of the listed company (net of non-recurring profit and loss) were RMB322.3607 million and RMB307.6930 million respectively, representing a year-on-year increase of 13.76% and 11.22% respectively. Net assets and total assets attributable to shareholders of the listed company were RMB2,469.0774 million and RMB2,999.6574 million respectively, representing an increase of 128.71% and 94.55% compared with the end of the previous year. Basic earnings per share was RMB0.93 while diluted earnings per share was RMB0.93, and the basic earnings per share after deducting non-recurring profit and loss was RMB0.89, representing a year-on-year increase of 13.41%, 13.41% and 11.25% respectively.

The progresses of each key task of the Company during the reporting period are as follow:

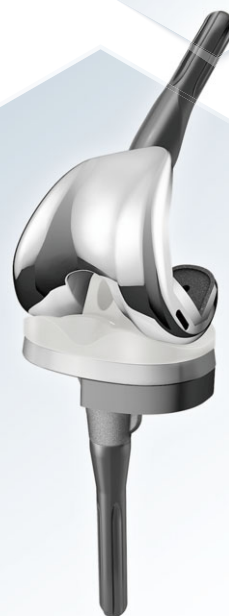
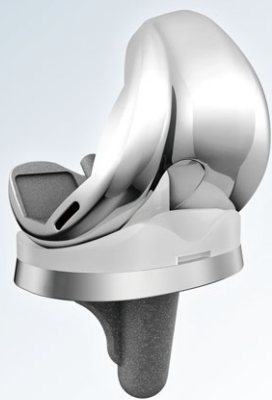
### (1) Marketing and development

In face of the COVID-19 epidemic, in 2021, the Company adopted an approach that integrates offline sales and online training of “Chunli Cloud Classroom (春立雲課堂)” in carrying out promotion in domestic market. In international markets, since the condition of the COVID-19 epidemic overseas was more severe than that of in PRC, the Company accelerated its effort in obtaining registration in other countries, and we obtained registration certificates for hip prosthesis, knee prosthesis, and spinal prosthesis in Syria, Iraq and Ecuador, as well as registration certificates for tumor hip prosthesis and tumor knee prosthesis in Mexico. The Company also accelerated the establishment of system that favor the swift development of international sales, and the recruitment of international sales personnel, these efforts has laid a solid foundation for the development of international sales after the epidemic. In face of the volume-based procurement of artificial joint by the state, the Company carried out research and organized discussion, and dealt with such challenges in a calm manner, thereby all tenders by the Company were accepted in the first volume-based procurement of hip prosthesis by the state, laying a solid foundation on further increasing in the market share of hip prosthesis of the Company.

### (2) Product research and development

The Company enhanced its investment in research and development and enjoyed a fruitful results in the establishment of laboratory, product research and development and works from postdoctoral workstation. 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), and received the CNAS Laboratory Accreditation Certificate (Registration No. CNASL14515) issued by the China National Accreditation Service for Conformity Assessment. The Company is also the first to obtain a number of registration certificates for single knee prosthesis and bladder joint prosthesis in PRC, while the national key research and development program “tantalum metal trabecula fillings (鈮金屬骨小梁填充塊)” was accepted by the National Medical Products Administration for review and approval for registration.

## CHAIRMAN'S STATEMENT



The Company's postdoctoral scientific research workstation was granted the Chinese Postdoctoral Science Foundation's "Study of Ceramic Composite Modification on the Surface of Medical Zirconium Alloy and Its Performance (醫用鈮合金表面陶瓷複合化改性及其服役性能研究)", Beijing's funded postdoctoral research project of "Study on the Design of Multi-layer Film Structure and Frictional Wear Behavior on the Surface of Tantalum-Modified Biomedical Titanium Alloy (鈮改性生物醫用鈮合金表面的多層膜結構設計及摩擦磨損行為研究)", and State Key Laboratories' open topic of "Study of the Production Technology of In-situ Autogenous Ceramic Oxide Layer on Biomedical Zirconium Alloy Surface and Its Performance (生物醫用鈮合金表面原位自生氧化陶瓷層的製備技術及其性能研究)".

### (3) Production and manufacturing

The Company accelerated its strategic layout in the implementation of intelligent manufacturing. Through the reasonable layout of production lines, the enhancement of the extent of automation of its equipment, and the improvement in production skills, the production efficiency of every staff has been enhanced. The "bulk tailor-made" project of the Company was successfully listed as the outstanding scenario of intelligent manufacturing in 2021 by the Ministry of Industry and Information Technology, and the Company was included in the list of key support program for development of high-precision industry 2021.

### (4) Capital market and information disclosure

The Company is actively working on the disclosure of securities information, and works on the communication in capital market and the reception of external investors. During the reporting period, the Company successfully completed the initial public offering on the Science and Technology Innovation Board. The Company leverages the capital market platform to widen the channel for capital operation, improve the corporate awareness, and strengthen its risk appetite, thus enhancing its competitiveness and industry integration capability, which are favourable to the further promotion of the business development of the Company, and provide assistance in the long-term sustainable development of the Company in the future.

Relying on the state's industry policy on encouraging the domestic innovative medical equipment products, and leveraging the industry experience and technological advantages accumulated over the years, the Company is devoted to develop and produce products with outstanding performance, including joint prosthesis and spine implants, and seeks to become an international top manufacturing enterprise on comprehensive medical orthopedic device as early as possible.

## CHAIRMAN'S STATEMENT

### 2. PROSPECTS ON THE FUTURE DEVELOPMENT OF THE COMPANY

The Company is devoted to the research and development and production of products with outstanding performance, including joint prosthesis and spine implants. On the one hand, the Company maintains its leading position in the field of joint prosthesis in the PRC, and seeks to increase its market share continuously, while on the other hand, it begins to expand and improve the series of orthopedic products, in order to achieve the sustainable, healthy and swift development of the Company and constantly enhance the value of the Company.

In 2022, the Company will commence its work on the following key areas:

#### (1) Continue to provide good investor service and to build a good corporate image

The Company strictly complies with relevant requirements on performing the obligation of information disclosure in a proactively manner, and to disclose information in a true, accurate, complete, timely and fair way. We maintain a wide range of communication with investors through different channels like phone interaction, Tencent Meeting, reception on visit and the "Shanghai Stock Exchange e-Interaction (上證e互動)", and provide feedback on the enquiry from investor patiently, thus establishing a better communication relationship with investors. The Company fully demonstrates its rationale and work status on providing services to investors wholeheartedly, thus establishing a good corporate image in the capital market.

#### (2) Form a professional sales team

The Company will continue to implement the people-oriented human resources strategy, and to introduce and cultivate talents with different capabilities to the existing talent team. The Company will establish the sales channels for numerous product pipelines covering joint, spine, sports medical and dentistry on the basis of a diversified production line layout. The Company will establish a standardized and professional training system that is applicable to different product lines, and fully motivates the enthusiasm and creativity of its staff, fully exerting the potential of its staff and cultivate their expertise in a proactive manner, thus promoting the development of each product pipelines.

#### (3) Accelerate the construction of new factory area and complete the relocation

The Company accelerates the construction of Daxing Biomedicine Industrial Base and Weixian County New Production Base, and ensures the renovation and relocation of factory 5 and factory 6 of "Chunli Zhengda Medical Equipment and Bio-material incubation park project" and the Daxing Factory can be completed during the year.

In 2022, the management of the Company will firmly follow the strategy of the Board to insist in the continuous update and iteration of products, with an aim to accelerate the innovation on research and development, consolidate its leading position in domestic market, enhance the market influence of the brand of the Company, narrow the distance with the leading peers in international markets and surpass them, and devotes to be an internationally top innovative orthopedic enterprise.

On behalf of the Board, I would like to express my heartfelt gratitude to our honourable shareholders.

**Shi Chunbao**  
Chairman

28 March 2022



# MANAGEMENT DISCUSSION AND ANALYSIS

## I. INDUSTRY OVERVIEW

In 2021, the novel coronavirus was still rampant and became one of the deadliest viruses in history, with its mutant strains emerging around the world. Upholding the general approach of “dynamic zero infection”, the COVID-19 pandemic in China is basically under control. On 1 April 2021, the Office of Joint Procurement for High-Value Medical Consumables Organized by the State (國家組織高值醫用耗材聯合採購辦公室) issued the Notice on the Collection of Information on Some High-Value Medical Consumables for Orthopedics (《關於開展部分骨科類高值醫用耗材產品信息採集工作的通知》) to commence the first round of information collection regarding high-value medical consumables for artificial hip and knee joints. On 21 June 2021, the Office of Joint Procurement for High-Value Medical Consumables Organized by the State issued the “Announcement of Volume-based Procurement of Artificial Joint Organized by the State (No. 1) (《國家組織人工關節集中帶量採購公告》(第1號))”, and officially issued the “Document of the Centralized Volume-based Procurement of Artificial Joints Organized by the State” on August 23, 2021, which provided a comprehensive explanation of the product categories, procurement rules and bidding rules of the procurement. The products to be procured under the centralized volume-based procurement are the initial replacement of total hip joint and the initial replacement of total knee joint. There are three product lines categorized based on the material of the hip joint, namely ceramic-ceramic hip joint, ceramic-polyethylene hip joint, and alloy-polyethylene hip joint.

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

## II. BUSINESS REVIEW

### Revenue

Our revenue increased by 18.18% from approximately RMB937.7 million for the year ended 2020 to approximately RMB1,108.1 million for the year ended 2021, mainly attributable to the growth in sales of joint prosthesis products and expansion of sales network.

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

The revenue of our major products compared with that of the previous year is as follows:

Product category	Year ended 31 December		Growth over corresponding period
	2021 (RMB'000)	2020 (RMB'000)	
Joint prosthesis products	<b>1,039,130</b>	909,831	14.21%
Spinal products	<b>68,100</b>	27,729	145.59%
Other businesses	<b>910</b>	126	622.22%
Total	<b>1,108,140</b>	937,686	18.18%

### Joint prosthesis products

Revenue from joint prosthesis products increased by 14.21% from approximately RMB909.8 million for the year ended 2020 to approximately RMB1,039.1 million for the year ended 2021, which was mainly attributable to the rapid growth of our primary high-end products, such as ceramic joint prosthesis products, XN series knee joint prosthesis products and minimal invasive hip joint prosthesis products, in the industry.

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. The Company was awarded tenders of a large scale, which covered a comprehensive range of our various product lines, such that our joint prosthesis products enjoyed a growth in sales volume.

In addition, the Company is the first and the sole domestic enterprise to introduce DAMIS and advanced minimal invasive techniques from Europe. The Company has 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 25.53% from approximately RMB680.8 million for the year ended 2020 to approximately RMB854.5 million for the year ended 2021, which was mainly attributable to the rapid growth of primary joint prosthesis products such as ceramic joint prosthesis products, XN series knee joint prosthesis products, which are medium-to-high-end products of relatively higher unit prices, in the industry.

Our gross profit margin increased from 72.60% for the year ended 2020 to 77.11% for the year ended 2021, which was mainly attributable to 1) the increased proportion of the sales income from the regions under the "Two-Invoice System" policy; 2) the mass production by the Company leading to the relative decrease in fixed cost; 3) the purchase price of outsourced spray paint manufacturers has decreased, resulting in a gradual reduction in outsourcing costs; and 4) the fact that some of our major raw materials such as cobalt blanks and titanium blanks have gradually sourced from self-production instead of external procurement, leading to a decrease in the Company's raw material costs.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Selling expenses

Our selling expenses increased from approximately RMB241.0 million for the year ended 2020 to approximately RMB342.0 million for the year ended 2021. The increase in selling expenses was mainly attributable to 1) the fact that with the implementation of the "Two-Invoice System" policy, the Company's revenue from the two-invoice system distribution model and the distributor model continued to expand, and the Company's sales service fees increased 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 decreased from approximately RMB31.2 million for the year ended 2020 to approximately RMB30.7 million for the year ended 2021. The administrative expenses for the current period remained substantially the same with that of the corresponding period last year.

### Research and development expenses

Our research and development expenses increased by 44.35% from approximately RMB72.6 million for the year ended 2020 to approximately RMB104.8 million for the year ended 2021. Our research and development expenses in 2021 accounted for 9.46% of the annual revenue. It was mainly because that the Company attached importance to the research and development of new products, new technologies and new processes, and continuously increased the expenses spent on the verification of the research and development projects and the research and development personnel. In view of the momentum of the national centralized procurement of joints, the Company has increased investment in product development for new product lines such as joint surgery robots, sports medicine, PRP and dentistry.

### Impairment loss of credits

Our impairment loss of credits increased from approximately RMB6.4 million for the year ended 2020 to approximately RMB16.8 million for the year ended 2021, which was mainly attributable to the increase in impairment of accounts receivable in accordance with the impairment policy of the Company.

### Impairment loss of assets

Our impairment loss of assets increased from approximately RMB0.2 million for the year ended 2020 to approximately RMB10.5 million for the year ended 2021, which was mainly attributable to the increase in impairment charges according to the Company's inventories.

### Income tax expenses

Our income tax expenses decreased from approximately RMB46.5 million for the year ended 2020 to approximately RMB45.0 million for the year ended 2021, which was mainly attributable to the decrease in income tax expense as benefitted from the preferential tax policy in 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Net profit for the year

Our net profit increased by 13.76% from approximately RMB283.4 million for the year ended 2020 to approximately RMB322.4 million for the year ended 2021. The increase in net profit was mainly attributable to the increase in our revenue and the improvement of gross profit margin.

### Liquidity and capital resources

Our liquidity increased by 151.63% from approximately RMB690.1 million for the year ended 2020 to approximately RMB1,736.5 million for the year ended 2021.

Our principal sources of liquidity are generated from our operations, the issue of H shares and the proceeds raised from the initial public offering of the Company's A shares on the Science and Technology Innovation Board of the Shanghai Stock Exchange on 30 December 2021. The Board is of the opinion that we have sufficient resources to support our management and to meet our foreseeable capital expenditure demands.

### Use of proceeds from the global offering

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

Use of Proceeds	Proportion	Amount available (RMB million)	Expense as of 31 December 2021 (RMB million)	Outstanding amount as of 31 December 2021 (RMB million)	Expected timeline for the application of the unutilised proceeds
First-installment expense for the development of Daxing New Production Base	50%	92.93	<b>75.78</b>	<b>17.15</b>	By 31 December 2022
Research and development activities	20.20%	37.54	<b>13.35</b>	<b>24.19</b>	By the first half of 2023
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	<b>37.17</b>	<b>0</b>	
Working capital and other general corporate purposes	9.80%	18.21	<b>18.21</b>	<b>0</b>	
<b>Total</b>	<b>100%</b>	<b>185.86</b>	<b>144.51</b>	<b>41.34</b>	

## MANAGEMENT DISCUSSION AND ANALYSIS

## Use of Proceeds from the Listing on the Science and Technology Innovation Board

Upon the approval of the listing committee of the Science and Technology Innovation Board of the Shanghai Stock Exchange and pursuant to the document for the approval of registration Zheng Jian Xu Ke (2021) No. 3702 (證件許可(2021) 3702號) issued by the China Securities Regulatory Commission, on 30 December 2021, the Company completed the A Share offering of 38,428,000 A Shares on the Science and Technology Innovation Board of the Shanghai Stock Exchange at an issue price of RMB29.81 per share, raising gross proceeds of RMB1,145,538,680.00. After deducting the issue expenses of RMB78,410,387.77, the actual net proceeds from the A Share offering amounted to RMB1,067,128,292.23. The net proceeds from the initial public offering of A Shares have been and will be used in accordance with the uses described in the Company's A Share offering prospectus dated 14 December 2021 and the Company's announcement dated 18 January 2022.

	Planned uses of proceeds (RMB'000)	Utilized proceeds as of 31 December 2021 (RMB'000)	Unutilized proceeds as of 31 December 2021 (RMB'000)	Expected timeline for the application of the unutilized proceeds
Committed Investments				
Integrated construction project of orthopedic implant and ancillary materials	460,000.00		<b>460,000.00</b>	August 2024
Research and development centre construction project	360,000.00	<b>1.2</b>	<b>359,998.80</b>	December 2024
Marketing network construction project	80,000.00		<b>80,000.00</b>	December 2024
Replenishment of working capital project	167,128.30		<b>167,128.30</b>	Not applicable
<b>Total</b>	<b>1,067,128.30</b>	<b>1.2</b>	<b>1,067,127.10</b>	

Note 1: The total issuance expenses of the Company was RMB78,410,387.77. As of 31 December 2021, the actual issuance expenses paid by the Company was RMB69,680,008.04 and the outstanding issuance expenses amounted to RMB8,730,379.73.

After deducting the total issuance expenses, the net proceeds raised amounted to RMB1,067,128,292.23. As of 31 December 2021, taking into account the outstanding issuance expenses, the balance of the net proceeds raised amounted to RMB1,075,857,471.96.

Note 2: As of 31 December 2021, the Company's own fundings invested into the fund-raising activity has not been released. Therefore, the Company's own fundings invested the fund-raising activity has not been included into the total proceeds raised as of 31 December 2021.

Note 3: As of 31 December 2021, the only expenses charged from the Company's proceeds account was the payment of administration fee of RMB1,200 to Beijing Daxing Branch of China Construction Bank Corporation.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Inventory

Our inventory decreased from approximately RMB168.6 million for the year ended 2020 to approximately RMB159.7 million for the year ended 2021 and the inventory remained the same generally with that of the corresponding period last year.

### Fixed assets and construction in progress

Our fixed assets and construction in progress increased from approximately RMB162.8 million for the year ended 31 December 2020 to approximately RMB392.6 million for the year ended 31 December 2021, which was mainly attributable to the increase in our investment in the acquisition of production facilities and construction works in 2021.

### Net current assets

Our net current assets increased by 126.22% from approximately RMB884.5 million for the year ended 31 December 2020 to approximately RMB2,008.1 million for the year ended 31 December 2021, which was mainly attributable to the proceeds raised from the initial public offering of the Company's A Shares on the Science and Technology Innovation Board of the Shanghai Stock Exchange on 30 December 2021.

## WORKING CAPITAL AND FINANCIAL RESOURCES

### Cash flow analysis

As at 31 December 2021, our net cash inflow generated from operating activities was approximately RMB164.8 million, which was mainly due to receipts of cash from the sales of goods; our net cash outflow generated from investment activities was approximately RMB190.3 million, which was mainly due to the acquisition of fixed assets and construction in progress; our net cash inflow generated from financing activities was approximately RMB1,073.7 million, which was mainly due to the proceeds raised from the Company's A Share offering on the Science and Technology Innovation Board of the Shanghai Stock Exchange on 30 December 2021; and our cash and cash equivalents increased by approximately RMB1,046.4 million as compared to the end of last year.

### Capital expenditure

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

### Contingent liabilities or guarantees

As of 31 December 2021, we did not have any significant contingent liabilities or guarantees.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FUTURE PROSPECTS

Looking forward, various favourable factors such as aging population, continuous increase in 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

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 and more surgical procedures catering for patients' needs through the application of new materials, the introduction of new technologies and the improvement of production processes, in order to build a more comprehensive product series and to achieve product diversification and intelligence of surgical procedure. 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, customized 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, customized and individualized joint prosthesis products can generate higher profit margins. Meanwhile, the relevant regulations issued by the NMPA in 2020 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.

In 2020, we launched the first domestic handheld orthopedic robot system "Yangtze River INS (長江INS)", which can guide the surgeon to achieve precise osteotomy, shorten the operation time, accelerate the recovery of the patient, and reduce the operation cost of the patient. The system will break the deadlock of the shortage of intelligent domestic medical devices, facilitate the iterative upgrade of the medical industry, and open up a new era of precise medical treatment.

#### 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 Municipal 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 Municipal 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 continue to adhere to our existing talent development policy while establishing a new training system for talent development and attracting 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 31 December 2021, our Group had approximately a total of 951 employees, which included management, production, quality and monitoring staff, research and development personnel, sales and marketing staff and general and administration staff. For the year ended 31 December 2021, the total salaries and related costs paid to our employees were approximately RMB143.3 million. Our Group enters into individual employment contracts with employees to cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc.

