

**Radisys Technologies (Shenzhen) Co., Ltd.**  
**Financial Statements**  
**for the Year ended 31st December, 2018**

## Auditors' Report

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### To the Board of Directors of Radisys Technologies (Shenzhen) Co., Ltd.

#### I. Opinion

We have audited the accompanying financial statements of Radisys Technologies (Shenzhen) Co., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2018, the income statement, cash flow statement and statement of changes in owners' equity for the year then ended, and notes to the financial statements.

In our opinion, the financial statements give a fair presentation of the financial position of the "Company" as of 31 December 2018 and of its financial performance and its cash flows for the year then ended in all material aspects in accordance with Accounting Standards for Business Enterprises and Enterprise Accounting System.

#### II. Basis for Opinion

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

#### III. Other Information

Management of the "Company" is responsible for the other information. The other information comprises all of the information included in 2018 annual report of the "Company" other than the financial statements and our auditor's report thereon. Our 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 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.

#### IV. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management of Radisys Technologies (Shenzhen) Co., Ltd. (the "Management") is responsible for the preparation of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises and Enterprise Accounting System and design, implementing and maintaining necessary internal controls to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those who charged with governance are responsible for overseeing the Company's financial reporting process.

#### V. Auditor'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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing and Enterprise Accounting System will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are 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 these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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, misrepresentations, or the override of internal control.

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2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
  3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
  4. Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required, according to China Standards on Auditing, to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
  5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ruihua Certified Public Accountants  
(Special General Partnership)  
Shenzhen Branch  
Shenzhen, China

Chinese CPA:  
Yuan Longping

Chinese CPA:  
Zhou Xuechun

30 MAY, 2019

## Balance Sheet as at 31st December, 2018

Monetary unit: RMB Yuan

Item	Note	31 Dec 2018	31 Dec 2017
<b>Current asset:</b>			
Cash at bank and on hand	VII.1	4,03,980.76	14,43,653.83
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes and accounts receivables	VII.2	7,12,36,260.85	7,12,01,219.07
Other receivables	VII.3	31,06,099.67	45,24,103.38
Advances to suppliers	VII.4	16,749.00	15,974.00
Inventories	VII.5	-	1,03,396.50
Other receivables			
Inventories			
Current portion of non-current assets			
Other current assets			
<b>Total current assets</b>		<b>7,47,63,090.28</b>	<b>7,72,88,346.78</b>
<b>Non-current asset:</b>			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments		-	-
Investment properties			
Fixed assets	VII.6	4,71,218.60	22,35,750.24
Construction in progress			
Intangible assets	VII.7	25,597.60	67,638.81
Long-term prepaid expenses			
Deferred tax assets			
Long-term deferred expenses			
Other non-current assets			
<b>Total non-current assets</b>		<b>4,96,816.20</b>	<b>23,03,389.05</b>
<b>Total assets</b>		<b>7,52,59,906.48</b>	<b>7,95,91,735.83</b>

## Balance Sheet as at 31st December, 2018

Monetary unit: RMB Yuan

Item	Note	31 Dec 2018	31 Dec 2017
Short-term borrowings		-	-
Notes payable and accounts payable	VII.8	4,23,75,683.59	4,28,18,838.62
Advances from customers			
Employee benefits payable	VII.9	5,63,863.04	68,83,271.35
Taxes payable	VII.10	17,503.54	1,79,105.97
Other payables	VII.11	3,38,978.74	7,35,603.95
Long-term liabilities due within one year			
Other current liabilities	VII.12	-	2,55,072.14
<b>Current liabilities:</b>		4,32,96,028.91	5,08,71,892.03
Accrued expenses			
Deferred income		-	-
Long-term payable	VII.13	3,84,70,240.05	3,48,82,761.36
<b>Non-current liabilities:</b>		3,84,70,240.05	3,48,82,761.36
<b>Total liabilities</b>		8,17,66,268.96	8,57,54,653.39
<b>Owners' equity</b>			
Paid-in capital	VII.14	4,12,83,841.68	4,12,83,841.68
Capital reserve	VII.15	36,86,573.29	36,86,573.29
Surplus reserve			
Retained earnings	VII.16	-5,14,76,777.45	-5,11,33,332.53
<b>Total owners' equity</b>		-65,06,362.48	-61,62,917.56
<b>Total Liabilities and owners' equity</b>		7,52,59,906.48	7,95,91,735.83

Legal representative:

Principal in charge of accounting:

Head of accounting department:

## Income Statement for the year ended 31st December, 2018

Monetary unit: RMB Yuan

Item	Note	31 Dec 2018	31 Dec 2017
<b>1. Revenue</b>	VII.16	1,66,37,895.30	4,85,28,610.71
Less: Cost of revenue	VII.16	1,18,69,315.76	4,04,25,344.63
Taxes and surcharges	VII.17	27,505.97	25,330.37
Selling and distribution expenses	VII.18	-	1,56,008.09
General and administrative expenses	VII.19	40,07,818.09	57,73,122.90
Financial (costs)/income	VII.20	12,50,531.27	27,87,688.66
Asset impairment losses			
Add: Losses arising from changes in fair value			
Investment income			
Including: Investment losses from associates and joint ventures			
Losses on disposals of assets	VII.21	-11,49,574.58	-2,28,775.24
Other income	VII.22	2,36,496.46	-
<b>2. Operating profit</b>		-14,30,353.91	-8,67,659.18
Add: Non-operating income	VII.23	10,92,899.94	2,41,145.99
Less: Non-operating expenses	VII.24	5,990.95	3,76,416.00
<b>3. Total profit</b>		-3,43,444.92	-10,02,929.19
Less: Income tax expenses		-	-
<b>4. Net profit</b>		-3,43,444.92	-10,02,929.19
<b>Classified by continuity of operations:</b>			
Net profit from continuing operations		(3,43,444.92)	(10,02,929.19)
Net profit from discontinued operations			
<b>5. Other comprehensive income, net of tax</b>			
<b>6. Total comprehensive income</b>			
Attributable to shareholders of the Company		(3,43,444.92)	(10,02,929.19)
Attributable to minority interests			

Legal representative:

Principal in charge of accounting:

Head of accounting department:

## Statement of Cash Flow for the year ended 31st December, 2018

Monetary unit: RMB Yuan

Item	Note	31 Dec 2018	31 Dec 2017
<b>Cash flows from operating activities:</b>			
Cash received from the sale of goods or rendering of services		2,11,20,039.84	4,12,70,267.03
Cash received from refund of taxes		27,203.35	4,92,460.76
Cash received from other operating activities		11,92,786.21	2,27,290.97
<b>Sub-total of cash inflows from operating activities</b>		2,23,40,029.40	4,19,90,018.76
Cash paid for purchases of goods and services		14,91,949.62	42,94,008.83
Cash paid to and on behalf of employees		1,92,32,481.37	3,35,45,154.84
Payments of taxes and levies		1,91,397.78	25,877.47
Cash paid relating to other operating activities		35,07,111.82	27,59,082.15
<b>Sub-total of cash outflows for operating activities</b>		2,44,22,940.59	4,06,24,123.29
<b>Net cash flows from operating activities</b>	VII.25	(20,82,911.19)	13,65,895.47
<b>Cash flows from investing activities:</b>			
Cash received from disposal of investments			
Cash received from returns on investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		15,85,649.58	53,659.00
Net cash received relating to other investing activities			
<b>Subtotal of cash inflows from investing activities</b>		15,85,649.58	53,659.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		3,584.00	7,89,777.79
Cash paid to acquire investments			
Net cash paid to acquire subsidiaries			
Net cash paid for disposals of subsidiaries			
Cash paid relating to other investing activities			
<b>Subtotal of cash outflows for investing activities</b>		3,584.00	7,89,777.79
<b>Net cash flows from investing activities</b>		15,82,065.58	(7,36,118.79)
<b>Cash flows from financing activities:</b>			
Cash received from capital contributions			
Cash received from loans			
Cash received relating to other financing activities			
<b>Sub-total of cash inflows from financing activities</b>		-	-
Cash repayments of borrowings			
Cash payments for interest expenses and distribution of dividends or profits			
Cash payments relating to other financing activities			
<b>Sub-total of cash outflows for financing activities</b>			
<b>Net cash flows from financing activities</b>		-	-
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		-5,38,827.46	-49,190.67
<b>Net (decrease)/increase in cash and cash equivalents</b>		-10,39,673.07	5,80,586.01
<b>Add: Cash and cash equivalents at the beginning of the year</b>	VII.25	14,43,653.83	8,63,067.82
<b>Cash and cash equivalents at the end of the year</b>	VII.25	4,03,980.76	14,43,653.83