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

As described in the section headed "Issuance of A shares and listing on the Science and Technology Innovation Board and Strategic Allotment Under the A Share Offering by Connected Persons", the Company issued 38,428,000 A Shares on the Science and Technology Innovation Board on 30 December 2021.

Save as disclosed as above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2021.

## 2021 FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB1.30 per 10 shares in cash (tax inclusive) for the year ended 31 December 2021 (31 December 2020: Nil). The dividend declared is subject to approval by the shareholders at the forthcoming annual general meeting. The final dividend payable to the shareholders of H Shares will be paid in Hong Kong dollars, while the final dividend payable to the shareholders of A Shares will be paid in Renminbi. The applicable exchange rate shall be the mid-rate of the average exchange rate of the relevant foreign exchange published on the website of the People's Bank of China seven business days prior to the date of approval of the dividend. The final dividend is expected to be paid on 15 July 2022 to shareholders whose names appear on the register of members of the Company as at 7 June 2022 in respect of H Shares. The notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and will be despatched, together with a circular, to the H Share shareholders of the Company in due course in accordance with the requirements of the Listing Rules. In case of any changes in the expected distribution dates and the closure period of the register of members of H Shares, the Company will make further announcements in respect to those changes in due course. The Company will publish a separate announcement on the Shanghai Stock Exchange regarding the payment of final dividend to shareholders of A Shares after the annual general meeting.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ANNUAL GENERAL MEETING

The annual general meeting will be held on 1 June 2022. Shareholders of H Shares should read the details of the circular relating to the annual general meeting, the notice of the annual general meeting and the accompanying proxy form, which will be despatched by the Company in due course.

#### Closure of the register of members of H Shares for the shareholders of H Shares

**(1) Entitlement to attend and vote at the annual general meeting**

In order to determine the shareholders who are entitled to attend and vote at the annual general meeting, the Company's register of members of H Shares will be closed from 26 May 2022 to 1 June 2022 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified to attend and vote at the annual general meeting, all the transfer documents of the Company's H Shares together with the relevant share certificates shall be lodged at the H Share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 25 May 2022 (being the business day before the first day of closure of the register of members of H Shares) for registration.

**(2) Entitlement to final dividend**

In order to determine the entitlement to the final dividend, the Company's register of members of H Shares will be closed from 8 June 2022 to 10 June 2022 (both days inclusive) during which period no transfer of H Shares will be effected. In order to be qualified for the final dividend, all the transfer documents of the Company's H Shares together with the relevant share certificates shall be lodged at the H Share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 7 June 2022 (being the business day before the first day of closure of the register of members of H Shares) for registration.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ISSUANCE OF A SHARES AND LISTING ON THE SCIENCE AND TECHNOLOGY INNOVATION BOARD AND STRATEGIC ALLOTMENT UNDER THE A SHARE OFFERING BY CONNECTED PERSONS

The Company was successfully listed on the Science and Technology Innovation Board of Shanghai Stock Exchange on 30 December 2021. The Company issued 38,428,000 A Shares at an issue price of RMB29.81 per A Share, raising total proceeds of RMB1,145,538,680.00. After deducting the issuance expenses of RMB78,410,387.77, the actual net proceeds raised were RMB1,067,128,292.23. The aggregate nominal value of the A Shares issued and allotted was RMB38,428,000.

As approved by the extraordinary general meeting of the Company held on 6 December 2021, the Company may allot up to 3,842,800 A Shares to its senior management and core employees via the Collective Assets Management Plan in accordance with the Strategic Allotment Plan under the A Share offering. Details of the above connected transactions are set out in the announcements of the Company dated 18 October 2021, 6 December 2021 and 29 December 2021 and the circular dated 19 November 2021.

### 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. Pursuant to code provision C.2.1 (former 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, prior to the date of the announcement dated 28 March 2022, Mr. Shi Chunbao still performs the roles as the chairman and general manager of the Company. On 28 March, 2022, following the resignation as the general manager by Mr. Shi Chunbao, Mr. Shi Chunsheng has been appointed as the general manager of the Company to succeed Mr. Shi Chunbao. The Board believes that after the above appointment, the Company complies with the requirement under code provision C.2.1 that the operation management and daily business management of the Board is clearly segregated.

Save as disclosed above, our Company has complied with all applicable principles and code provisions of the Corporate Governance Code for the year ended 31 December 2021.



## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Mr. Shi Chunbao (史春寶)**, aged 52, is our executive Director, chairman of our Board and chief engineer. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director in September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Mr. Shi has resigned as the chairman of the Board with effect from the appointment of a new chairman by the Board and has resigned as the general manager of the Company with effect from 28 March 2022. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

Mr. Shi obtained a Master degree in Business Administration from Concordia University, Wisconsin, the USA in August 2010.

**Ms. Yue Shujun (岳術俊)**, aged 51, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director in September 2010 and was redesignated as our executive Director in April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

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

**Mr. Xie Feng Bao (解鳳寶)**, aged 40, is currently deputy chief engineer of the Company. His major responsibilities include participating in the formulation of the company's annual plan, the research and development of infrastructure for each department, and improving the research and development process and regulatory system. He is also involved in the coordination of the internal and external research and development projects of the Company and the application for national research and development projects. He joined the Company in March 2001 and worked as a research and development engineer until August 2009. He was a research and development manager of the Company from September 2009 to June 2019. He was promoted to his current role as deputy chief engineer in July 2019.

Mr. Xie graduated from China University of Geosciences (中國地質大學) majoring in mechanical engineering and automation (機械設計製造及其自動化).

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Non-Executive Director

**Mr. Wang Xin (王鑫)**, aged 46, is currently non-executive Director of the Company. He participated in a number of experiments and clinical tasks for scientific research, and won third-class merit citation for two times, outstanding medical practitioner for 5 times, and provincial technological advancement award for 6 times. He was the resident doctor, doctor-in-charge, deputy chief doctor and chief doctor consecutively of the Department of Orthopaedics of the Urumqi General Hospital of Lanzhou Military Region from July 1999 to March 2017. He was the chief doctor of the Institute of orthopedics, PLA General Hospital from April 2017 to May 2018. Mr. Wang has been a full-time expert of Far East Horizon Health Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司) since May 2018, and an assistant to the principal of Zhejiang Zhoushan Dinghai Guanghua Hospital of Far East Horizon Health Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司) since March 2020. Mr. Wang has been the director of discipline construction of Far East Horizon Health Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司) since June 2022. He has been a director of the Company since June 2020.

Mr. Wang graduated from the People's Liberation Army Air Force Military Medical University, formerly the Fourth Military Medical University (中國人民解放軍空軍軍醫大學原第四軍醫大學) with a bachelor degree of clinical medicine in July 1999 and a master degree in orthopedics in June 2007. He further obtained a doctorate degree in surgery from the Institute of orthopedics, PLA Medical College/PLA General Hospital (解放軍醫學院/解放軍總醫院) in July 2014.

### Independent Non-Executive Directors

**Mr. Ge Changyin (葛長銀)**, aged 59, became the independent non-executive Director of the Group in June 2017. Mr. Ge has been a lecturer and an assistant professor at China Agricultural University College of Economics & Management since July 1986. He has been the independent director of Cofco Tunhe Sugar Co., Ltd (中糧屯河糖業股份有限公司), a listed company on the Shanghai Stock Exchange (stock code: 600737) mainly engaged in sugar production, sugar trading, and sugar refining since June 2014. Since April 2015, Mr. Ge has also been the independent director of China Camc Engineering Co Ltd (中工國際工程股份有限公司), a listed company on the Shenzhen Stock Exchange (stock code: 002051) mainly engaged in contract projects consisting of industrial projects, water projects, electric power projects, transportation projects, domestic and overseas trading business and asset management business. Mr. Ge obtained a bachelor degree in industrial accounting from Anhui Finance and Trade College (安徽財貿學院) (now known as Anhui University of Finance and Economics (安徽財經大學)) in July 1986. Mr. Ge obtained a graduation certificate for a training course as an independent director of listed companies from the Securities Association of China and Tsinghua University School of Economics and Management in June 2004. Mr. Ge obtained a graduation certificate for a training course as a senior manager of listed companies from the Shenzhen Stock Exchange in August 2009. Mr. Ge obtained a graduation certificate for a continuous training course as an independent director of listed companies from the Shanghai Stock Exchange in March 2016. Mr. Ge obtained the training certificate for the Second Phase of Follow-up Training for Independent Directors of Listed Companies from the Shanghai Stock Exchange in May 2019.

**Mr. Weng Jie (翁杰)**, aged 59, is currently the professor of Southwest Jiaotong University (西南交通大學). He is mainly responsible for the teaching, scientific research and management of the biomedical engineering. He joined Sichuan University (四川大學) as a trainee researcher in July 1983, before taking up the positions of a research assistant in November 1988 and an associate research fellow in November 1992. Afterwards, he assumed the position of a research fellow at Sichuan University in November 1996. He then joined the Nanyang Technological University (南洋理工大學) in Singapore as a research fellow in July 1999. From March 2001 to December 2001, Mr. Weng started working as an associate research fellow in Queen's University, Canada. Since March 2002, Mr. Weng has been the professor, doctoral tutor and deputy executive director (was removed from his post in November 2020 for the reason of age) of the Faculty of Medicine of Southwest Jiaotong University (西南交通大學). Mr. Weng graduated from the Sichuan University (四川大學) with a bachelor degree of science majoring in solid-state physics (固體物理) in July 1983 and a master degree in science in solid-state physics in July 1988. He then obtained a doctorate degree in biomedical engineering from the Faculty of Medicine of Leiden University in December 1995.

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Wong Tak Shing (黃德盛)**, aged 59, has over 30 years of experience in accounting, corporate finance, personnel and administration. Mr. Wong was previously an executive director of China Ocean Fishing Holdings Limited (Stock Code: 8047) and Sing Pao Media Enterprises Limited (Stock Code: 8010), an independent non-executive director of Pa Shun International Holdings Limited (Stock Code: 0574) and China Digital Culture (Group) Limited (Stock Code: 8175), and these companies are listed on the Stock Exchange.

From March 2011 to August 2019, Mr. Wong worked for Greentech Technology International Limited with his last position as regional chief financial officer. Mr. Wong was a consultant of Chu Lung Hai, Jimmy & Co. CPA from January 2004 to April 2006. From July 1991 to April 1999, he worked for Asia Television Limited with his last position as controller personnel and administration. From January 1990 to June 1991, he worked for Jademan Enterprises Limited with his last position as accounting manager.

From January 1989 to June 1989, he was a semi-senior accountant in Deloitte Haskins & Sells (subsequently renamed as Deloitte Touche Tohmatsu) in Hong Kong. From November 1985 to January 1988, he worked in PriceWaterhouse (subsequently renamed as PriceWaterhouseCoopers) in Hong Kong as an audit assistant. Mr. Wong graduated from the University of New England, Australia in 1989 with a Diploma in Financial Management and from the University of Southampton, U.K. with a bachelor's degree of Science in the Social Sciences in Business Economics and Accounting in 1985. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

### SUPERVISORS

**Mr. Zhang Jie (張杰)**, aged 32, is currently the incharge of the ninth unit of our research and development department and the Robot Intelligence Center. Mr. Zhang Jie joined the Company in December 2011 as the head of the trial production group of the process department (工藝部試製組長) of the Company. From October 2012 to July 2013, he worked as a numerical control turner in the workshop (車間數控車工) of the Company. From July 2013 to December 2018, he worked at the production department of the Company with his last position as a vice manager of the production department. From December 2018 to July 2021, Mr. Zhang is responsible for the procurement department and the ninth unit of the research and development department and robot intelligence center of the Company, and since July 2021, he has been mainly responsible for the latter two departments. Mr. Zhang Jie graduated from Beijing Institute of Technology (北京理工大學) in July 2018, majoring in computer science and technology.

**Mr. Wei Zhangli (魏章利)**, aged 43, has been the manager of the quality management department of the Company since October 2015. Mr. Wei joined the Company in October 1998 as a workshop worker studying at the production process post of the workshop. From August 2000 to May 2012, Mr. Wei successively served as an assistant, workshop head, vice-director and director of the production department of the Company. From June 2012 to November 2015, Mr. Wei worked as the director of the procurement department of the Company. Mr. Wei obtained the bachelor's degree of corporate management from China Science and Technology Operation and Management College (中國科技經營管理學院) in July 2000. Mr. Wei graduated from China Science and Technology Operation and Management College (中國科技經營管理學院) in July 2000, majoring in corporate management. Mr. Wei also graduated from Beijing Institute of Technology (北京理工大學) in January 2018, majoring in business management.

**Ms. Zhang Lanlan (張蘭蘭)**, aged 34, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007. Ms. Zhang graduated from Renmin University of China in June 2015, from which she obtained the certificate of professional degree of International Economic and Trade.

## BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

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

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

### COMPANY SECRETARY

**Mr. Ip Pui Sum (葉沛森)**, aged 62, has been our company secretaries since 11 March 2015. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statements audit, accounting and company secretary services. Mr. Ip has been appointed as the company secretary of companies listed on the Main Board and GEM of the Hong Kong Stock Exchange including Tingyi (Cayman Islands) Holding Corp. (stock code: 0322), Luoyang Glass Company Limited (stock code: 1108), Golden Solar New Energy Technology Holdings Limited (stock code: 1121) and Asiaray Media Group Limited (stock code: 1993) since January 1996, August 2008, April 2017 and June 2017 respectively. He has also been appointed as one of the joint company secretaries of ZACD Group Ltd. (stock code: 8313) and China Tianrui Automotive Interiors Co. Ltd (stock code: 6162) since July 2017 and May 2018 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master degree in Business Administration from Henley Management School and Brunel University, United Kingdom in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

# REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

## PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in China and has its principal place of business in Hong Kong at 20th Floor, Winbase Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong. The Group's principal place of business is in the PRC.

## PRINCIPAL ACTIVITIES

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

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the aggregated sales of the Group to the largest customer and the top five customers amounted to 6.66% (2020: 4.64%) and 23.99% (2020: 19.78%), respectively, of the total income of the Group for the year.

For the year ended 31 December 2021, the aggregated purchases of the Group to the largest supplier and the top five suppliers amounted to 47.61% (2020: 35.61%) and 69.49% (2020: 51.55%), respectively, of the total purchases of the Group.

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

## FIVE YEAR FINANCIAL SUMMARY

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

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2021 and the affair of the Company and the Group as at that date are set out in the consolidated financial statements on page 48 to page 64 of this annual report.

## SHARE CAPITAL

Details of movements in the share capital during the year ended 31 December 2021 are set out in note V. XXV to the consolidated financial statements and the paragraph headed "Issuance of A shares and listing on the Science and Technology Innovation Board and Strategic Allotment Under the A Share Offering by Connected Persons" in the section headed "Management Discussion and Analysis" in this annual report.

## ADDITIONAL INFORMATION OF BUSINESS REVIEW

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



## REPORT OF THE DIRECTORS

### PRINCIPAL RISKS AND UNCERTAINTIES

#### Risk of change in sales model

During the reporting period, the Company's sales model was mainly based on the traditional distribution model. With the continuous expansion of the scope of promotion of national policies such as the "two-invoice system" and "volume-based procurement", the proportion of the Company's revenue from the traditional distribution model may decrease year by year in the future. If the Company cannot adapt to the changes in the sales model in a timely manner and enhance the ability to transform the sales model, it will face the risk of sales channel blocking and customer loss.

#### Risk of decline or fluctuation in revenue growth

In September 2021, the Office of Joint Procurement for High-Value Medical Consumables Organized by the State (國家組織高值醫用耗材聯合採購辦公室) published the results of the proposed national volume-based procurement, and the terminal prices of the proposed products of the Company and other proposed manufacturers experienced a significant decline. It is expected that the pressure of price reduction after the implementation of volume-based procurement will be further transmitted to the distribution price in the future. If the increase in our sales volume cannot cover the decrease in our distribution price, we may experience a decline in our revenue and profit.

### PROPERTIES, PLANT AND EQUIPMENT

Details of movements in properties, plants and equipment for the year ended 31 December 2021 are set out in notes V.VIII and IX to the consolidated financial statements.

### RESERVES

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

### DIVIDEND

The Board recommends the payment of a final dividend of RMB1.30 per 10 shares in cash (tax inclusive) for the year ended 31 December 2021 (31 December 2020: Nil). The dividend declared is subject to approval by the shareholders at the forthcoming annual general meeting. The final dividend payable to the shareholders of H Shares will be paid in Hong Kong dollars, while the final dividend payable to the shareholders of A Shares will be paid in Renminbi. The applicable exchange rate shall be the mid-rate of the average exchange rate of the relevant foreign exchange published on the website of the People's Bank of China seven business days prior to the date of approval of the dividend. The final dividend is expected to be paid on 15 July 2022 to shareholders whose names appear on the register of members of the Company as at 7 June 2022 in respect of H Shares. The notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and will be despatched, together with a circular, to the H Share shareholders of the Company in due course in accordance with the requirements of the Listing Rules. In case of any changes in the expected distribution dates and the closure period of the register of members of H Shares, the Company will make further announcements in respect to those changes in due course. The Company will publish a separate announcement on the Shanghai Stock Exchange regarding the payment of final dividend to shareholders of A Shares after the annual general meeting.

### SUFFICIENT OF THE PUBLIC FLOAT

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

## REPORT OF THE DIRECTORS

### DIRECTORS AND SUPERVISORS

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

Name	Age	Position	Appointment date
Mr. Shi Chunbao	52	Executive Director, chairman of the Board and marketing director	June 2020
Ms. Yue Shujun	51	Executive Director and deputy general manager	June 2020
Mr. Xie Feng Bao	40	Executive Director and deputy chief engineer	July 2020
Mr. Wang Xin	46	Non-executive Director	June 2020
Mr. Ge Changyin	59	Independent non-executive Director	June 2020
Mr. Weng Jie	59	Independent non-executive Director	June 2020
Mr. Wong Tak Shing	59	Independent non-executive Director	September 2020
Mr. Zhang Jie	32	Chairman of the Board of Supervisors	September 2020
Mr. Wei Zhangli	43	Employee Supervisor	September 2020
Ms. Zhang Lanlan	34	Employee Supervisor	September 2020

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

### BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the directors, supervisors and senior management of the Company are set out on page 18 to page 21 in this annual report.

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

### REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the directors and supervisors of the Company are set out in note XIII.(III).1 to the consolidated financial statements.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2021.

## REPORT OF THE DIRECTORS

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

As at 31 December 2021, the interests or short positions of the directors, supervisors and the chief executive officer in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), will be as follows:

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

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	A shares	113,685,435 (long position)	Beneficial owner	39.42%	29.58%
		95,447,900 (long position)	Interest of spouse	33.09%	24.84%
Ms. Yue Shujun	A shares	95,447,900 (long position)	Beneficial owner	33.09%	24.84%
		113,685,435 (long position)	Interest of spouse	39.42%	29.58%

Notes:

1. The calculation is based on the number of 288,428,000 A shares of the Company in issue as at 31 December 2021.
2. The calculation is based on the total number of 384,280,000 shares of the Company in issue as at 31 December 2021.

Saved as disclosed above, as at 31 December 2021, none of the directors, supervisors and the chief executive officer of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## REPORT OF THE DIRECTORS

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, 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 of the relevant class of share capital (Note 1)	Percentage of the total share capital (Note 2)
Mr. Shi Chunbao	A shares	113,685,435 (long position)	Beneficial owner	39.42%	29.58%
		95,447,900 (long position)	Interest of spouse	33.09%	24.84%
Ms. Yue Shujun	A shares	95,447,900 (long position)	Beneficial owner	33.09%	24.84%
		113,685,435 (long position)	Interest of spouse	39.42%	29.58%
CITIC Securities Co., Ltd.	A shares	19,750,000 (long position)	Interest in a controlled corporation	6.85%	5.14%
中信產業投資基金管理有限公司	A shares	19,750,000 (long position)	Interest in a controlled corporation	6.85%	5.14%
磐茂(上海)投資中心(有限合夥)	A shares	17,250,000 (long position)	Beneficial owner	5.98%	4.49%
Pandanus Associates Inc.	H shares	9,145,500 (long position)	Interest in a controlled corporation	9.54%	2.38%
Pandanus Partners LP	H shares	9,145,500 (long position)	Interest in a controlled corporation	9.54%	2.38%
FIL Ltd.	H shares	9,145,500 (long position)	Interest in a controlled corporation	9.54%	2.38%
Taiping Assets Management (HK) Company Limited	H shares	5,743,000 (long position)	Investment manager	5.99%	1.49%
Taiping Trustees Limited	H shares	5,743,000 (long position)	Trustee	5.99%	1.49%
Y&Z Clean Energy Holding Ltd.	H shares	5,720,250 (long position)	Beneficial owner	5.96%	1.49%
Zhang Yuxin	H shares	5,720,250 (long position)	Interest in a controlled corporation	5.96%	1.49%
Fidelity China Special Situations PLC	H shares	4,807,750 (long position)	Beneficial owner	5.02%	1.25%
Credit Suisse Group AG	H shares	4,807,935 (long position)	Interest in a controlled corporation	5.02%	1.25%
	H shares	4,426,150 (short position)	Interest in a controlled corporation	4.62%	1.15%

## Notes:

- The calculation is based on the number of 288,428,000 A shares and 95,852,000 H shares of the Company in issue as at 31 December 2021, respectively.
- The calculation is based on the total number of 384,280,000 shares of the Company in issue as at 31 December 2021.

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2021, 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.

### PERMITTED INDEMNITY

At no time during the year ended 31 December 2021 and up to the date of this annual report, was there, any permitted indemnity provision in force for the benefit of any of the Directors and the Supervisors (whether made by the Company or otherwise) or any directors and supervisors of an associated company (if made by the Company). The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

### PRE-EMPTIVE RIGHTS

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

### CONTRACTS OF SIGNIFICANCE

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

### COMPETING BUSINESS

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

### RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC. The Group's employees are required to make contributions to the retirement benefit schemes in an amount equivalent to certain percentage of their salaries. The only obligation of the Group with respect to the defined contribution retirement benefit schemes is to make the specified contributions. The Group did not forfeit any defined contribution retirement benefit schemes contributions, and there are no forfeited contributions under the Group's defined contribution retirement benefit schemes that can be used to deduct the existing contributions or contributions payable in future years. The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong.

### DONATIONS

Donation made by the Group during the year amounted to approximately RMB12.93 million.

### TAX RELIEF

The holders of listed securities of the Company were not entitled to tax relief or concessions due to the holding of listed securities of the Company in accordance with the PRC laws.



## REPORT OF THE DIRECTORS

## EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remunerations of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

## PROPERTIES

Address	Stage of completion	Expected completion date	Existing use	Site area	Gross floor area	% ownership
1. Tongzhou Second Production Base: No. 10 Xinmi Xi Er Road, Tongzhou District, Beijing, the PRC	Completed in 2015	Completed in 2015	Production plant	Approximately 5,000 sq. m.	Approximately 6,400 sq. m.	100%
2. Daxing New Production Base: Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC	Phase I: construction work in progress Phase II: construction adjustment and optimization	Phase I: TBD Phase II: TBD	Will be used as production plant, headquarter, sales and marketing center and research and development centers	Approximately 45,000 sq. m.	Approximately 48,000 sq. m.	100%
3. Weixian County New Production Base and Research and Development Center: east end of Kuayue Road and south end of Northern 1st Ring Road, Weixian County, Xingtai City, Hebei Province	Under construction	TBD	Will be used as production plant and research and development center	Approximately 333,333 sq.m.	Approximately 107,232 sq.m.	100%

## ENVIRONMENTAL POLICIES AND PERFORMANCE

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

## SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2021, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against the Company.

## SUBSEQUENT EVENTS

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

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, which include, the review of the Group's consolidated annual results for the year ended 31 December 2021.

### AUDITOR

The consolidated financial statements for the year ended 31 December 2021 have been audited by WUYIGE Certified Public Accountants LLP, who shall be retired and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of WUYIGE Certified Public Accountants LLP as the auditor of the Group is to be proposed at the AGM. In the preceding three years, the Company has not changed auditor.

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

Beijing, PRC, 28 March 2022

# REPORT OF THE BOARD OF SUPERVISORS

During 2021, the Board of Supervisors of Beijing Chunlizhengda Medical Instruments Co., Ltd. has executed its duties in accordance to laws, regulations and relevant requirements including the Company Law, the Articles of Association and Rules of Procedures of the Board of Supervisors and in a committed and diligent manner, thus performing its supervising function and safeguarding the legal rights and interests of shareholders, the Company and its staff in a better manner. The Board of Supervisors supervises the operating activities, financial conditions, guarantees provided to external parties, connected transactions, convening procedure of the Board and the condition on performing duties by directors and senior management efficiently, therefore safeguarding the legitimate interest of the Company and all shareholders and promoting standardized operation of the Company. The major tasks handled by the Board of Supervisors of the Company in 2021 are reported as follows:

Session of meeting	Date of convening	Resolutions at the meeting
Second meeting of the fourth session	29 March 2021	<ol style="list-style-type: none"> <li>To consider and approve the resolution on the annual report of the Company for the year 2020;</li> <li>To consider and approve the resolution on the report of the Board of Supervisors of the Company for the year 2020;</li> <li>To consider and approve the resolution on the financial report of the Company for the year 2020;</li> <li>To consider and approve the resolution on dividend distribution plan of the Company for the year 2020;</li> <li>To consider and approve the resolution on the revision of accounting policy (the implementation of new lease standard);</li> <li>To consider and approve the resolution on the reappointment of the auditor and to authorise the Board of Directors to determine the auditor's remuneration for the year 2021;</li> </ol>
Third meeting of the fourth session	5 August 2021	<ol style="list-style-type: none"> <li>To consider and approve the resolution on the half yearly results announcement of the Company for the year 2021</li> </ol>

## 1. MEETINGS OF THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors of the Company convened two meetings, particular of such meetings are as follows:

## 2. PERFORMANCE OF DUTIES BY THE BOARD OF SUPERVISORS

### (1) Operations of the Company complies with laws

During the reporting period, the Board of Supervisors of the Company attended all the Board meetings in 2021 and all the general meetings in strict compliance with the duties and powers conferred by the Company Law 《公司法》, the Articles of Association 《公司章程》, the Rules of Procedure of the Board of Supervisors 《監事會議事規則》 and other laws and regulations. The Board of Supervisors performed its supervisory duties diligently and conscientiously in the interests of the Company, its shareholders and its employees.

The Board of Supervisors considers that the operation standard and decision-making procedures of the Board of the Company is legitimate, while each resolution from the general meeting is being implemented earnestly, and performed its obligations on integrity in a faithful manner. The Company established a more comprehensive internal control system, and the directors and senior management did not breach laws, regulations and the Articles of Association or damaging the interests of the Company or infringing the interest of shareholders in performing their duties.

### (2) Inspecting the financial conditions of the Company

The Board of Supervisors supervises and inspects the financial condition and the implementation of financial management system of the Company in 2021 in an earnest and meticulous manner, and the quarterly, half yearly and annual financial report are being inspected earnestly. The Board of Supervisors considers that the Company possesses a sound financial system with standardized financial operation, and is in a sound financial condition during the reporting period, the financial reports of the Company for each period gives a objective and true view on the financial condition and operating results of the Company, and is free from false representations, misleading statements or material omission.

## REPORT OF THE BOARD OF SUPERVISORS

### (3) Related party transactions of the Company

The Board of Supervisors of the Company has supervised and verified the related party transactions of the Company in 2021. The Board of Supervisors of the Company is of the view that the related party transactions of the Company during the reporting period were in line with the actual needs of the Company's operation, the pricing of the transactions was fair and reasonable, and the decision-making procedures were in compliance with laws and regulations. There was no violation of laws, regulations, the Articles of Association and other relevant provisions, and there was no damage to the interests of the Company and the shareholders.

### (4) Use of proceeds

The deposit and use of the proceeds of the Company in 2021 are true, and there is no violation or damage to the interests of the Company and its shareholders.

### (5) Internal control of the Company

The Board of Supervisors is of the view that, in accordance with the relevant regulations of the China Securities Regulatory Commission and the Shanghai Stock Exchange, the Company has established an internal control system that can effectively cover the Company's various financial and operational management activities in accordance with the basic principles of internal control, taking into account its own industry characteristics and the actual situation of operation, which ensures the normal operation of the Company's various business activities and the effective control of operational risks, and ensures the safety and completeness of the Company's assets. The Company's internal control system is complete, reasonable and effective, and there is no major defect. The Company's internal control system can provide guarantee for the Company's operating activities. The 2021 Internal Control Assessment Report (《2021年度内部控制評價報告》) of the Company truly, completely and objectively reflected the construction and operation of the Company's internal control system.

### (6) Implementation of insider information management system

During the reporting period, the Company strictly executed and implemented the insider information registration management in accordance with the Insider Registration and Management System (《内幕信息知情人登記管理制度》) to standardize the information transmission process. The directors, supervisors, senior management and other relevant insiders of the Company have strictly complied with the insider information management system, and no insiders have been found to have traded the Company's shares with inside information and other violations of laws and regulations.

### (7) Guarantees provided by the Company to the external parties

During the reporting period, the Company and its subsidiaries did not provide guarantees to other companies.

## 3. WORKING PLAN OF THE BOARD OF SUPERVISORS FOR 2022

In 2022, the Board of Supervisors of the Company will continue to strictly comply with the requirements of laws and regulation, including the Company Law, Articles of Association and Rules of procedures of the Board of Supervisors, in order to perform the duties of the Board of Supervisors faithfully and maintain its independence to further promote the standardized operation of the Company and provide protection to the interests of different stakeholders, including shareholders, the Company and its staff.

Meanwhile, in 2022, the members of the Board of Supervisors will enhance their business skills, perform their duties conscientiously and improve the level of supervision by strengthening the study of laws and regulations promulgated by the state, internal rules and regulations of the Company, as well as relevant business and professional skills, and actively carrying out work exchanges, so as to play their due role in promoting the healthy and sustainable development of the Company and effectively safeguard and protect the legitimate interests of the Company and its shareholders.

**Zhang Jie**  
Chairman of the Board of Supervisors

28 March 2022

# CORPORATE GOVERNANCE REPORT

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

## 1. BOARD OF DIRECTORS

### 1.1 Composition of the Board of Directors

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

Name	Position
Mr. Shi Chunbao	Chairman, Executive Director
Ms. Yue Shujun	Executive Director
Mr. Xie Feng Bao	Executive Director
Mr. Wang Xin	Non-executive Director
Mr. Ge Changyin	Independent non-executive Director
Mr. Weng Jie	Independent non-executive Director
Mr. Wong Tak Shing	Independent non-executive Director

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

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

The details of the Directors' resumes are set out on pages 18 to 21 of this report. The relationship of the Chairman Mr. Shi Chunbao and executive Director Ms. Yue Shujun is husband and wife. Other than that, other members of the Board of Directors do not have any relations between each other (including financial, business, family or other material or related relations). The Board of Directors is well-balanced in structure and each of its members is knowledgeable, richly experienced and talented in the business operation and development of the Company. All the Directors understand their joint and several responsibilities for shareholders of the Company.

## CORPORATE GOVERNANCE REPORT

### 1.2 Board Meetings

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

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

During the year ended 31 December 2021, the Board of Directors held 10 meetings in total, with details of the attendance of Directors specified as follows:

Name	Position	Meetings attended/ meetings	Attendance rate
		to be attended	
Mr. Shi Chunbao	Chairman, Executive Director	10/10	100%
Ms. Yue Shujun	Executive Director	10/10	100%
Mr. Xie Feng Bao	Executive Director	10/10	100%
Mr. Wang Xin	Non-executive Director	10/10	100%
Mr. Ge Changyin	Independent non-executive Director	10/10	100%
Mr. Weng Jie	Independent non-executive Director	9/10	90%
Mr. Wong Tak Shing	Independent non-executive Director	10/10	100%

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

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

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



## CORPORATE GOVERNANCE REPORT

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

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

### 1.4 Chairman and Chief Executive Officer

The role of chairman and the chief executive officer are held by Mr. Shi Chunbao and Mr. Shi Chunsheng, respectively. The chairman is responsible for leading the Company and the Board for an efficient operation, leading the overall management of the Board and the Company, making decisions for the Company and its operation and overseeing the regulatory and commercial applicability and sustainability of the Company. The chief executive focuses on the business development, daily management and operation of the Company and overseeing the regulatory and commercial applicability and sustainability of the Company.

### 1.5 Directors' Appointment and Re-election

Pursuant to article 100 of the Articles of Association, the term of office of directors is three years and is subject to re-election and reappointment.

The nomination of new Directors of the Company shall be first deliberated by the Nomination Committee and the Remuneration Committee and then submitted to the Board of Directors, subject to the approval by the general meeting.

## CORPORATE GOVERNANCE REPORT

### 1.6 Board Diversity Policy

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

### 1.7 Training for Directors

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

Name of Directors	Attending Training/ Conference/ Reading Regulatory Updates on Corporate Governance
Executive Directors Mr. Shi Chunbao Ms. Yue Shujun Mr. Xie Feng Bao	✓ ✓ ✓
Non-Executive Director Mr. Wang Xin	✓
Independent Non-Executive Directors Mr. Ge Changyin Mr. Weng Jie Mr. Wong Tak Shing	✓ ✓ ✓

### 1.8 Directors' Insurance

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

## CORPORATE GOVERNANCE REPORT

## 2. BOARD COMMITTEES

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

### 2.1 Audit Committee

The Audit Committee consists of four Directors including Mr. Ge Changyin (independent non-executive Director), Mr. Weng Jie (independent non-executive Director), Mr. Wang Xin (non-executive Director) and Mr. Wong Tak Shing (independent non-executive Director). Mr. Ge Changyin is the chairman of the Audit Committee. The principal duties of the Audit Committee are making recommendations on the appointment, re-appointment and removal of the external auditors; reviewing and monitoring the independence and objectiveness of the external auditors and the effectiveness of the audit procedure in accordance with applicable standards; reviewing the preparation and disclosure of financial information of the Company; overseeing the financial reporting system and internal control system of the Company. During the year ended 31 December 2021 the Audit Committee held two meetings, the details of which are as follows:

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Ge Changyin	Independent non-executive Director	2/2	100%
Mr. Weng Jie	Independent non-executive Director	2/2	100%
Mr. Wang Xin	Non-executive Director	2/2	100%
Mr. Wong Tak Shing	Independent non-executive Director	2/2	100%

During the year, the performance of the Audit Committee is as follows:

1. Reviewed the consolidated financial statements for the year ended 31 December 2021, including the accounting principles and practices;
2. Reviewed and confirmed the matters in relation to the changes in accounting policies;
3. Reviewed the interim results for the six months ended 30 June 2021;
4. Reviewed the risk management and internal control management report; and
5. Considered the reappointment of the auditor for year 2021 and authorized the Board to determine its remuneration.

## CORPORATE GOVERNANCE REPORT

### 2.2 Nomination Committee

The Nomination Committee consists of three Directors including Mr. Ge Changyin (independent non-executive Director), Ms. Yue Shujun (executive Director) and Mr. Weng Jie (independent non-executive Director). Mr. Ge Changyin is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee are reviewing the selection requirements and procedures, structure, number, composition and diversity of the directors and senior management; identifying and selecting qualified candidates to be nominated as directors and senior management or making recommendations to the Board; making recommendations to the Board on the appointment or reappointment of and the succession planning for directors and senior management; reviewing, at its discretion, the board diversity policy; reviewing the independence of independent non-executive Directors; and carrying out other duties as authorized by the Board. During the year ended 31 December 2021, the Nomination Committee held one meeting.

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Ge Changyin (Chairman)	Independent non-executive Director	1/1	100%
Ms. Yue Shujun	Executive Director	1/1	100%
Mr. Weng Jie	Independent non-executive Director	1/1	100%

### 2.3 Remuneration Committee

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

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

The principal duties of the Remuneration Committee are evaluating the appointment, remuneration policies and assessment criteria for the directors and senior management, conducting such assessment and providing advice. It shall include setting the overall remuneration policy and structure for the directors and senior management of the Company and to propose to the Board in respect of establishing remuneration policy through a formal and transparent procedure; reviewing and approving the remuneration proposals for the management with reference to the corporate goals and objectives made by the Board; making recommendations to the Board on the remuneration packages of Directors and senior management; and carrying out other duties as authorized by the Board. During the year ended 31 December 2021, the Remuneration Committee held one meeting.

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Weng Jie (Chairman)	Independent non-executive Director	1/1	100%
Mr. Shi Chunbao	Executive Director, Chairman and marketing director	1/1	100%
Mr. Ge Changyin	Independent non-executive Director	1/1	100%

## CORPORATE GOVERNANCE REPORT

### 2.4 Strategy Committee

The Strategy Committee consists of three Directors including Mr. Shi Chunbao (Chairman), Mr. Xie Feng Bao (executive Director) and Mr. Wang Xin (non-executive Director). Mr. Shi Chunbao is the chairman of the Strategy Committee.

The main duties and authorities of the Strategy Committee are to improve the corporate governance structure, improve the efficiency and effective operation of the Board, and ensure the scientificity, accuracy and legitimacy of the Board's decisions. During the year ended 31 December 2021, the Strategy Committee did not hold any meeting.

## 3. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing the annual financial statements of the Company for the year ended 31 December 2021.

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

The Company does not have any significant uncertainty likely to give rise to the significant doubt of the Company's capability of sustained operations. The responsibility of the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

## 4. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

## CORPORATE GOVERNANCE REPORT

## 5. COMPANY SECRETARY

According to Rule 3.29 of the Listing Rules, the company secretary of the Company must take no less than 15 hours of relevant professional training in each financial year. The company secretary, Mr. Ip Pui Sum, has submitted his training records to the Company, indicating that he has taken no less than 35 hours of relevant professional training through attending seminars and reviewing relevant guideline materials during the financial year ended 31 December 2021.

## 6. AUDITOR'S REMUNERATION

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

Type of service	RMB'000
Annual audit services	580
Non-audit services – review of interim report	200
Total	780

During the year ended 31 December 2021, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

## 7. GENERAL MEETINGS

Date	Name of meeting	Resolution	
		No.	Matters voted on (Matters considered and approved)
22 June 2021	2020 Annual General Meeting	1	To consider and approve the annual report for the year 2020
		2	To consider and approve the report of the Board of Directors for the year 2020
		3	To consider and approve the report of the Board of Supervisors for the year 2020
		4	To consider and approve the reappointment of the auditor for year 2021 and authorized the Board to determine its remuneration
		5	To consider and approve the financial report for the year 2020
6 August 2021	2021 First Extraordinary General Meeting	1	To consider and approve the proposed extension of the validity period of the resolution concerning the A Share Offering and the authorization concerning the A Share Offering
6 August 2021	2021 First Domestic Shareholders' Class Meeting	1	To consider and approve the proposed extension of the validity period of the resolution concerning the A Share Offering and the authorization concerning the A Share Offering
6 August 2021	2021 First H Shareholders' Class Meeting	1	To consider and approve the proposed extension of the validity period of the resolution concerning the A Share Offering and the authorization concerning the A Share Offering
6 December 2021	2021 Second Extraordinary General Meeting	1	To consider and approve the Strategic Allotment to the Collective Assets Management Plan under the A Share Offering and any one of the directors of the Company be and is hereby authorized to do, approve and transact all such acts and things as the director may in his/her absolute discretion consider necessary or desirable in connection therewith



## CORPORATE GOVERNANCE REPORT

## Attendance of Directors in General Meeting

Name	Position	Meetings attended/ meetings to be attended	Attendance rate
Mr. Shi Chunbao	Chairman, Executive Director	5/5	100%
Ms. Yue Shujun	Executive Director	5/5	100%
Mr. Xie Feng Bao	Executive Director	5/5	100%
Mr. Wang Xin	Non-executive Director	5/5	100%
Mr. Ge Changyin	Independent non-executive Director	5/5	100%
Mr. Weng Jie	Independent non-executive Director	5/5	100%
Mr. Wong Tak Shing	Independent non-executive Director	5/5	100%

## 8. DIVIDEND POLICY

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

## 9. COMMUNICATIONS WITH SHAREHOLDERS

Where the Company convenes a general meeting, a notice of the meeting in written form or in electronic form (by posting on, including but not limited to, the website of the Stock Exchange and the website of the Company, same below) shall be given at least 20 clear business days before the date of the meeting to notify all of the shareholders in the shareholders' register of the matters to be considered and the date and venue of the meeting to be held.