Legal representative:

Principal in charge of accounting:

Head of accounting department:

## Statement of Changes in Owner's Equity for the year ended 31st December, 2018

Currency: RMB Yuan

Item	Amount for the current year				Amount for the prior year			
	Paid-in capital (or Share capital)	Capital reserve	Retained earnings	Total owners' equity	Paid-in capital (or Share capital)	Capital reserve	Retained earnings	Total owners' equity
<b>1. Balance at the End of Last Period</b>	4,12,83,841.68	36,86,573.29	-5,11,33,332.53	-61,62,917.56	4,12,83,841.68	36,86,573.29	-5,01,30,403.34	-51,59,988.37
Add: Changes of accounting policies								
Prior year adjustments								
Others								
<b>2. Balance at the Beginning of the Year</b>	4,12,83,841.68	36,86,573.29	-5,11,33,332.53	-61,62,917.56	4,12,83,841.68	36,86,573.29	-5,01,30,403.34	-51,59,988.37
<b>3. Increase/Decrease movements in this Year</b>								
(“-” means loss)								
<b>(I) Total comprehensive income</b>			-3,43,444.92	-3,43,444.92			-10,02,929.19	-10,02,929.19
<b>(II) Other comprehensive income</b>			-3,43,444.92	-3,43,444.92			-10,02,929.19	-10,02,929.19
<b>(III) Capital Injected and Reduced by Owners</b>								
a. Capital injected by owners								
b. Payment for shares included in owners' equity								
c. Others								
<b>(IV) Profit distribution</b>								
a. Withdrawal surplus reserve								
b. Provisions withdrawn for general risk								
c. Distribution to owners (or shareholders)								
d. Others								
<b>(V) Internal transfers of owners' equity</b>								
a. Capitalisation of Additional paid-in capital; (or share capital)								
b. Capitalisation of surplus reserve (or share capital)								
c. Making up losses of surplus reserve								
d. Others								
<b>(VI) Special Reserve</b>								
a. Withdrawal of current period								
b. Use of special reserve								
<b>(VII) Others</b>								
<b>4. Balance at the end of the period</b>	4,12,83,841.68	36,86,573.29	-5,14,76,777.45	-65,06,362.48	4,12,83,841.68	36,86,573.29	-5,11,33,332.53	-61,62,917.56

Legal representative:

Principal in charge of accounting:

Head of accounting department:



## For the Year Ended 31st December, 2018

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**Radisys Technologies (Shenzhen) Co., Ltd.**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**  
**(Expressed in Renminbi Yuan unless otherwise indicated)**

### **I. Corporation profile**

Radisys Technologies (Shenzhen) Co., Ltd., (Original name was Continuous Computing China Technologies (Shenzhen) Co., Ltd. (“the Company”) invested by Radisys Cayman Limited (Original name was “Continuous Computing Cayman Ltd.”) which was registered in Cayman Island, was incorporated in Shenzhen, Guangdong Province of The People’s Republic of China (“the PRC”). The Company obtained an approval certificated (SHANGWAIZI YUESHENWAIZIZHENG [2005] No.5028) from the People’s Government of Shenzhen on June 20, 2005 and obtained the business license (QIDUYUESHENZONG No. 315761) which issued by Administration of Industry and Commerce of the PRC on August 23, 2005. The approved operation period is from July 4, 2005 to July 4, 2035. The original registered capital was USD 3, 000, 000. 00.