### 9.1 Shareholders' Rights to Propose Resolutions

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

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

## CORPORATE GOVERNANCE REPORT

### 9.2 Shareholders' Right to Requisition a Meeting

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

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

### 9.3 Inquiry and Communication of Shareholders

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

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

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

## 10. ARTICLES OF ASSOCIATION AND AMENDMENTS

The Company did not make any amendment to the Articles of Association during the year.

## 11. NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

## CORPORATE GOVERNANCE REPORT

### 12. CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the year ended 31 December 2021, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

### 13. RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing the effectiveness of such system. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines to define authority for key business processes and office functions, including policy on securities trading, safety control system for production and fire, methods of prevention from occupational disease, guidelines regarding using official seal, policy on confidential control (updated version), policy on employees' external training and guidelines regarding information management and transition.

All divisions/departments conduct internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management and division/department heads, assess the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2021.

The internal control team is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal control team examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems for the year ended 31 December 2021, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns such as criminal offence, financial impropriety or other matters of the Company.

The Company has developed its inside information policy which provides a general guide to the Company's Directors, officers and all relevant employees of the Company to ensure inside information of the Company to be disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

# INDEPENDENT AUDITOR'S REPORT



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WUYIGE shenzi [2022]3-00005

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

## I. AUDIT OPINION

We have audited the financial statements of Beijing Chunlizhengda Medical Instruments Co., Ltd. (hereinafter as the **"Company"**), which comprise the consolidated and parent company's balance sheets as at 31 December 2021, the consolidated and parent company's profit statements, the consolidated and parent company's cash flow statements and the consolidated and parent company's statement of changes in equity in 2021, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and parent company's financial positions of the Company as at 31 December 2021, and of its consolidated and parent company's operating results and cash flows in 2021 in accordance with the requirements of the Accounting Standards for Business Enterprises.

## II. BASIS OF FORMING AUDIT OPINIONS

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## III. KEY AUDIT MATTERS

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

### (I) Revenue recognition

#### 1. Description of matters

As described in Note V (XXIX) of the financial statements, the Company realized operating revenue of RMB1,108.1395 million in 2021, which was mainly the sales revenue from joint prosthesis product. Since the appropriateness of operating revenue recognition had material impact on operating result of 2021, there is an inherent risk of manipulation of the timing of revenue recognition by management to meet specific targets or expectations. Therefore, we identified revenue recognition as a key audit matter.

## INDEPENDENT AUDITOR'S REPORT

### 2. Method of audit

- (1) Obtaining an understanding of the key internal controls in relation to revenue recognition, evaluating whether the design and execution thereof are effective; and testing the operating effectiveness of such internal controls;
- (2) Implementing substantive analysis procedures on operating revenue and gross profit margin by months, products and customers, etc. to identify whether there are major or abnormal fluctuations, and find out the reasons therefor;
- (3) Selecting samples to check the sales contracts, identifying the performance obligations in the contracts and the terms and conditions related to the transfer of commodity control rights, and evaluating whether the timing of revenue recognition meets the requirements of the Accounting Standards for Business Enterprises;
- (4) Selecting samples to assess the truthfulness of the Company's revenue by checking the supportive evidence in relation to revenue generation, which include tracing to invoices, delivery notes, customer receipts and etc.;
- (5) Sampling customers to evaluate whether there is any connected relationship between customers and the Company by verifying the industrial and commercial registration information of the customers and comparing it with the Company's information on controlling shareholder and senior management;
- (6) Checking the transaction record between the Company and related parties to assure the necessity and fairness of the transaction;
- (7) Conducting confirmation procedure in respect of the Company's main customers, covering sales amount and resulting balance in the period, and checking main customers' payment;
- (8) Conducting cut-off tests for revenue transactions recorded before and after the balance sheet date.

### (II) Recognition of bad debt provision for receivables

#### 1. Description of matters

As described in Note V (III) of the financial statements, as at 31 December 2021, the balance of the Company's receivables was RMB439.3899 million and the amount of bad debt provision was RMB39.1969 million, representing a relatively high carrying amount. As the management need to apply significant accounting estimation and judgement in assessing the expected recoverable amount of receivables, the financial statements would be significantly influenced if receivables cannot be recovered on time or at all and causes bad debt. Therefore, we identified the recognition of bad debt provision for receivables as a key audit matter.

## INDEPENDENT AUDITOR'S REPORT

### 2. Method of audit

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

## IV. OTHER INFORMATION

The management of the Company (hereinafter as the "Management") is responsible for the other information. The other information comprises the information included in 2021 annual report of the Company, but does not include the financial statements and our audit report.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

WUYIGE Certified Public Accountants. LLP  
Beijing · China

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

Chinese Certified Public Accountant:

28 March 2022

# CONSOLIDATED BALANCE SHEET

31 December 2021

(Expressed in RMB)

Items	Notes	31 December 2021	31 December 2020
<b>Current assets:</b>			
Monetary funds	V.(I)	1,736,493,995.38	690,116,229.19
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable	V.(II)	127,595,937.14	149,790,531.81
Accounts receivable	V.(III)	400,193,012.58	221,285,894.71
Finance receivables			
Prepayments	V.(IV)	7,656,146.95	10,465,163.29
Other receivables	V.(V)	4,489,954.17	522,340.76
Including: Interests receivable			
Dividends receivable			
Inventories	V.(VI)	159,677,359.96	168,613,662.37
Contract assets			
Assets held-for-sale			
Non-current assets due within one year			
Other current assets	V.(VII)	11,657,475.04	11,199,912.51
<b>Total current assets</b>		<b>2,447,763,881.22</b>	1,251,993,734.64
<b>Non-current assets:</b>			
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)	111,389,835.89	107,724,368.01
Construction in progress	V.(IX)	281,558,992.24	55,067,106.50
Productive biological assets			
Oil & gas assets			
Right-of-use assets		1,798,726.19	2,060,210.63
Intangible assets	V.(X)	131,974,040.11	101,492,549.79
Development expenditures	V.(XI)		
Goodwill			
Long-term prepayments	V.(XII)	128,333.51	348,333.47
Deferred income tax assets	V.(XIII)	22,882,542.60	21,552,164.86
Other non-current assets	V.(XIV)	2,161,009.69	1,608,861.17
<b>Total non-current assets</b>		<b>551,893,480.23</b>	289,853,594.43
<b>Total assets</b>		<b>2,999,657,361.45</b>	1,541,847,329.07

## CONSOLIDATED BALANCE SHEET

31 December 2021  
(Expressed in RMB)

Items	Notes	31 December 2021	31 December 2020
<b>Current liabilities:</b>			
Short-term borrowings			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes payable			
Accounts payable	V.(XV)	142,415,529.82	90,291,822.86
Advances received	V.(XVI)	6,992,973.01	7,909,856.35
Contract liabilities	V.(XVII)	59,540,669.01	82,877,185.27
Employee remuneration payable	V.(XVIII)	46,267,095.42	30,900,407.58
Taxes payable	V.(XIX)	32,302,495.73	42,725,439.51
Other payables	V.(XX)	75,055,164.38	59,085,332.20
Including: Interests payable			
Dividends payable			
Held-for-sale liabilities			
Non-current liabilities due within one year	V.(XXI)	1,226,469.52	1,184,473.53
Other current liabilities	V.(XXII)	75,818,491.35	53,870,807.74
<b>Total current liabilities</b>		<b>439,618,888.24</b>	<b>368,845,325.04</b>
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities	V.(XXIII)		667,778.76
Long-term payables			
Long-term employee remuneration payable			
Estimated liabilities			
Deferred income	V.(XXIV)	85,558,271.60	88,171,554.01
Deferred income tax liabilities	V.(XIII)	5,402,815.13	4,574,313.80
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>90,961,086.73</b>	<b>93,413,646.57</b>
<b>Total liabilities</b>		<b>530,579,974.97</b>	<b>462,258,971.61</b>

## CONSOLIDATED BALANCE SHEET

31 December 2021  
(Expressed in RMB)

Items	Notes	31 December 2021	31 December 2020
<b>Shareholders' equity:</b>			
Share capital	V.(XXV)	<b>384,280,000.00</b>	345,852,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	V.(XXVI)	<b>1,051,228,272.24</b>	22,527,980.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	V.(XXVII)	<b>124,721,689.87</b>	92,422,736.65
Undistributed profit	V.(XXVIII)	<b>908,847,424.37</b>	618,785,640.80
<b>Total shareholders' equity attributable to the parent company</b>		<b>2,469,077,386.48</b>	1,079,588,357.46
<b>Non-controlling shareholders' equity</b>			
Total shareholders' equity		<b>2,469,077,386.48</b>	1,079,588,357.46
<b>Total liabilities and/or shareholders' equity</b>		<b>2,999,657,361.45</b>	1,541,847,329.07

# PARENT COMPANY'S BALANCE SHEET

31 December 2021  
(Expressed in RMB)

Items	Notes	31 December 2021	31 December 2020
<b>Current assets:</b>			
Monetary funds		1,723,081,618.53	623,083,905.85
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable		113,397,783.94	149,333,301.81
Accounts receivable	XIV.(I)	420,248,738.84	217,090,452.52
Finance receivables			
Prepayments		7,016,754.75	10,406,383.29
Other receivables	XIV.(II)	4,351,883.00	3,887,720.18
Including: Interests receivable			
Dividends receivable			
Inventories		151,545,441.69	163,152,649.69
Contract assets			
Assets held-for-sale			
Non-current assets due within one year			
Other current assets		11,082,709.62	10,306,620.47
<b>Total current assets</b>		<b>2,430,724,930.37</b>	<b>1,177,261,033.81</b>
<b>Non-current assets:</b>			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	XIV.(III)	8,165,263.00	3,665,263.00
Other investments in equity instruments			
Other non-current financial assets			
Investment property			
Fixed assets		103,744,715.91	102,762,590.24
Construction in progress		281,179,943.62	52,985,898.74
Productive biological assets			
Oil & gas assets			
Right-of-use assets		1,194,047.53	1,736,857.46
Intangible assets		131,892,750.82	101,492,549.79
Development expenditures			
Goodwill			
Long-term prepayments		128,333.51	348,333.47
Deferred income tax assets		21,636,747.34	21,427,449.09
Other non-current assets		2,071,009.69	1,489,653.63
<b>Total non-current assets</b>		<b>550,012,811.42</b>	<b>285,908,595.42</b>
<b>Total assets</b>		<b>2,980,737,741.79</b>	<b>1,463,169,629.23</b>



## PARENT COMPANY'S BALANCE SHEET

31 December 2021

(Expressed in RMB)

Items	Notes	31 December 2021	31 December 2020
<b>Current liabilities:</b>			
Short-term borrowings			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes payable			
Accounts payable		152,584,454.25	90,849,897.65
Advances received		6,992,973.01	7,909,856.35
Contract liabilities		57,928,064.80	82,877,185.27
Employee remuneration payable		45,414,910.85	30,623,519.76
Taxes payable		31,596,608.25	41,266,333.76
Other payables		125,955,460.58	63,062,262.99
Including: Interests payable			
Dividends payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		771,814.46	1,057,632.32
Other current liabilities		79,290,059.40	53,870,807.74
<b>Total current liabilities</b>		<b>500,534,345.60</b>	<b>371,517,495.84</b>
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			546,225.14
Long-term payables			
Long-term employee remuneration payable			
Estimated liabilities			
Deferred income		13,805,782.24	15,654,620.10
Deferred income tax liabilities		5,402,815.13	4,574,313.80
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>19,208,597.37</b>	<b>20,775,159.04</b>
<b>Total liabilities</b>		<b>519,742,942.97</b>	<b>392,292,654.88</b>

## PARENT COMPANY'S BALANCE SHEET

31 December 2021

(Expressed in RMB)

Items	Notes	31 December 2021	31 December 2020
<b>Shareholders' equity:</b>			
Share capital		<b>384,280,000.00</b>	345,852,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		<b>1,051,228,272.24</b>	22,527,980.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		<b>124,721,689.87</b>	92,422,736.65
Undistributed profit		<b>900,764,836.71</b>	610,074,257.69
<b>Total shareholders' equity</b>		<b>2,460,994,798.82</b>	1,070,876,974.35
<b>Total liabilities and shareholders' equity</b>		<b>2,980,737,741.79</b>	1,463,169,629.23

# CONSOLIDATED INCOME STATEMENT

For the year 2021

(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>I. Operating revenue</b>	V.(XXIX)	<b>1,108,139,520.61</b>	937,686,185.19
Less: Operating cost	V.(XXIX)	<b>253,599,079.82</b>	256,930,644.29
Taxes and surcharge	V.(XXX)	<b>9,201,726.41</b>	9,453,333.03
Selling expenses	V.(XXXI)	<b>342,054,758.63</b>	241,011,234.18
Administrative expenses	V.(XXXII)	<b>30,670,756.87</b>	31,220,479.83
Research and development expenses	V.(XXXIII)	<b>104,843,140.53</b>	72,602,836.55
Financial expenses	V.(XXXIV)	<b>-9,642,225.54</b>	-1,636,694.97
Including: Interest expenses			
Interest proceeds		<b>10,755,551.89</b>	6,267,146.07
Add: Other gains	V.(XXXV)	<b>17,454,245.21</b>	8,373,252.30
Investment income (losses are presented as “-”)			
Including: Investment income from associates and joint ventures			
Gains from derecognition of financial assets measured at amortised cost			
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.(XXXVI)	<b>-16,774,803.06</b>	-6,065,825.10
Loss on asset impairment (losses are presented as “-”)	V.(XXXVII)	<b>-10,514,927.19</b>	-158,086.90
Gains on disposal of assets (losses are presented as “-”)	V.(XXXVIII)	<b>14,856.74</b>	-158,177.16
<b>II. Operating profit (losses are presented as “-”)</b>		<b>367,591,655.59</b>	330,095,515.42
Add: Non-operating income	V.(XXXIX)	<b>138,939.72</b>	765,291.89
Less: Non-operating expenses	V.(XL)	<b>351,871.90</b>	1,014,239.18
<b>III. Gross profit (total losses are presented as “-”)</b>		<b>367,378,723.41</b>	329,846,568.13
Less: income tax expenses	V.(XLI)	<b>45,017,986.62</b>	46,473,287.18
<b>IV. Net profit (net losses are presented as “-”)</b>		<b>322,360,736.79</b>	283,373,280.95
(I) Classified by continuity of operation:			
1. Net profit for continuing operation (net losses are presented as “-”)		<b>322,360,736.79</b>	283,373,280.95
2. Net profit for ceased operation (net losses are presented as “-”)			
(II) Classified by ownership:			
1. Net profit attributable to the shareholders of the parent company (net losses are presented as “-”)		<b>322,360,736.79</b>	283,373,280.95
2. Non-controlling shareholders' profit or loss (net losses are presented as “-”)			

## CONSOLIDATED INCOME STATEMENT

For the year 2021  
(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>V. Net other comprehensive income after tax</b>			
(I) Net other comprehensive income after tax attributable to the shareholders of the parent company			
1. Other comprehensive income that cannot be reclassified to profit or loss			
(1) Changes in re-measurement on the defined benefit plans			
(2) Other comprehensive income which cannot be converted into profit or loss under equity method			
(3) Change in fair value of other equity instruments investment			
(4) Change in fair value of credit risks of the Company			
2. Other comprehensive income to be reclassified to profit or loss			
(1) Other comprehensive income which can be converted into profit or loss under equity method			
(2) Change in fair value of other debt investment			
(3) Financial assets reclassified into other comprehensive income			
(4) Provision of credit impairment of other debt investment			
(5) Cash flow hedging reserve			
(6) Translation difference of foreign currency financial statements			
(7) Others			
(II) Net other comprehensive income after tax attributable to non-controlling shareholders			
<b>VI. Total comprehensive income</b>		<b>322,360,736.79</b>	283,373,280.95
(I) Total comprehensive income attributable to the shareholders of the parent company		<b>322,360,736.79</b>	283,373,280.95
(II) Total comprehensive income attributable to non-controlling shareholders			
<b>VII. Earnings per share</b>			
(I) Basic EPS		<b>0.93</b>	0.82
(II) Diluted EPS		<b>0.93</b>	0.82

# PARENT COMPANY'S INCOME STATEMENT

For the year 2021

(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>I. Operating revenue</b>	XIV.(IV)	<b>1,115,158,183.49</b>	934,909,915.79
Less: operating cost	XIV.(IV)	<b>270,108,505.90</b>	262,706,693.75
Taxes and surcharge		<b>9,154,921.56</b>	9,423,404.15
Selling expenses		<b>336,401,634.06</b>	241,011,234.18
Administrative expenses		<b>28,828,535.77</b>	29,862,102.26
Research and development expenses		<b>102,167,585.58</b>	71,724,019.81
Financial expenses		<b>-9,236,232.35</b>	-935,619.39
Including: Interest expenses			
Interest proceeds		<b>10,319,687.19</b>	5,559,526.99
Add: Other gains		<b>16,688,609.34</b>	7,936,261.83
Investment income (losses are presented as "-")			
Including: Investment income from associates and joint ventures			
Gains from derecognition of financial assets measured at amortised cost			
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 "-")		<b>-15,306,092.21</b>	-5,709,449.87
Loss on asset impairment (losses are presented as "-")		<b>-10,514,927.19</b>	-158,086.90
Gains on disposal of assets (losses are presented as "-")		<b>-43,471.20</b>	-158,177.16
<b>II. Operating profit (losses are presented as "-")</b>		<b>368,557,351.71</b>	323,028,628.93
Add: Non-operating income		<b>138,845.17</b>	735,111.89
Less: Non-operating expenses		<b>349,971.90</b>	972,251.56
<b>III. Gross profit (total losses are presented as "-")</b>		<b>368,346,224.98</b>	322,791,489.26
Less: income tax expenses		<b>45,356,692.74</b>	44,790,741.09
<b>IV. Net profit (net losses are presented as "-")</b>		<b>322,989,532.24</b>	278,000,748.17
(I) Net profit for continuing operation (net losses are presented as "-")		<b>322,989,532.24</b>	278,000,748.17
(II) Net profit for ceased operation (net losses are presented as "-")			

## PARENT COMPANY'S INCOME STATEMENT

For the year 2021  
(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>V. Net other comprehensive income after tax</b>			
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Changes in re-measurement on the defined benefit plans			
2. Other comprehensive income which cannot be converted into profit or loss under equity method			
3. Change in fair value of other equity instruments investment			
4. Change in fair value of credit risks of the Company			
(II) Other comprehensive income to be reclassified to profit or loss			
1. Other comprehensive income which can be converted into profit or loss under equity method			
2. Change in fair value of other debt investment			
3. Financial assets reclassified into other comprehensive income			
4. Provision of credit impairment of other debt investment			
5. Cash flow hedging reserve			
6. Translation difference of foreign currency financial statements			
7. Others			
<b>VI. Total comprehensive income</b>		<b>322,989,532.24</b>	278,000,748.17

# CONSOLIDATED CASH FLOW STATEMENT

For the year 2021

(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods and rendering of services		<b>956,123,206.81</b>	900,866,200.48
Receipts of tax refund			
Other cash receipts related to operating activities	V.(XLII)	<b>16,717,494.37</b>	27,085,641.51
Subtotal of cash inflow from operating activities		<b>972,840,701.18</b>	927,951,841.99
Cash payments for goods purchased and services received		<b>198,361,277.38</b>	168,366,649.38
Cash paid to and on behalf of employees		<b>143,231,902.45</b>	121,073,054.98
Taxes paid		<b>142,407,596.76</b>	147,846,209.75
Other cash payments related to operating activities	V.(XLII)	<b>324,054,138.14</b>	229,983,567.98
Subtotal cash outflow from operating activities		<b>808,054,914.73</b>	667,269,482.09
Net cash flows from operating activities		<b>164,785,786.45</b>	260,682,359.90
<b>II. Cash flows from investing activities:</b>			
Cash received from disinvestments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		<b>44,163.56</b>	86,411.15
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities	V.(XLII)	<b>9,017,960.04</b>	2,381,917.82
Subtotal of cash inflow from investing activities		<b>9,062,123.60</b>	2,468,328.97
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		<b>199,409,179.00</b>	24,004,840.74
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 outflow from investing activities		<b>199,409,179.00</b>	24,004,840.74
Net cash flows from investing activities		<b>-190,347,055.40</b>	-21,536,511.77



## CONSOLIDATED CASH FLOW STATEMENT

For the year 2021  
(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>III. Cash flows from financing activities:</b>			
Cash received from investments		<b>1,075,858,671.96</b>	
Including: cash received by subsidiaries from non-controlling shareholders' investments			
Cash received from borrowings			
Other cash receipts related to financing activities			
Subtotal of cash inflow from financing activities		<b>1,075,858,671.96</b>	
Cash repayment of debts			
Cash paid for distribution of dividends, profits or for interest expenses			11,875,560.00
Including: cash paid for distribution of dividends and profit by subsidiaries to non-controlling shareholders			
Other cash payments related to financing activities	V.(XLII)	<b>2,195,491.00</b>	
Subtotal of cash outflow from financing activities		<b>2,195,491.00</b>	11,875,560.00
Net cash flows from financing activities		<b>1,073,663,180.96</b>	-11,875,560.00
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-1,724,145.82</b>	-1,331,093.47
<b>V. Net increase in cash and cash equivalents</b>		<b>1,046,377,766.19</b>	225,939,194.66
Add: Opening balance of cash and cash equivalents		<b>690,116,229.19</b>	464,177,034.53
<b>VI. Closing balance of cash and cash equivalents</b>		<b>1,736,493,995.38</b>	690,116,229.19

# PARENT COMPANY'S CASH FLOW STATEMENT

For the year 2021

(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods and rendering of services		<b>940,286,629.01</b>	900,421,163.02
Receipts of tax refund			
Other cash receipts related to operating activities		<b>60,209,559.98</b>	23,429,791.06
Subtotal of cash inflow from operating activities		<b>1,000,496,188.99</b>	923,850,954.08
Cash payments for goods purchased and services received		<b>191,662,881.86</b>	169,093,238.50
Cash paid to and on behalf of employees		<b>136,632,245.57</b>	118,675,044.44
Taxes paid		<b>140,219,599.26</b>	147,050,814.90
Other cash payments related to operating activities		<b>311,612,928.41</b>	228,503,048.37
Subtotal cash outflow from operating activities		<b>780,127,655.10</b>	663,322,146.21
Net cash flows from operating activities		<b>220,368,533.89</b>	260,528,807.87
<b>II. Cash flows from investing activities:</b>			
Cash received from disinvestments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		<b>620,300.00</b>	69,400.00
Net cash received from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities		<b>9,017,960.04</b>	2,381,917.82
Subtotal of cash inflow from investing activities		<b>9,638,260.04</b>	2,451,317.82
Cash paid for acquiring fixed assets, intangible assets and other long-term assets		<b>197,909,834.39</b>	17,738,358.95
Cash payments for investments		<b>4,500,000.00</b>	
Net cash payments for acquisitions of subsidiaries and other business units			
Other cash payments related to investing activities			
Subtotal of cash outflow from investing activities		<b>202,409,834.39</b>	17,738,358.95
Net cash flows from investing activities		<b>-192,771,574.35</b>	-15,287,041.13

## PARENT COMPANY'S CASH FLOW STATEMENT

For the year 2021  
(Expressed in RMB)

Items	Notes	Amount for current period	Amount for previous period
<b>III. Cash flows from financing activities:</b>			
Cash received from investments		1,075,858,671.96	
Cash received from borrowings			
Other cash receipts related to financing activities			
Subtotal of cash inflow from financing activities		1,075,858,671.96	
Cash repayment of debts			
Cash paid for distribution of dividends, profits or for interest expenses			11,875,560.00
Other cash payments related to financing activities		1,733,773.00	
Subtotal of cash outflow from financing activities		1,733,773.00	11,875,560.00
Net cash flows from financing activities		1,074,124,898.96	-11,875,560.00
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		-1,724,145.82	-1,331,093.47
<b>V. Net increase in cash and cash equivalents</b>		1,099,997,712.68	232,035,113.27
Add: Opening balance of cash and cash equivalents		623,083,905.85	391,048,792.58
<b>VI. Closing balance of cash and cash equivalents</b>		1,723,081,618.53	623,083,905.85

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2021

(Expressed in RMB)

Items	Current period												
	Equity attributable to parent company												
	Other equity instruments				Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Subtotal	Non-controlling interest	Total equity
Share capital	Preferred shares	Perpetual bonds	Others										
I. Balance at the end of prior year	345,852,000.00				22,527,980.01				92,422,736.65	618,785,640.80	1,079,588,357.46		1,079,588,357.46
Add: Changes of accounting policies													
Error correction of prior period													
Business combination under common control													
Others													
II. Balance at the beginning of current year	345,852,000.00				22,527,980.01				92,422,736.65	618,785,640.80	1,079,588,357.46		1,079,588,357.46
III. Amount of current period increase or decrease (decreases are presented as "-")	38,428,000.00				1,028,700,292.23				32,298,953.22	290,061,783.57	1,389,489,029.02		1,389,489,029.02
(I) Total comprehensive income										322,360,736.79	322,360,736.79		322,360,736.79
(II) Capital contributed and withdrawn by shareholders	38,428,000.00				1,028,700,292.23						1,067,128,292.23		1,067,128,292.23
1. Ordinary shares contributed by shareholders	38,428,000.00				1,028,700,292.23						1,067,128,292.23		1,067,128,292.23
2. Capital contributed by holders of other equity instruments													
3. Amount of share-based payment included in equity													
4. Others													
(III) Profit distribution									32,298,953.22	-32,298,953.22			
1. Appropriation of surplus reserve									32,298,953.22	-32,298,953.22			
2. Distribution to shareholders													
3. Others													
(IV) Internal carry-over within shareholders' equity													
1. Transfer of capital reserve to share capital													
2. Transfer of surplus reserve to share capital													
3. Surplus reserve to cover losses													
4. Transfer of changes in balance of the defined benefit plans to retained earnings													
5. Other comprehensive income carried over to retained earnings													
6. Others													
(V) Special reserve													
1. Appropriation of current period													
2. Application of current period													
(VI) Others													
IV. Balance at the end of current period	384,280,000.00				1,051,228,272.24				124,721,689.87	908,847,424.37	2,469,077,386.48		2,469,077,386.48

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2021  
(Expressed in RMB)

Items	Equity attributable to parent company												Non-controlling interest	Total equity
	Other equity instruments				Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Subtotal			
	Share capital	Preferred shares	Perpetual bonds	Others										
I. Balance at the end of prior year	138,340,800.00				230,039,180.01					64,622,661.83	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	138,340,800.00				230,039,180.01					64,622,661.83	373,587,994.67	806,590,636.51		806,590,636.51
III. Amount of current period increase or decrease (decreases are presented as "-")	207,511,200.00				-207,511,200.00					27,800,074.82	245,197,646.13	272,997,720.95		272,997,720.95
(I) Total comprehensive income											283,373,280.95	283,373,280.95		283,373,280.95
(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										27,800,074.82	-38,175,634.82	-10,375,560.00		-10,375,560.00
1. Appropriation of surplus reserve										27,800,074.82	-27,800,074.82			
2. Distribution to shareholders											-10,375,560.00	-10,375,560.00		-10,375,560.00
3. Others														
(IV) Internal carry-over within shareholders' equity	207,511,200.00				-207,511,200.00									
1. Transfer of capital reserve to share capital	207,511,200.00				-207,511,200.00									
2. Transfer of surplus reserve to share capital														
3. Surplus reserve to cover losses														
4. Transfer of changes in balance of the defined benefit plans to retained earnings														
5. Other comprehensive income carried over to retained earnings														
6. Others														
(V) Special reserve														
1. Appropriation of current period														
2. Application of current period														
(VI) Others														
IV. Balance at the end of current period	345,852,000.00				22,527,980.01					92,422,736.65	618,785,640.80	1,079,588,357.46		1,079,588,357.46

## PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2021

(Expressed in RMB)

Items	Share capital	Other equity instruments				Current period					Total equity
		Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	
<b>I. Balance at the end of prior year</b> Add: Changes of accounting policies Error correction of prior period Others	345,852,000.00				22,527,980.01				92,422,736.65	610,074,257.69	1,070,876,974.35
<b>II. Balance at the beginning of current year</b>	345,852,000.00				22,527,980.01				92,422,736.65	610,074,257.69	1,070,876,974.35
<b>III. Amount of current period increase or decrease (decreases are presented as "-")</b>	38,428,000.00			1,028,700,292.23					32,298,953.22	290,690,579.02	1,390,117,824.47
(i) Total comprehensive income										322,989,532.24	322,989,532.24
(ii) Capital contributed and withdrawn by shareholders	38,428,000.00			1,028,700,292.23							1,067,128,292.23
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									32,298,953.22	-32,298,953.22	
1. Appropriation of surplus reserve									32,298,953.22	-32,298,953.22	
2. Distribution to shareholders											
3. Others											
(iv) Internal carry-over within shareholders' equity											
1. Transfer of capital reserve to share capital											
2. Transfer of surplus reserve to share capital											
3. Surplus reserve to cover losses											
4. Transfer of changes in balance of the defined benefit plans to retained earnings											
5. Other comprehensive income carried over to retained earnings											
6. Others											
(v) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(vi) Others											
<b>IV. Balance at the end of current period</b>	384,280,000.00			1,051,228,272.24					124,721,689.87	900,764,836.71	2,460,994,798.82

## PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2021  
(Expressed in RMB)

Items	Other equity instruments				Previous period						Total equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	
<b>I. Balance at the end of prior year</b>	138,340,800.00				230,039,180.01				64,622,661.83	370,249,144.34	803,251,786.18
Add: Changes of accounting policies											
Error correction of prior period											
Others											
<b>II. Balance at the beginning of current year</b>	138,340,800.00				230,039,180.01				64,622,661.83	370,249,144.34	803,251,786.18
<b>III. Amount of current period increase or decrease (decreases are presented as "-")</b>	207,511,200.00				-207,511,200.00				27,800,074.82	239,825,113.35	267,625,188.17
(I) Total comprehensive income										278,000,748.17	278,000,748.17
(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									27,800,074.82	-38,175,634.82	-10,375,560.00
1. Appropriation of surplus reserve									27,800,074.82	-27,800,074.82	
2. Distribution to shareholders										-10,375,560.00	-10,375,560.00
3. Others											
(IV) Internal carry-over within shareholders' equity	207,511,200.00				-207,511,200.00						
1. Transfer of capital reserve to share capital	207,511,200.00				-207,511,200.00						
2. Transfer of surplus reserve to share capital											
3. Surplus reserve to cover losses											
4. Transfer of changes in balance of the defined benefit plans to retained earnings											
5. Other comprehensive income carried over to retained earnings											
6. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
<b>IV. Balance at the end of current period</b>	345,852,000.00				22,527,980.01				92,422,736.65	610,074,257.69	1,070,876,974.35



# NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## 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 RMB384.28 million, and total shares are 384.28 million shares (each with par value of RMB1). The Company's shares were listed and traded on Hong Kong Stock Exchange on 11 March 2015, with Chunli Medical as its stock abbreviation and 01858.HK as its stock code. The Company's shares were listed and traded on Shanghai Stock Exchange on 30 December 2021, with Chunli Medical as its stock abbreviation and 688236.SH 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.

This financial report is authorised for issuance by the Board of the Company on 28 March 2022.

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), Pilot Medical Device Co., Limited, Beijing Shiyue Changsheng Medical Devices Co., Ltd. (北京實躍長盛醫療器械有限公司) Xingtai Langtai Bengyuan Medical Devices Co., Ltd.\* (邢台市琅泰本元醫療器械有限公司), Luangtai Meikang Medical Devices Co., Ltd.\* (琅泰美康醫療器械有限公司) and Beijing Lechi Inspection Technology Co. \* (北京樂馳檢測技術有限公司) 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 RMB)

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

The financial statements have been prepared in accordance with the requirements of ASBEs, and present truly and completely information relating to the Company's financial position as at 31 December 2021, its results of operations and cash flows in 2021.

#### (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 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 RMB)

### 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 RMB)

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

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

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

### 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 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.

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

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

###### (2) Financial liabilities

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

##### 2. Measurement of financial instruments

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

###### (1) Financial Assets

① Financial assets at amortised cost. After initial recognition, such financial assets are measured at amortised cost using the effective interest method. Gains or losses arising from financial assets at amortised cost and that are not parts of any hedging relationships are included in profit or loss in the period which they incurred when derecognised, reclassified, amortised or recognised the impairment under the effective interest method.

② Financial assets at fair value through profit or loss. After initial recognition, gain or loss (including interest and dividend income) arisen from subsequent measurement of the financial assets at fair value is included in profit and loss in the period which they incurred, unless the financial assets are parts of the hedging relationships.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

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

#### 2. Measurement of financial instruments (Continued)

##### (1) Financial Assets (Continued)

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

##### (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.

#### 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. In limited cases, if the short-term information used to determine fair value is insufficient, or if the possible estimated amount of fair value is widely distributed, and the cost represents the best estimate of fair value in the range, the cost can represent its proper estimate of fair value in the range of distribution. The Company utilises all information available in relation to the performance and operation of the investee after the initial recognition date to determine whether the fair value can be represented by cost.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

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

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

##### (1) Financial assets

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

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

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

If the transfer of financial asset partially satisfies the conditions of derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, firstly apportioned according to their respective relative fair value on transfer date, and then the difference between the two amounts below is recorded in profit or loss: ① the carrying amount of the derecognized part as at the date of derecognition; ② the sum of the consideration received from derecognized part and, when the transferred financial asset is classified as financial asset at fair value through other comprehensive income, the accumulative amount in changes of the fair value originally recorded in other comprehensive income for the part derecognized.

##### (2) Financial liabilities

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

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



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

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

##### 1. The determination method of expected credit loss

Based on expected credit losses, the Company conducts impairment accounting treatment for and recognizes impairment losses of financial assets at amortised cost (including receivables) as well as financial assets (including receivables financing) and lease receivables 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 need not compare with its credit risk at initial recognition and directly assume that credit risk of that instrument has not increased significantly since its initial recognition.

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

- (2) Measurement of loss provision for accounts receivable and lease receivable
  - ① Accounts receivable that exclude significant financing component. For accounts receivable 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.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

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

##### 1. The determination method of expected credit loss (Continued)

- (2) Measurement of loss provision for accounts receivable and lease receivable (Continued)  
Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. 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 receivable portfolio 1: Bank acceptance note portfolio.

Notes receivable portfolio 2: Commercial acceptance note portfolio.

For the trade receivables 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.

- ② Accounts receivable and lease receivable that include significant financing component.  
For accounts receivable 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 RMB)

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

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

##### 1. The determination 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 took 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.

The Company divides other receivable into certain portfolios based on their nature while measuring expected credit loss based on portfolio. The basis to determine the portfolio is as follows:

Other receivables portfolio 1: Guarantee deposits, deposits

Other receivables portfolio 2: Petty cash

Other receivables portfolio 3: Others

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

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

##### 2. Accounting method for expected credit loss

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 RMB)

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

#### (XII) Contract assets and contract liabilities

##### 1. Contract assets

A contract asset is the Group's right to consideration in exchange for goods or services that it has transferred to a customer when that right is conditional on something other than the passage of time. The provision for impairment of contract assets is made with reference to the expected credit loss on financial instruments. For contract assets that do not contain significant financing components, the Company adopts a simplified method to measure loss provisions. For contract assets that contain significant financing components, the Company uses general methods to measure loss provisions.

Where there is an impairment loss on contract assets, the amount that should be written down is debited to the "asset impairment loss" and credited to the impairment provision for contract assets; when the asset impairment provision already made is reversed, contrary accounting shall be made.

##### 2. Contract liabilities

A contract liability is the obligation of the Group to transfer goods to customers due to the consideration received or receivable by the Group.

The Company presents the contract assets and contract liabilities under the same contract on a net basis.

#### (XIII) 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 equity in the ultimate controlling party's consolidated financial statements shall be recognised as the initial investment cost of long-term equity investments on the date of combination; for business combination not under common control, the combination cost as determined on the date of acquisition shall be recognised as the initial investment cost of long-term equity investments; for a long-term equity investment acquired by payment of cash, the initial investment cost shall be the actual purchase price paid; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued; for a long-term equity investment acquired from debt restructuring, the initial investment cost is recognised according to relevant requirements under "ASBE 12 – Debt Restructuring"; for a long-term equity investment acquired from exchange of non-monetary assets, the initial investment cost shall be recognized according to relevant requirements under "ASBE 7 – Exchange of Non-monetary Assets".

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

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

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES  
(Continued)

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

## 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.

## (XIV) 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
Electronic facilities and others	5	5	19.00

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XV) 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.

#### (XVI) Borrowing costs

##### 1. Capitalization of borrowing cost

Borrowing costs directly attributable to the acquisition, construction or origination of assets qualified for capitalisation are capitalized as part of the cost of those assets. Other borrowing costs are expensed and charged to current profit or loss at the amount when incurred. Assets qualified for capitalisation condition refer to the fixed assets, investment property and inventories, which need a rather long acquisition and construction activities or production activities to reach up to the scheduled available or salable state.

##### 2. Calculation of capitalisation amount

The capitalisation period refers to the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs is suspended when the acquisition and production activities are interrupted abnormally for a period of more than three months.

For specific borrowings, the capitalized amount shall be the actual interest expense incurred for the specific borrowings, less the interest income from the unused funds of the borrowings deposited in bank or investment income from the temporary investments; and for general borrowings, the weighted average of general borrowings occupied, based on the accumulated expenditure exceeding the capital expenditure from specific borrowings times the capitalisation rate of the general borrowings so occupied. The capitalisation rate is the weighted average rate of the general borrowings; and for borrowings with discount or premium, the discount or premium was amortised over the term of the borrowings to adjust the interest in every period using effective interest rate method.

The effective interest method is based on the effective interest rate of the borrowings to calculate the amortization of discount or premium or interest expense. The effective interest rate is the rate in discounting the estimated future cash flows to the current carrying amount of the borrowings.



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XVII) Intangible assets

##### 1. Measurement method of intangible assets

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

Subsequent measurement of the Company's intangible assets: intangible assets with finite useful lives are 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 judgement 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 judgements of the indefinite useful life, etc.

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

Expenditure during the research stage of the internal research and development projects are charged to the current profit or loss as incurred. Expenditure during the development stage are transferred to intangible assets if the conditions for recognition of intangible assets are met. (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 RMB)

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

#### (XVII) Intangible assets (Continued)

#### 3. Basis for research and development phases for internal research and development project and basis for capitalisation of expenditure incurred in development stage (Continued)

Specific basis for distinguishing research phase and development phase of an internal research and development project: the planned investigation phase for obtaining new technologies and knowledge shall be determined as research phase as such phase has planned and exploratory features; phases that include the application of research result or other knowledge to certain plan or design to produce a new or substantially improved material, equipment and product before commercial production or usage shall be determined as development phase as such phase are targeted and has a higher possibility of generating result.

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

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

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

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

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

#### (XIX) 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.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XX) Employee remuneration

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

#### 1. Short-term benefits

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

#### 2. Post-employment benefits

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

#### 3. Termination benefits

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

#### 4. Other long-term employee benefits

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

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXI) Revenue

The Company recognizes revenue based on the transaction price allocated to such performance obligation when a performance obligation in the contract is satisfied, i.e. when customer obtained the right to control the relevant goods or services. 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.

The satisfaction of performance obligation over time or at a point in time is determined by contractual terms or relevant law. For performance obligation satisfied over time, the Company recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Otherwise, the Company recognises revenue at the point in time at which the customer obtains control of relevant assets.

When judging whether the customer obtains control of the good or not, the company should consider the following indications:

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

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXI) Revenue (Continued)

##### **The specific method for recognition of the Company's revenue**

Contracts for the sale of goods between the Company and its customers generally contain only performance obligations for the transfer of goods. As the Company's performance obligations for the transfer of goods do not satisfy three conditions within a certain period of time, the Company's sales of medical device products fall within the scope of performance obligations at a point of time. The Company's major sales models include distribution model, direct sales and delivery model, and overseas sales model.

The specific principles and timing of revenue recognition under each sales model are as follows:

Distribution model: The Company recognizes revenue after the distributor inspected and signed for the receipt of goods.

Direct sales and delivery model: The Company recognizes revenue according to the usage after the actual use of products in the hospital.

Overseas sales model: The Company's policy and timing for revenue recognition for overseas sales is that revenue is recognized when the Company ships the goods and declares them for export.

#### (XXII) Contract costs

Contract cost of the Company includes the incremental costs of obtaining a contract and the cost to fulfill a contract. Incremental costs of obtaining a contract ("**costs of obtaining a contract**") represents costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group recognises as an asset the incremental costs of obtaining a contract with a customer if it expects to recover those costs.

If the costs to fulfill a contract with a customer are not within the scope of inventories or other accounting standards, the Group recognises an asset from the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

1. the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, including direct labour, direct materials, allocations of overheads (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract;
2. the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future;
3. the costs are expected to be recovered.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXII) Contract costs (Continued)

The costs to fulfill a contract that Company will recognize as assets are included in the “inventory” item on the balance sheet if the amortisation period does not exceed one year or a normal business cycle at the initial recognition; and shall be included in “other non-current assets” item in the balance sheet if the amortization period is over one year or the normal business cycle at the initial recognition.

Assets recognised for the incremental costs of obtaining a contract and assets recognised for the costs to fulfill a contract (the “**assets related to contract costs**”) are amortised on the same basis as the revenue recognition of the goods related to the assets and are included in the current profit and loss. The Company recognises the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

The Company recognises an impairment loss in profit or loss to the extent that the carrying amount of an asset related to contract costs exceeds:

1. remaining amount of consideration the Company expects to receive in exchange for the goods or services to which the asset relates; less
2. the costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

If the depreciation factors in the previous period change subsequently, and the difference between the aforementioned two items is higher than the book value of the asset, the original provision for impairment of the asset should be reversed and included in the current profit and loss, provided that the book value of the asset after the reversal shall not exceed the book value of the asset on the date of reversal under the assumption that no impairment provision is made.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXIII) Government grants

##### 1. Types of government grants and accounting treatment

Government grants are monetary assets or non-monetary assets (excluding the capital invested by the government as the owner) obtained by the Company from the government for free. A government grant in monetary asset shall be recognized at the amount received or to be received. A government grant in non-monetary asset shall be recognised at its fair value; if the fair value is not reliably measured, the grant is measured at nominal amount.

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

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

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

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

##### 2. Timing for recognition of governmental grants

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



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXIV) Deferred income tax assets and deferred income tax liabilities

1. Deferred income tax assets or deferred income tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (for items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws, tax base is recognized as the difference) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.
2. A deferred income tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain to deduct from the deductible temporary difference. At the balance sheet date, if there is any exact evidence that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized.
3. As for taxable temporary difference related to the investments of subsidiaries and associated enterprises, the deferred income tax liabilities shall be recognized unless the Company can control the time for the reversal of temporary differences and such differences are very unlikely to be reversed in the foreseeable future. As for the deductible temporary difference related to investments of subsidiaries and associated enterprises, the deferred income tax assets shall be recognized when such temporary differences are much likely to be reversed in the foreseeable future and the taxable profit are available against which the deductible temporary difference can be utilized.

#### (XXV) Lease

##### 1. Accounting treatment for leased assets

On the commencement date of the lease term, the Company recognises the right-of-use assets and lease liabilities for leases other than short-term leases and low-value asset leases, and separately recognises the depreciation expense and interest expense over the lease term.

The Company adopts the straight-line method for each period of the lease term, and the lease payments for short-term leases and low-value assets leases are included in the current expenses.

##### (1) Right-of-use assets

The right-of-use asset is defined as the right of underlying assets in the lease term for lessee. At the commencement date, the right-of-use is initially measured at cost. The cost of the right-of-use assets shall comprise: ① the amount of the initial measurement of the lease liability; ② any lease payments made at or before the commencement date, less any lease incentives received; ③ any initial direct costs incurred by the lessee; and ④ an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXV) Lease (Continued)

##### 1. Accounting treatment for leased assets (Continued)

###### (1) Right-of-use assets (Continued)

Right-of-use assets are depreciated by categories using the straight-line method. If there is reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, depreciation are provided by reference to categories of right-of-use assets and estimated residual value rates over the estimated remaining useful life of leased asset; if there is no reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, depreciation are provided by reference to categories of right-of-use assets over the shorter of the lease term and the estimated remaining useful life.

The Company recognizes whether the right-of-use assets are impaired or not and accounts for impairment under relevant regulations of the "Accounting Standard for Business Enterprises No.8 – Impairment of Asset".

###### (2) Lease liabilities

The lease liability is measured at the present value of lease payments that are unpaid at that date. Lease payments include: ① fixed payments (including in-substance fixed payments) less any lease incentives receivable; ② variable lease payments that depend on an index or a rate; ③ amounts expected to be paid under residual value of the leasee's guarantees; ④ the exercise price of a purchase option reasonably certain to be exercised by leasee; ⑤ payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate;

The Company adopts the interest rate implicit in the lease as the discount rate. If that rate cannot be determined, the Company's incremental borrowing rate is used. The Company shall calculate the interest expenses of lease liabilities over the lease term at the fixed periodic interest rate, and include it into financial expenses. The periodic interest rate refers to the discount rate adopted by the Company or the revised discount rate.

Variable lease payments not included in the measurement of lease liabilities are charged to profit or loss in the period in which they actually arise.

When the Company's evaluation results on extension, termination or purchase options change, the lease liabilities are remeasured by the present value calculated from the changed lease payments and revised discount rate and the carrying amount of the right-of-use assets will be adjusted accordingly. When the in-substance leased payments, amounts expected to be payable under the guaranteed residual value and the variable lease payments that depend on an index or a rate change, the lease liabilities are remeasured by the present value calculated from the changed lease payments and original discount rate and the carrying amount of the right-of-use assets will be adjusted accordingly.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXV) Lease (Continued)

##### 2. Accounting treatment of assets leased out

- (1) Accounting treatment of operating leases  
The Company recognizes the lease payments derived from operating leases as rental income on a straight-line basis over the respective lease terms. Initial direct costs relating to operating leases incurred by the Company shall be capitalized and then included in the current income by stages at the same base as the recognition of rental income over the whole lease term.
- (2) Accounting treatment of financing leases  
At the commencement date of lease term, the Company recognizes the difference between the sum of financing lease receivable and the unguaranteed residual value, and the present value thereof as unrealized financing income, and recognizes the same as rental income over the periods when rent is received in the future. The Company's initial direct costs associated with rental transactions shall be included in the initial measurement of the finance lease receivables.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (XXVI) 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:

The key estimation and key assumption for expected credit loss, key accounting judgement and estimation for provisions of declines in the value of inventories, key accounting judgement and estimation for depreciation of fixed assets, key accounting judgement and estimation for impairment of long term assets, key estimation and key assumption for determination of fair value and and key estimation for revenue recognition and measurement.

#### **Expected credit losses of receivables**

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

#### **Provisions for declines in the value of inventories**

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

#### **Expected useful life and net residual value of fixed assets**

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

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES  
(Continued)

## (XXVII) Explanation of Changes in Critical Accounting Policies and Changes in Accounting Estimates

**Changes in accounting policies**

- (1) Changes in accounting policies and basis  
The Ministry of Finance issued the revised “ASBE No. 21 – Lease” in December 2018, which was implemented by the Company since 1 January 2021. For contracts already existed before the date of initial implementation, the Company has elected not to reassess whether they are leases or contain leases. The Company has adjusted the amounts of the relevant items in the financial statements at the beginning of the year of initial implementation based on the cumulative effect of initial implementation, without adjusting the information in the comparable period.
- (2) Effect of changes in accounting policies  
Effect of the implementation of the revised lease standard

Items in consolidated statements	31 December 2020	Affected amounts	1 January 2021
Assets:			
Prepayments	10,673,121.63	-207,958.34	10,465,163.29
Right-of-use assets	–	2,060,210.63	2,060,210.63
Liabilities:			
Non-current liabilities due within one year		1,184,473.53	1,184,473.53
Lease liabilities	–	667,778.76	667,778.76

Items in parent company's statements	31 December 2020	Affected amounts	1 January 2021
Assets:			
Prepayments	10,539,383.29	-133,000.00	10,406,383.29
Right-of-use assets	–	1,736,857.46	1,736,857.46
Liabilities:			
Non-current liabilities due within one year		1,057,632.32	1,057,632.32
Lease liabilities	–	546,225.14	546,225.14

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## 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	15%, 25%

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

Note: The subsidiaries including Beijing Zhao Yi Te Medical Devices Co., Ltd.\* (北京兆億特醫療器械有限公司), Xingtai Langtai Bengyuan Medical Devices Co., Ltd.\* (邢台市琅泰本元醫療器械有限公司), Luangtai Meikang Medical Devices Co., Ltd.\* (琅泰美康醫療器械有限公司) and Beijing Lechi Inspection Technology Co. \* (北京樂馳檢測技術有限公司) were subject to the income tax rates for small and micro firms during the current period.

## (II) Significant preferential tax and official approval

The Company passed the certification of high and new technology enterprise review on 17 December 2021 and obtained the High and New Technology Enterprise Certificate (Certificate No.: GR202111003321; valid for 3 years). The enterprise income tax for the years 2021, 2022 and 2023 are levied at the tax rate of 15%.

Hebei Chunli Hangnuo New Materials Technology Co., Ltd.\* (河北春立航諾新材料科技有限公司), a subsidiary of the Company, passed the certification of high and new technology enterprise review on 18 September 2021 and obtained the High and New Technology Enterprise Certificate (Certificate No.: GR202113001237; valid for 3 years). The enterprise income tax for the years 2021, 2022 and 2023 are levied at the tax rate of 15%.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (I) Monetary Funds

Type	Closing balance	Opening balance
Cash	316,309.33	377,452.12
Cash in bank	1,736,177,686.05	689,738,777.07
Total	1,736,493,995.38	690,116,229.19
Including: the total amount deposited overseas	62,764,579.13	148,440,813.24

## (II) Notes receivable

Type	Closing balance	Opening balance
Bank acceptance bills	123,479,643.85	143,107,645.54
Commercial acceptance bills	4,116,293.29	6,682,886.27
Less: bad debt provision		
Total	127,595,937.14	149,790,531.81

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

Note 2: Endorsed or discounted and undue bank acceptance bills at the balance sheet date of the Company at the end of the period are RMB57,822,540.45 respectively, of which RMB32,994,325.45 was derecognised and RMB24,828,215.00 was not derecognised.

Note 3: As of 31 December 2021, the Company had no bills receivable under pledge; there was no amount of bills transferred to accounts receivable due to the default of the drawer.



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (III) Accounts receivable

## 1. Disclosure of accounts receivable by category

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	439,389,881.57	100.00	39,196,868.99	8.92
Including: portfolios with similar credit risk features	439,389,881.57	100.00	39,196,868.99	8.92
Total	439,389,881.57	100.00	39,196,868.99	8.92

Type	Opening 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	247,671,243.18	100.00	26,385,348.47	10.65
Including: portfolios with similar credit risk features	247,671,243.18	100.00	26,385,348.47	10.65
Total	247,671,243.18	100.00	26,385,348.47	10.65

Accounts receivable with provision made for bad debts using portfolios

Portfolios with similar credit risk features

Ages	Closing balance			Opening balance		
	Book balance	Expected credit loss rate (%)	Bad debt provision	Book balance	Expected credit loss rate (%)	Bad debt provision
Within 1 year	394,752,712.16	5.00	19,737,635.60	210,813,683.35	5.00	10,540,684.17
1-2 years	26,289,006.27	15.00	3,943,350.94	22,922,482.03	15.00	3,438,372.31
2-3 years	5,664,561.39	50.00	2,832,280.70	3,057,571.63	50.00	1,528,785.82
Over 3 years	12,683,601.75	100.00	12,683,601.75	10,877,506.17	100.00	10,877,506.17
Total	439,389,881.57	8.92	39,196,868.99	247,671,243.18	10.65	26,385,348.47

Note: The aging analysis of accounts receivable is based on the month in which the business bills are 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 RMB)

## 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 RMB12,811,520.52 in the current period, 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 entity	Closing balance	Proportion to total accounts receivable (%)	Balance of provision for bad debts
The 1st	43,601,947.99	9.92	2,180,097.40
The 2nd	27,310,719.00	6.22	1,365,535.95
The 3rd	17,692,552.75	4.03	884,627.64
The 4th	14,555,491.40	3.31	727,774.57
The 5th	14,552,987.87	3.31	746,332.39
Total	117,713,699.01	26.79	5,904,367.95

## (IV) Prepayments

## 1. Prepayments shown by age

Ages	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	7,440,161.07	97.18	2,159,776.90	20.64
1-2 years	215,985.88	2.82	8,305,386.39	79.36
Total	7,656,146.95	100.00	10,465,163.29	100.00

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (IV) Prepayments (Continued)

## 2. Details of the top 5 entities with largest prepayment balances

Name of entity	Closing balance	Proportion to total prepayments (%)
The 1st	1,634,200.00	21.34
The 2nd	467,918.51	6.11
The 3rd	450,000.00	5.88
The 4th	388,847.10	5.08
The 5th	354,841.37	4.63
Total	3,295,806.98	43.04

## (V) Other receivables

Type	Closing balance	Opening balance
Other receivables	8,767,274.36	836,378.41
Less: bad debt provision	4,277,320.19	314,037.65
Total	4,489,954.17	522,340.76

## Other receivables

(1) Other receivables categorised by nature

Type	Closing balance	Opening balance
Petty cash	104,475.19	171,643.94
Deposit, guarantee deposit	378,571.52	397,578.52
Others	8,284,227.65	267,155.95
Less: bad debt provision	4,277,320.19	314,037.65
Total	4,489,954.17	522,340.76

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (V) Other receivables (Continued)

## Other receivables (Continued)

## (2) Aging analysis of other receivables

Ages	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	439,849.15	5.02	456,148.16	54.53
1-2 years	40,000.00	0.46	100,000.01	11.96
2-3 years	8,076,194.97	92.12	8,000.00	0.96
Over 3 years	211,230.24	2.40	272,230.24	32.55
Total	8,767,274.36	100.00	836,378.41	100.00

## (3) 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	314,037.65			314,037.65
Opening balance in the current period after reassessment	314,037.65			314,037.65
Provision for the current period	3,963,282.54			3,963,282.54
Reversal for the current period				
Write-off for the current period				
Other changes				
Closing balance	4,277,320.19			4,277,320.19

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (V) Other receivables (Continued)

## Other receivables (Continued)

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

Name of entity	Nature of receivables	Closing balance	Age	Proportion to the closing balance of other receivables (%)	Balance of bad debt provision
The 1st	Returns receivable	8,056,194.97	2-3 years	91.89	4,028,097.49
The 2nd	Deposit	128,828.00	Over 3 years	1.47	128,828.00
The 3rd	Others	82,402.24	Over 3 years	0.94	82,402.24
The 4th	Petty cash	52,000.00	Within 1 year	0.59	2,600.00
The 5th	Deposit	50,000.00	Within 1 year	0.57	2,500.00
Total		8,369,425.21		95.46	4,244,427.73

## (VI) Inventories

## 1. Categories of inventories

Type of inventories	Book balance	Closing balance Provision for write-down/ impairment	Carrying amount	Book balance	Opening balance Provision for write-down/ impairment	Carrying amount
Raw material	44,072,936.99	3,700,910.86	40,372,026.13	44,020,873.22	150,180.76	43,870,692.46
Goods sold	2,032,760.61		2,032,760.61	414,437.08		414,437.08
Work in progress	18,721,759.80	123,310.48	18,598,449.32	22,906,051.53	196,741.51	22,709,310.02
Stock inventory	107,440,296.69	8,766,172.79	98,674,123.90	108,711,110.06	7,091,887.25	101,619,222.81
Total	172,267,754.09	12,590,394.13	159,677,359.96	176,052,471.89	7,438,809.52	168,613,662.37

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (VI) Inventories (Continued)

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

Type of inventories	Opening balance	Provision for the current period	Decrease in the current period		Closing balance
			Reversal	Write-off	
Raw material	150,180.76	3,605,227.30		54,497.20	<b>3,700,910.86</b>
Work in progress	196,741.51	82,138.49		155,569.52	<b>123,310.48</b>
Stock inventory	7,091,887.25	6,827,561.40		5,153,275.86	<b>8,766,172.79</b>
Total	7,438,809.52	10,514,927.19		5,363,342.58	<b>12,590,394.13</b>

Note: The Company determines the net realizable value inventories based on the estimated selling prices less selling expenses and taxes, and the inventories of the Company are measured at the lower of cost and net realizable value at the end of the year. Full provision for inventories write-down is made for inventories that are no longer used/sold, inventories that are not used/sold and inventories that are slow-moving. The write-off of provision for impairment of inventories is due to the use or obsolescence of inventories for which the Company has made provision for impairment of inventories.

## (VII) Other current assets

Item	Closing balance	Opening balance
Input tax before deduction	<b>566,078.00</b>	893,292.04
Cost of return receivable	<b>11,082,709.62</b>	10,306,620.47
Prepaid other taxes	<b>8,687.42</b>	
Total	<b>11,657,475.04</b>	11,199,912.51

## (VIII) Fixed assets

Type	Closing balance	Opening balance
Fixed assets	<b>111,389,835.89</b>	107,724,368.01
Fixed assets clearance		
Less: Provision for impairment		
Total	<b>111,389,835.89</b>	107,724,368.01

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (VIII) Fixed assets (Continued)

## 1. Fixed assets

## (1) Details of fixed assets

Item	Buildings and structures	Mechanical equipment	Transport facilities	Electronic device	Total
I. Original carrying amount					
1. Opening balance	31,313,858.98	124,525,563.70	3,079,773.62	2,966,996.06	161,886,192.36
2. Increase in the current period		13,977,244.40	1,592,286.01	1,052,220.26	16,621,750.67
(1) Acquisition		13,977,244.40	1,592,286.01	1,052,220.26	16,621,750.67
(2) Transferred from construction in progress					
3. Decrease in the current period		417,224.76	252,900.00	11,946.90	682,071.66
(1) Disposal or retirement		417,224.76	252,900.00	11,946.90	682,071.66
4. Closing balance	31,313,858.98	138,085,583.34	4,419,159.63	4,007,269.42	177,825,871.37
II. Accumulated depreciation					
1. Opening balance	5,230,140.54	45,127,636.35	2,254,385.66	1,549,661.80	54,161,824.35
2. Increase in the current period	1,044,333.36	10,844,586.31	349,836.12	669,742.28	12,908,498.07
(1) Provision	1,044,333.36	10,844,586.31	349,836.12	669,742.28	12,908,498.07
3. Decrease in the current period		386,780.94	240,255.00	7,251.00	634,286.94
(1) Disposal or retirement		386,780.94	240,255.00	7,251.00	634,286.94
4. Closing balance	6,274,473.90	55,585,441.72	2,363,966.78	2,212,153.08	66,436,035.48
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	25,039,385.08	82,500,141.62	2,055,192.85	1,795,116.34	111,389,835.89
2. Opening carrying amount	26,083,718.44	79,397,927.35	825,387.96	1,417,334.26	107,724,368.01

Note: Original value of fixed assets continued to be used upon full provision for impairment at the end of the period totaled RMB16,369,096.58. 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 RMB)

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

## (VIII) Fixed assets (Continued)

## 1. Fixed assets (Continued)

(2) Temporarily idle fixed assets as at 31 December 2021

Type	Original carrying amount	Accumulated depreciation	Impairment provision	Carrying amount	Note
Mechanical equipment	1,039,271.28	793,095.00		246,176.28	
Total	1,039,271.28	793,095.00		246,176.28	

## (IX) Construction in progress

Type	Closing balance	Opening balance
Projects of construction in progress	281,558,992.24	55,067,106.50
Less: Provision for impairment		
Total	281,558,992.24	55,067,106.50

## 1. Projects of construction in progress

(1) Basic situation of projects of construction in progress

Item	Book balance	Closing balance Provision for impairment	Carrying amount	Book balance	Closing 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	121,775,945.84		121,775,945.84	50,106,087.42		50,106,087.42
Integrated construction project for orthopedic implant and supporting materials	142,217,663.20		142,217,663.20	3,521,355.36		3,521,355.36
Equipment installation work	17,534,690.14		17,534,690.14	1,439,663.72		1,439,663.72
Other sporadic work	30,693.06		30,693.06			
Total	281,558,992.24		281,558,992.24	55,067,106.50		55,067,106.50

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (IX) Construction in progress (Continued)

## 1. Projects of construction in progress (Continued)

(2) Changes in significant projects of construction in progress

Name of project	Budgets (RMB0'000)	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	50,106,087.42	71,669,858.42			121,775,945.84
Integrated construction project for orthopedic implant and supporting materials	94,470.38	3,521,355.36	138,696,307.84			142,217,663.20
Total	112,900.03	53,627,442.78	210,366,166.26			263,993,609.04

Name of project	Investment to budget of construction (%)	Completion progress (%)	Accumulated amount of interest capitalisation	Including: Amount of interest capitalisation in current period	Interest capitalisation 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	71.47	71.47				Self-generated funds and publicly raised funds
Integrated construction project for orthopedic implant and supporting materials	15.05	15.05				Self-generated funds and publicly raised funds

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (X) Right-of-use assets

Item	Buildings and structures	Total
I. Original carrying amount		
1. 1 January 2021	2,060,210.63	2,060,210.63
2. Increase in the current period	1,497,023.55	1,497,023.55
3. Decrease in the current period		
4. 31 December 2021	3,557,234.18	3,557,234.18
II. Accumulated depreciation		
1. 1 January 2021		
2. Increase in the current period	1,758,507.99	1,758,507.99
3. Decrease in the current period		
4. 31 December 2021	1,758,507.99	1,758,507.99
III. Provision for impairment		
1. 1 January 2021		
2. Increase in the current period		
3. Decrease in the current period		
4. 31 December 2021		
IV. Carrying amount		
1. Closing carrying amount	1,798,726.19	1,798,726.19
2. Opening carrying amount	2,060,210.63	2,060,210.63

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XI) Intangible assets

## Intangible assets

Item	Land use rights	Software	Patent licenses	Total
I. Original carrying amount				
1. Opening balance	108,469,610.33	2,578,779.75		111,048,390.08
2. Increased amount in the current period	24,044,800.00	1,575,404.89	8,500,000.00	34,120,204.89
Acquisition	24,044,800.00	1,575,404.89	8,500,000.00	34,120,204.89
3. Decreased amount in the current period				
4. Closing balance	132,514,410.33	4,154,184.64	8,500,000.00	145,168,594.97
II. Accumulated amortization				
1. Opening balance	8,181,455.72	1,374,384.57		9,555,840.29
2. Increased amount in the current period	2,560,367.10	653,347.47	425,000.00	3,638,714.57
Provision	2,560,367.10	653,347.47	425,000.00	3,638,714.57
3. Decreased amount in the current period				
4. Closing balance	10,741,822.82	2,027,732.04	425,000.00	13,194,554.86
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	121,772,587.51	2,126,452.60	8,075,000.00	131,974,040.11
2. Opening carrying amount	100,288,154.61	1,204,395.18		101,492,549.79

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XII) Long term prepayments

Type	Opening balance	Increase in current period	Amortization in the current period	Other decrease	Closing balance
Renovation costs	348,333.47		219,999.96		<b>128,333.51</b>
Total	348,333.47		219,999.96		<b>128,333.51</b>

## (XIII) Deferred income tax assets and deferred income tax liabilities

## 1. Deferred income tax assets and 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	8,572,217.19	56,064,583.31	5,170,615.66	34,138,195.64
Expected sales rebate	4,375,879.47	29,172,529.77	8,044,629.51	53,630,863.40
Return payables	7,075,449.12	47,169,660.78	5,988,726.67	39,924,844.49
Deferred income	2,070,867.34	13,805,782.24	2,348,193.02	15,654,620.10
Unrealized internal gains and losses	788,129.48	5,254,196.51		
Subtotal	<b>22,882,542.60</b>	<b>151,466,752.61</b>	21,552,164.86	143,348,523.63
Deferred income tax liabilities:				
Cost of return receivable	1,662,406.44	11,082,709.62	1,545,993.07	10,306,620.47
Accelerated depreciation of fixed assets	3,740,408.69	24,936,057.95	3,028,320.73	20,188,804.86
Subtotal	<b>5,402,815.13</b>	<b>36,018,767.57</b>	4,574,313.80	30,495,425.33

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XIII) Deferred income tax assets and deferred income tax liabilities (Continued)

## 2. Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible loss	1,561,714.85	16,253.82
Total	1,561,714.85	16,253.82

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

Year	Closing balance	Opening balance	Remarks
2022			
2023			
2024			
2025	16,253.82	16,253.82	
2026	1,545,461.03		
Total	1,561,714.85	16,253.82	

## (XIV) Other non-current assets

Item	Closing balance	Opening balance
Prepayment for the acquisition of long-term assets	2,161,009.69	1,608,861.17
Total	2,161,009.69	1,608,861.17

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XV) Accounts payable

## 1. Details

Item	Closing balance	Opening balance
Acquired materials and others	77,662,764.86	71,174,919.85
Acquired machines equipment and engineering	64,752,764.96	19,116,903.01
Total	142,415,529.82	90,291,822.86

## 2. By age

Item	Closing balance	Opening balance
Within 1 year (inclusive)	137,123,856.34	77,977,086.71
Over 1 year	5,291,673.48	12,314,736.15
Total	142,415,529.82	90,291,822.86

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.

## 3. Significant accounts payable aging over 1 year

Name of creditor	Closing balance	Reason for non-repayment
The 1st	1,414,916.14	Not settled
The 2nd	2,022,485.37	Not settled
Total	3,437,401.51	

Note: The amount aging within 1 year was RMB1,312,360.28 and the amount aging 1-2 years was RMB2,125,041.23.



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XVI) Advances received

Item	Closing balance	Opening balance
Within 1 year (inclusive)		3,352,379.34
Over 1 year	<b>6,992,973.01</b>	4,557,477.01
Total	<b>6,992,973.01</b>	7,909,856.35

## (XVII) Contract liabilities

Item	Closing balance	Opening balance
Within 1 year (inclusive)	<b>38,404,470.77</b>	61,123,906.56
Over 1 year	<b>21,136,198.24</b>	21,753,278.71
Total	<b>59,540,669.01</b>	82,877,185.27

Note: Amount of RMB63,277,357.37 included in contract liabilities at the beginning of the year was recognized as revenue in 2021.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XVIII) 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	30,900,407.58	150,418,375.20	135,721,479.29	45,597,303.49
Post-employment benefits – defined contribution plan		8,149,122.24	7,479,330.31	669,791.93
Termination benefits		129,158.34	129,158.34	
Total	30,900,407.58	158,696,655.78	143,329,967.94	46,267,095.42

## 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	26,626,814.14	133,862,310.34	121,552,429.84	38,936,694.64
Employee welfare premium		2,935,992.35	2,935,992.35	
Social welfare premium	405,444.46	5,574,136.83	5,534,305.82	445,275.47
Including: Medicare premium	405,444.46	5,132,824.86	5,140,453.51	397,815.81
Occupational injuries premium		441,311.97	393,852.31	47,459.66
Maternity premium				
Housing provident funds		3,360,754.80	3,353,950.80	6,804.00
Labor union fund and employee education fund	3,868,148.98	4,685,180.88	2,344,800.48	6,208,529.38
Total	30,900,407.58	150,418,375.20	135,721,479.29	45,597,303.49

## 3. Defined contribution plan

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic endowment insurance premium		7,862,422.59	7,212,927.39	649,495.20
Unemployment insurance premium		286,699.65	266,402.92	20,296.73
Total		8,149,122.24	7,479,330.31	669,791.93

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XIX) Taxes payable

Taxes	Closing balance	Opening balance
VAT	20,491,504.09	29,204,131.47
Enterprise income tax	10,164,535.28	10,425,190.44
Urban maintenance and construction tax	426,149.85	1,333,711.72
Individual income tax	296,395.92	198,330.43
Education surcharge	255,682.92	800,227.05
Local education surcharge	170,455.29	533,484.70
Stamp duty	425,469.98	230,363.70
Environmental protection tax	72,302.40	
Total	32,302,495.73	42,725,439.51

## (XX) Other payables

Type	Closing balance	Opening balance
Other payables	75,055,164.38	59,085,332.20
Total	75,055,164.38	59,085,332.20

## Other payables

(1) Categorized by nature

Nature of other payables	Closing balance	Opening balance
Expenses for sales services	54,370,909.24	32,119,140.23
Guarantee deposits	19,623,513.44	24,390,363.21
Others	1,060,741.70	2,575,828.76
Total	75,055,164.38	59,085,332.20

(2) Explanation on significant other payables aging over 1 year

Name of entity	Closing balance	Reason for non-repayment
The 1st	4,872,712.00	Guarantee deposit
The 2nd	3,700,000.00	Guarantee deposit
The 3rd	2,570,650.00	Guarantee deposit
The 4th	2,250,000.00	Guarantee deposit
The 5th	944,505.00	Guarantee deposit
Total	14,337,867.00	—

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XXI) Non-current liabilities due within one year

Item	Closing balance	Opening balance
Lease liabilities due within one year	<b>1,226,469.52</b>	1,184,473.53
Total	<b>1,226,469.52</b>	1,184,473.53

## (XXII) Other current liabilities

Item	Closing balance	Opening balance
Return payables	<b>47,169,660.78</b>	39,924,844.49
Output VAT to be to be carried forward	<b>3,820,615.57</b>	3,674,567.34
Bills receivable not derecognised	<b>24,828,215.00</b>	10,271,395.91
Total	<b>75,818,491.35</b>	53,870,807.74

## (XXIII) Lease liabilities

Item	Closing balance	Opening balance
Lease payments	<b>1,249,739.50</b>	1,924,654.50
Less: unrecognized financing fee	<b>23,269.98</b>	72,402.21
Less: lease liabilities due within one year	<b>1,226,469.52</b>	1,184,473.53
Total		667,778.76

## (XXIV) 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	88,171,554.01	2,220,000.00	4,833,282.41	<b>85,558,271.60</b>	
Total	88,171,554.01	2,220,000.00	4,833,282.41	<b>85,558,271.60</b>	

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XXIV) 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	2,120,115.76		567,000.00		1,553,115.76	Related to assets
Grant for PEEK interbody fusion cage	1,064,800.00		199,650.00		865,150.00	Related to assets
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	4,755,000.00		951,000.00		3,804,000.00	Related to assets
Grant for clinical study and construction project of pilot production capacity of spinal artificial vertebral fixation system	973,866.67		170,799.97		803,066.70	Related to assets
Grant for National Innovation Clinical Research on Class III Medical Device – Minimal Invasion Single Knee Joint Prosthesis Achievement	3,846,784.19		500,000.03		3,346,784.16	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年度高精尖產業發展重點支撐項目 – 藥品醫療器械獎勵款)	270,000.00		30,000.00		240,000.00	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年度高精尖產業發展重點支撐項目 – 企業平穩發展獎勵款)	645,983.78		69,999.96		575,983.82	Related to assets
Nurturing program for leading scientist at the Capital (首都科技領軍人才培養工程)	258,736.37		258,736.37			Related to income
Industrial guidance and subsidies (產業引導扶持資金)	71,016,933.91		764,444.55		70,252,489.36	Related to assets/related to income
Development and clinical application of porous tantalum repair materials and implantable products	840,000.00		806,151.49		33,848.51	Related to assets/related to income
Incentive payment for 2020 support program for development of high-precision industry in Tongzhou District	879,333.33		515,500.04		363,833.29	Related to assets/related to income
Joint prosthesis research and industrialization project	1,500,000.00				1,500,000.00	Related to assets/related to income
Transformation project of Tantalum-Modified Biomedical Titanium Alloy Research Achievement		100,000.00			100,000.00	Related to income
2021 key support program for development of high-precision industry – technological innovation and industrialization (construction project of digitalized orthopedic implant workshop ) from Tongzhou District (通州區2021年度高精尖產業發展重點支撐項目 – 技術改造和產業化(骨科植入物數字化車間建設項目))		1,920,000.00			1,920,000.00	Related to assets
Grant for 2021 key support program for development of high-precision industry – biomedicine and health industry projects from Tongzhou District (通州區2021年度高精尖產業發展重點支撐項目 – 生物醫療健康產業專項補助)		200,000.00			200,000.00	Related to income
Total	88,171,554.01	2,220,000.00	4,833,282.41		85,558,271.60	

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XXV) Share capital

Item	Opening balance	Issue of new shares	Movements for the period (+, -)			Subtotal	Closing balance
			Bonus shares	Reserves transferred to shares	Others		
Total shares	345,852,000.00	38,428,000.00				38,428,000.00	384,280,000.00

## (XXVI) Capital reserve

Type	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
I. Capital premium	20,727,980.01	1,028,700,292.23		1,049,428,272.24
II. Other capital reserve	1,800,000.00			1,800,000.00
Total	22,527,980.01	1,028,700,292.23		1,051,228,272.24

Note: On 30 December 2021, the Company was listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange. The Company publicly issued 38,428,000 ordinary shares at an issue price of RMB29.81 per share, raising total proceeds of RMB1,145,538,680.00. After deducting the issuance expenses of RMB78,410,387.77, the actual net proceeds raised were RMB1,067,128,292.23. Among which, the registered capital was increased by RMB38,428,000.00 and the capital reserve was increased by RMB1,028,700,292.23.

## (XXVII) Surplus reserve

Type	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Statutory surplus reserve	92,422,736.65	32,298,953.22		124,721,689.87
Total	92,422,736.65	32,298,953.22		124,721,689.87

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XXVIII) Undistributed surplus

Item	Closing balance	
	Amount	Proportion of appropriation or distribution
Balance before adjustment at the end of preceding period	618,785,640.80	
Total balance at the beginning of the adjustment (Increase+, decrease-)		
Balance after adjustment at the beginning of the period	618,785,640.80	
Add: Net profit attributable to owners of the parent company for the current period	322,360,736.79	
		10% of the profit of the parent company
Less: Appropriation of statutory surplus reserve	32,298,953.22	
Appropriation of discretionary surplus reserve		
Dividends payable on ordinary shares		
Ordinary share dividend transferred to share capital		
Undistributed profits at end of period	908,847,424.37	

## (XXIX) Operating revenue and operating cost

## 1. Operating revenue and operating cost by major categories

Item	Amount for the current period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
I. Subtotal from main operation	1,107,229,430.90	253,599,079.82	937,559,589.28	256,868,716.67
II. Revenue from other operation	910,089.71		126,595.91	61,927.62
Total	1,108,139,520.61	253,599,079.82	937,686,185.19	256,930,644.29

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (XXX) Taxes and surcharges

Item	Amount for the current period	Amount for the previous period
Urban maintenance and construction tax	3,634,931.34	4,403,939.62
Education surcharge	2,180,783.25	2,642,361.22
Local education surcharge	1,453,855.50	1,761,574.16
Stamp duty	420,274.81	379,254.57
Housing property tax	317,911.70	183,790.08
Land use tax	75,548.78	75,548.78
Vehicle and vessel use	7,114.60	6,864.60
Environmental protection tax	1,111,306.43	
Total	9,201,726.41	9,453,333.03

## (XXXI) Selling expenses

Item	Amount for the current period	Amount for the previous period
Market development expenses	255,509,850.43	172,639,340.15
Employee benefits	74,154,813.64	62,096,795.34
Office expenses	4,309,736.27	2,532,462.66
Others	8,080,358.29	3,742,636.03
Total	342,054,758.63	241,011,234.18

## (XXXII) Administrative expenses

Item	Amount for the current period	Amount for the previous period
Employee benefits	15,348,946.87	12,847,023.99
Agency fees	5,360,549.65	9,015,932.72
Depreciation and amortization expenses	3,221,006.37	2,769,641.08
Office and travelling expenses	1,517,993.47	709,489.52
Rentals and property expenses	1,419,291.93	1,401,650.51
Business entertainment expenses	441,348.66	653,031.14
Others	3,361,619.92	3,823,710.87
Total	30,670,756.87	31,220,479.83



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS  
(Continued)

## (XXXIII) Research and development expenses

Item	Amount for the current period	Amount for the previous period
Employee benefits	31,680,880.68	21,458,376.17
Supplies consumed	21,953,514.66	18,023,282.93
Technical services expenses	25,195,132.25	15,077,492.95
Travel and meeting expenses	5,336,924.96	6,799,530.22
Depreciation and amortization	4,905,271.91	3,971,063.16
Fuel expenses	1,722,094.52	1,448,795.63
Examination and testing expenses	10,644,070.51	2,621,249.32
Others	3,405,251.04	3,203,046.17
Total	104,843,140.53	72,602,836.55

## (XXXIV) Financial expenses

Item	Amount for the current period	Amount for the previous period
Interest expenses		
Less: Interest income	10,755,551.89	6,267,146.07
Foreign exchange gains and losses	856,775.72	4,488,851.60
Handling fees and other expenses	256,550.63	141,599.50
Total	-9,642,225.54	-1,636,694.97

Note: Interest expenses of lease liabilities of the current period amounted to RMB72,684.68.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS  
(Continued)

## (XXXV) Other income

Item	Amount for the current period	Amount for the previous period	Related to assets/ related to income
Grant for industrialization of ceramic femoral head on ceramic hip joint prostheses	567,000.00	567,000.00	Related to assets
Grant for PEEK interbody fusion cage	199,650.00	199,650.00	Related to assets
Grant for innovation ability development on joint prosthesis of Beijing engineering laboratory	951,000.00	951,000.00	Related to assets
Grant for clinical study and construction project of pilot production capacity of spinal artificial vertebral fixation system	170,799.97	170,800.00	Related to assets/related to income
Grant for National Innovation Clinical Research on Class III Medical Device – Minimal Invasion Single Knee Joint Prosthesis Achievement	500,000.03	500,000.00	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	30,000.00	30,000.00	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	69,999.96	54,016.22	Related to assets
Incentive payment for 2020 support program for development of high-precision industry in Tongzhou District	515,500.04		Related to assets/related to income
Development and clinical application of porous tantalum repair materials and implantable products	806,151.49		Related to income
Nurturing program for leading scientist at the Capital	258,736.37	741,263.63	Related to income
Industrial guidance and subsidies	764,444.55	434,201.09	Related to assets/related to income
Reward under Beijing City Sub-center “Eight- Through (通八條)” policy for the first batch of key enterprises	10,126,300.00	2,206,700.00	Related to income
Reward for overseas high-level talents		100,000.00	Related to income
Subsidy for stable development of enterprises	26,255.16	249,780.53	Related to income
Subsidy for patents	504,940.00	396,246.25	Related to income
Market exploration funds for SMEs	1,194,400.00	307,331.00	Related to income
Subsidy for “Internet+ professional skills training” (「互聯網+職業技術培訓」)		672,000.00	Related to income
Tax refund	335,770.64	540,596.91	Related to income
Supporting subsidy for talent cultivation in 2020 under the “Canal Program” in Tongzhou (通州區 「運河計劃」2020年度人才培養扶持經費)	150,000.00	150,000.00	Related to income
Subsidy for insurance	83,434.00		Related to income
Other small grants	199,863.00	102,666.67	Related to income
Total	17,454,245.21	8,373,252.30	

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS  
(Continued)

## (XXXVI) Credit impairment loss

Item	Amount for the current period	Amount for the previous period
Credit impairment loss of accounts receivable	-12,811,520.52	-6,390,222.45
Credit impairment loss of other receivables	-3,963,282.54	324,397.35
Total	-16,774,803.06	-6,065,825.10

## (XXXVII) Assets impairment loss

Item	Amount for the current period	Amount for the previous period
Inventory write-down loss	-10,514,927.19	-158,086.90
Total	-10,514,927.19	-158,086.90

## (XXXVIII) 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	14,856.74	-158,177.16
Total	14,856.74	-158,177.16

## (XXXIX) 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
Government grant not related to daily activities	10,970.00	25,899.00	10,970.00
Penalty income and others	127,969.72	739,392.89	127,969.72
Total	138,939.72	765,291.89	138,939.72

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS  
(Continued)

## (XL) 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	129,312.14	10,000.00	129,312.14
Losses from retirement and damage of non-current assets		30,826.57	
Others	222,559.76	973,412.61	222,559.76
Total	351,871.90	1,014,239.18	351,871.90

## (XLI) 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	45,519,863.03	52,357,368.61
Deferred income tax expenses	-501,876.41	-5,884,081.43
Total	45,017,986.62	46,473,287.18

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

Item	Amount
Total profit	367,378,723.41
Income tax expenses based on statutory/applicable tax rate	55,106,808.51
Effect of different tax rates applicable to subsidiaries	-132,389.03
Effect of prior income tax adjustment	2,364,244.04
Effect of non-deductible costs, expenses and losses	826,879.83
Effect of deductible temporary differences or deductible losses not recognized as deferred income tax assets in current period	443,576.17
Additional deduction of research and development expenses	-13,591,132.90
Income tax expenses	45,017,986.62

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS  
(Continued)

## (XLII) Cash flow statement

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

Item	Amount for the current period	Amount for the previous period
Other cash receipts or payments related to operating activities	<b>16,717,494.37</b>	27,085,641.51
Including: Net receipts from current accounts		14,490,466.68
Amount of government grant received	<b>14,851,932.80</b>	7,970,553.69
Interest receipts from deposit and others	<b>1,865,561.57</b>	4,624,621.14
Other cash payments related to operating activities	<b>324,054,138.14</b>	229,983,567.98
Including: Expenses of cash payment	<b>317,361,762.48</b>	228,858,555.87
Net current amount paid	<b>6,156,637.81</b>	
Handling fee and other expenses	<b>535,737.85</b>	1,125,012.11

## 2. Other cash receipts or payment related to investment activities

Item	Amount for the current period	Amount for the previous period
Other cash receipts related to investment activities	<b>9,017,960.04</b>	2,381,917.82
Including: Interest receipts from fixed deposit	<b>9,017,960.04</b>	2,381,917.82

## 3. Other cash receipts or payment related to financing activities

Item	Amount for the current period	Amount for the previous period
Other cash payments related to financing activities	<b>2,195,491.00</b>	
Including: payments for lease expenses	<b>2,195,491.00</b>	

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS (Continued)

## (XLIII) 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	322,360,736.79	283,373,280.95
Add: Provision for assets impairment	10,514,927.19	158,086.90
Credit impairment loss	16,774,803.06	6,065,825.10
Depreciation of fixed assets, oil and gas assets, productive biological assets and investment properties	12,908,498.07	12,343,400.64
Depreciation of right-of-use assets	1,758,507.99	
Amortization of intangible assets	3,638,714.57	2,603,030.89
Amortization of long term prepayments	219,999.96	219,999.96
Losses on disposal of fixed assets, intangible assets and other long term assets (Gain represented by "-")	-14,856.74	158,177.16
Fixed assets retirement losses (Gain represented by "-")		30,826.57
Net loss on hedging exposure (Gain represented by "-")		
Losses on changes of fair value (Gain represented by "-")		
Financial expenses (Gain represented by "-")	-7,221,129.54	-1,050,824.35
Investments losses (Gain represented by "-")		
Decrease of deferred income tax assets (Increase represented by "-")	-1,330,377.74	-7,388,000.26
Increase of deferred income tax liabilities (Decrease represented by "-")	828,501.33	1,503,918.83
Decrease in inventories (Increase represented by "-")	-1,578,624.78	22,603,499.22
Decrease in operating receivables (Increase represented by "-")	-225,076,495.45	-112,459,646.55
Increase of operating payables (Decrease represented by "-")	31,002,581.74	52,520,784.84
Others		
Net cash flow from operating activities	164,785,786.45	260,682,359.90
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		
3. Net changes in cash and cash equivalents		
Closing balance of cash	1,736,493,995.38	690,116,229.19
Less: Opening balance of cash	690,116,229.19	464,177,034.53
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase of cash and cash equivalents	1,046,377,766.19	225,939,194.66

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

V. NOTE TO SIGNIFICANT ITEMS OF COMBINED FINANCIAL STATEMENTS  
(Continued)

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

## 2. Cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	<b>1,736,493,995.38</b>	690,116,229.19
Including: Cash on hand	<b>316,309.33</b>	377,452.12
Bank deposits available for payment at any time	<b>1,736,177,686.05</b>	689,738,777.07
II. Cash equivalents		
III. Closing balance of cash and cash equivalents	<b>1,736,493,995.38</b>	690,116,229.19

(XLIV) Monetary items in foreign currencies

## 1. Monetary items in foreign currencies

Item	Closing balance in foreign currencies	Exchange rate	Closing balance converted to RMB
Monetary funds	<b>12,327,312.11</b>		
Including: USD	<b>117,346.00</b>	6.3757	<b>748,162.89</b>
HKD	<b>14,162,364.51</b>	0.8176	<b>11,579,149.22</b>
Accounts receivable			<b>30,084,556.96</b>
Including: USD	<b>4,718,611.08</b>	6.3757	<b>30,084,448.66</b>
EUR	<b>15.00</b>	7.2197	<b>108.30</b>

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

### VI. CHANGE IN SCOPE OF CONSOLIDATION

During the current period, the Company invested in the establishment of wholly-owned subsidiaries Xingtai Langtai Bengyuan Medical Devices Co., Ltd.\* (邢台市琅泰本元醫療器械有限公司), Luantai Meikang Medical Devices Co., Ltd.\* (琅泰美康醫療器械有限公司) and Beijing Lechi Inspection Technology Co. \* (北京樂馳檢測技術有限公司) which were included by the Company in the consolidation scope of the combined financial statements.

### VII. INTEREST IN OTHER ENTITIES

#### (1) Interest in subsidiaries

##### 1. Composition of the corporate group

Name of subsidiaries	Place of registration	Principal place of operation	Nature of business	Proportion of shareholding (%)		Acquisition method	Nature of enterprise	Issued share capital (RMB0,000)
				Directly	Indirectly			
Beijing Zhao Yi Te Medical Devices Co., Ltd.	Beijing	Beijing	Sales of medical devices	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	66.63
Hebei Chunli Hangnuo New Materials Technology Co., Ltd.	Hebei Province	Hebei Province	Manufacture and sales of alloy materials	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	300
Pilot Medical Device Co., Limited	Hong Kong	Hong Kong	Development and sales of medical devices	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	0
Beijing Shiyue Changsheng Medical Devices Co., Ltd.	Beijing	Beijing	Sales of medical devices	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	10
Xingtai Langtai Bengyuan Medical Devices Co., Ltd.*	Hebei Province	Hebei Province	Manufacture and sales of medical devices	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	410
Luantai Meikang Medical Devices Co., Ltd.*	Hebei Province	Hebei Province	Manufacture and sales of medical devices	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	30
Beijing Lechi Inspection Technology Co.	Beijing	Beijing	Inspection and testing services	100.00		Through capital contribution to establish a new company	Wholly-owned subsidiary	0

### 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.



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

The Company has exposure to the following risks from its daily use of financial instruments, which mainly include: credit risk, liquidity risk, and market risk. The Management has deliberated and approved policies concerning the management of such risks. Details are as follows:

#### (I) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Company's credit risk is primarily attributable to bank balances and receivables. In order to control such risks, the Company has taken the following measures respectively:

##### 1. Bank balances

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

##### 2. Receivables

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

As the Company's credit risks of accounts receivable fall into several business partners and customers, as of 31 December 2021, 26.79% (31 December 2020: 30.39%) 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 optimize financing structures, and finally maintains a balance between financing sustainability and flexibility.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

#### (III) Market risk

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

##### 1. Interest risk

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

##### 2. Foreign currency risk

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

Please refer to remarks of other foreign currency item of the notes to items of consolidated financial statements under the notes to these financial statements for details in the Company's foreign currency and liabilities at the end of the period.

### IX. CAPITAL MANAGEMENT

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

The Company uses the gearing ratio to monitor the condition of capital management. The Company has no interest bearing debt, and calculates the gearing ratio of the Company based on the carrying amount of debt as below:

Item	31 December 2021	31 December 2020
①Total liabilities	530,579,974.97	462,258,971.61
②Total assets	2,999,657,361.45	1,541,847,329.07
③=①/② Gearing ratio	17.69%	29.98%

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## 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	29.58	29.58
Yue Shujun	PRC	Executive Director and Deputy General Manager	24.84	24.84

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
Beijing Meizhuo Medical Instruments Co. Limited	Guo Fuxiang, person-in-charge of the business is the husband of Shi Chunbao's cousin

Note: According to the relevant laws and regulations and accounting standards, Beijing Meizhuo Medical Instruments Co. Limited\* (北京美卓醫療器械有限公司) is not a legal related party. Li Junxia, the cousin of the Company's chairman of the Board and the actual controller Shi Chunbao, and Guo Fuxiang, the husband of Shi Chunbao's cousin, are the persons-in charge of the business of Meizhuo. They do not have the majority control over Meizhuo and influence on the operating decisions of Meizhuo and cannot exert significant influence. The Company makes related disclosures as if they are related parties based on the principle of prudence.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (IV) Related party transactions

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

				Amount for the current period		Amount for the previous period	
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	Proportion to the amount of similar transaction		Proportion to the amount of similar transaction	
				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	-0.01
Beijing Meizhuo Medical Instruments Co. Limited	Sale of goods	Medical Devices	Market price	5,851,873.27	0.53	15,692,045.75	1.67

## 2. Remuneration of key management

Remuneration of key management	Amount for the current period	Amount for the previous period
Total	6,570,804.43	5,311,656.98

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

## 1. Receivables

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable	Beijing Meizhuo Medical Instruments Co. Limited	5,334,131.79	266,706.59	5,023,394.12	251,169.71
Total		5,334,131.79	266,706.59	5,023,394.12	251,169.71

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

**XI. COMMITMENTS AND CONTINGENCIES****(I) Commitments**

As of 31 December 2021, the Company has no commitments needed to be disclosed.

**(II) Contingencies**

As of 31 December 2021, the Company has no contingencies needed to be disclosed.

**XII. EVENTS AFTER THE BALANCE SHEET DATE**

On 28 March 2022, the “Resolution on the Company’s Profit Distribution Plan for the Year 2021” was considered and approved at the 19th meeting of the Fourth Session of the Board of the Company, by which a cash dividend of RMB1.30 (including tax) per 10 shares shall be paid to all shareholders based on the total share capital of the Company of 384,280,000 shares as at 31 December 2021 with a total cash dividend of RMB49,956,400 (including tax). The profit distribution is subject to the approval of the general meeting and is subject to uncertainty.

As of the date of the issuance of the report, there are no other matters that need to be explained after the balance sheet date.

**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
Annual audit services	580,000.00	500,000.00
Non-audit services	200,000.00	200,000.00
Total	780,000.00	700,000.00

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## XIII. OTHER SIGNIFICANT EVENTS (Continued)

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

## 1. Emoluments of directors and supervisors

Director/supervisor	Wage, allowance, subsidy and bonus				Social insurance premium and housing provident fund	Pension	Others	Total
	Fees	Basic salary	Allowance and subsidy	Bonus				
Director								
Shi Chunbao		600,590.00		800,000.00	21,936.80			1,422,526.80
Yue Shujun		421,174.00		700,000.00	21,936.80			1,143,110.80
Xie Feng Bao		212,220.40		168,672.00	21,936.80			402,829.20
Ge Changyin	100,000.00							100,000.00
Wang Xin	100,000.00							100,000.00
Weng Jie	100,000.00							100,000.00
Wong Tak Shing	175,800.00							175,800.00
Subtotal for directors	475,800.00	1,233,984.40		1,668,672.00	65,810.40			3,444,266.80
Supervisor								
Zhang Lanlan		142,415.59		45,396.00	20,892.96			208,704.55
Zhang Jie		215,623.84		21,030.00	20,892.96			257,546.80
Wei Zhangli		205,336.56		1,540.00	21,123.96			228,000.52
Subtotal for supervisors		563,375.99		67,966.00	62,909.88			694,251.87
Total	475,800.00	1,797,360.39		1,736,638.00	128,720.28			4,138,518.67

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

Item	Amount for the current period
Wage and other emoluments	1,702,231.88
Discretionary bonus	3,895,935.48
Contributions to pension scheme	49,248.00
Incentives to absorb high paid individuals	
Compensation for dismissal	
Endowment insurance	49,248.00
Total	5,647,415.36

Of the emoluments paid to the above five employees for the year, the emoluments of one of them was within RMB1,000,000.00, and the emoluments of the other four were ranging from RMB1,000,001.00 to RMB1,500,000.00.

For the year ended 31 December 2021, no emoluments were paid by the Group to any director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors waived or agreed to waive any emoluments in the year ended 31 December 2021.

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## XIV. NOTES TO MAJOR ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

## (I) Accounts receivable

## 1. Disclosure of accounts receivable by category

Type	Closing balance		Bad debt provision	
	Book 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	457,570,657.98	100.00	37,321,919.14	8.16
Including: portfolios with similar credit risk features	401,890,884.42	87.83	37,321,919.14	9.29
Portfolio of related parties within the scope of consolidation	55,679,773.56	12.17		
Total	457,570,657.98	100.00	37,321,919.14	8.16

Type	Book balance		Bad debt provision	
	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	243,060,552.10	100.00	25,970,099.58	10.68
Including: portfolios with similar credit risk features	239,836,834.60	98.67	25,970,099.58	10.83
Portfolio of related parties within the scope of consolidation	3,223,717.50	1.33		
Total	243,060,552.10	100.00	25,970,099.58	10.68



## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (I) Accounts receivable (Continued)

## 1. Disclosure of accounts receivable by category (Continued)

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	357,253,715.01	5.00	17,862,685.75	203,214,559.35	5.00	10,160,727.97
1-2 years	26,289,006.27	15.00	3,943,350.94	22,687,197.45	15.00	3,403,079.62
2-3 years	5,664,561.39	50.00	2,832,280.70	3,057,571.63	50.00	1,528,785.82
Over 3 years	12,683,601.75	100.00	12,683,601.75	10,877,506.17	100.00	10,877,506.17
Total	401,890,884.42	9.29	37,321,919.14	239,836,834.60	10.83	25,970,099.58

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.

## 2. Provisions made, collected or reversed for bad debts during the current period

Provision for bad debts made in current period totaled RMB11,351,819.56, 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 entity	Closing balance	Proportion to total receivables (%)	Balance of provision for bad debts
The 1st	50,526,815.00	11.04	
The 2nd	43,601,947.99	9.53	2,180,097.40
The 3rd	27,310,719.00	5.97	1,365,535.95
The 4th	17,692,552.75	3.87	884,627.64
The 5th	14,555,491.40	3.18	727,774.57
Total	153,687,526.14	33.59	5,158,035.56

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (II) Other receivables

Type	Closing balance	Opening balance
Other receivables	8,536,579.10	4,118,143.63
Less: Bad debt provision	4,184,696.10	230,423.45
Total	4,351,883.00	3,887,720.18

Other receivables:

## (1) Other receivables categorised by nature

Nature of receivables	Closing balance	Opening balance
Within the scope of combination	56,144.03	3,388,406.71
Petty cash	12,160.27	166,045.01
Deposit, guarantee deposit	368,571.52	387,678.52
Others	8,099,703.28	176,013.39
Less: Bad debt provision	4,184,696.10	230,423.45
Total	4,351,883.00	3,887,720.18

## (2) Aging analysis of other receivables

Age	Closing balance		Opening balance	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	291,556.13	3.41	3,820,315.62	92.77
1-2 years	40,000.00	0.47	100,000.01	2.43
2-3 years	8,076,194.97	94.61	8,000.00	0.19
Over 3 years	128,828.00	1.51	189,828.00	4.61
Total	8,536,579.10	100.00	4,118,143.63	100.00

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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

## (II) Other receivables (Continued)

Other receivables: (Continued)

## (3) Bad debt provision

	Stage 1 Expected credit loss over the next 12 months	Stage 2 Lifetime expected credit loss – not credit- impaired	Stage 3 Lifetime expected credit loss – credit- impaired	Total
Bad debt provision				
Opening balance	230,423.45			230,423.45
Opening balance after reassessment during the current period	230,423.45			230,423.45
Provision for the current period	3,954,272.65			3,954,272.65
Reversal for the current period				
Write-off for the current period				
Other changes				
Closing balance	4,184,696.10			4,184,696.10

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

Name of entity	Nature of receivables	Closing balance	Ages	Proportion to the total closing balance of other receivables (%)	Balance of bad debt provision
The 1st	Returns receivables	8,056,194.97	2-3 years	94.37	4,028,097.49
The 2nd	Deposit	128,828.00	Over 3 years	1.51	128,828.00
The 3rd	Current accounts within the scope of combination	82,123.25	Within 1 year	0.96	
The 4th	Deposit	50,000.00	Within 1 year	0.59	2,500.00
The 5th	Deposit	33,192.54	Within 1 year	0.39	1,659.63
Total		8,350,338.76		97.82	4,161,085.12

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

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	8,165,263.00		8,165,263.00	3,665,263.00		3,665,263.00
Total	8,165,263.00		8,165,263.00	3,665,263.00		3,665,263.00

## 1. Investment in subsidiaries

Investees	Opening balance	Increase for the period	Decrease for the period	Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
Beijing Zhao Yi Te Medical Devices Co., Ltd.	665,263.00			665,263.00		
Hebei Chunli Hangnuo New Materials Technology Co., Ltd.	3,000,000.00			3,000,000.00		
Beijing Shiyue Changsheng Medical Devices Co., Ltd.		100,000.00		100,000.00		
Xingtai Langtai Bengyuan Medical Devices Co., Ltd.		4,100,000.00		4,100,000.00		
Luantai Meikang Medical Devices Co., Ltd.		300,000.00		300,000.00		
Total	3,665,263.00	4,500,000.00		8,165,263.00		

## (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	1,108,569,693.61	265,985,030.79	932,062,552.11	259,923,998.36
Joint prosthesis products				
II. Revenue from other operation	6,588,489.88	4,123,475.11	2,847,363.68	2,782,695.39
Total	1,115,158,183.49	270,108,505.90	934,909,915.79	262,706,693.75

## NOTES TO FINANCIAL STATEMENTS

(Unless otherwise specified, the amounts are expressed in RMB)

## XV. SUPPLEMENTARY INFORMATION

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

Item	Amount	Remarks
1. Gain and loss from disposal of non-current assets, including write-off of provision for asset impairment	14,856.74	
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)	17,465,215.21	
3. Other non-operating income and expenses other than aforesaid items	-223,902.18	
4. Impact of income tax	-2,588,425.46	
Total	14,667,744.31	

## (II) RONA and EPS

Profit of the reporting period	Weighted average RONA (%)		EPS			
	Current period	Previous period	Basic EPS Current period	Previous period	Diluted EPS Current period	Previous period
Net profit attributable to shareholders of ordinary shares	25.98	30.10	0.93	0.82	0.93	0.82
Net profit attributable to shareholders of ordinary shares after deducting nonrecurring profit or loss	24.80	29.39	0.89	0.80	0.89	0.80