On December 7, 2006, the Company’s increased its registered capital by USD 700, 000. 00. On August 3, 2012, a further increased in registered capital by USD1, 750, 000.00. As the result of the increase, the Company’s registered capital is USD5, 450, 000.00, and the paid-in capital is USD5, 450, 000.00.

On March 9, 2012, the Company set up Shanghai Branch and obtained the Pudong Branch business license No. of 310115500114925, issued by Pudong New Area Branch Bureau of Shanghai Municipal Administration for Industry and Commerce.

On June 28, 2012, the Company changed its name to Radisys Technologies (Shenzhen) Co., Ltd. The principal activities of the Company consist of researching, developing, designing and producing communication system (including broadband access communication system, IP data communication system, high-end routers, network switch machine which is over Gigabit equipment for switch mobile communication system and other relevant supporting devices), telecom terminal equipment, telecom equipment and relevant spare parts, developing relevant software products, providing related consultation and base services exclusive of restrictive items regulated by the government, wholesale business of communication system, telecom devices and related parts, software products and relevant goods and technologies, import and export business.

On March 22, 2016, the Company replaced the business license with license No, of 914403007755503909.

On September 17, 2018, the Company cancelled its Shanghai Branch.

The ultimate controlling party of the Company is Radisys Corporation (“Radisys Corp.”) which was registered in USA.

### **II. Basis of preparation**

#### **1. Basis of preparation**

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises (Ministry of Finance Decree No. 33, Ministry of Finance Decree No. 76, Amendment). The Ministry of Finance revised basic standards, and the specific accounting standards and other relevant regulations on 15 February 2006 and in subsequent periods, (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”).

According to the relevant provisions of the enterprise accounting standards, the accounting of the company is based on accrual basis. Except for some financial instruments, the financial statements are based on historical costs. In case of impairment of assets, corresponding impairment provisions shall be made in accordance with relevant provisions.

## For the Year Ended 31st December, 2018

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### 2. Going concern

As of December 31, 2018, the company had a cumulative loss of RMB 51,476,777.45. Total liabilities exceed total assets by RMB 6,506,362.48. As Radisys Corporation, the ultimate controlling party of the Company, agrees not to collect the amount owed by the Company in the foreseeable future and to provide all necessary financial support to the Company when the amount owed in the foreseeable future is due for repayment in order to maintain the continuing operation of the Company, the financial statement is prepared on the going concern basis.

### III. Statement of Compliance with Enterprise Accounting Standards

The financial statements compiled by the company meet the requirements of the accounting standards of enterprises. They truly and completely reflect the financial situation of the company on December 31, 2018 and the related information of its operating results and cash flow in 2018.

### IV. Significant Accounting Principles and Accounting Estimates

#### 1. Accounting period

The Company's accounting year is calendar year, i.e. from 1 January to 31 December each year.

#### 2. Recording currency

Renminbi (RMB) is used as the recording currency and is used in preparing the financial statements. Unless otherwise indicated, the monetary unit is RMB.

#### 3. Cash and Cash equivalent

Cash and cash equivalents include cash on hand, short-term, highly liquid investments held by the Company that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (normally will be due within three months from the day of purchase).

#### 4. Accounting treatment to foreign currency transactions

##### (1) Translation in foreign exchange transactions

Transactions denominated in foreign currency are converted into RMB for accounting purpose at the exchange rate as announced by the People's Bank of China at the end of last month when the transaction occurs.

##### (2) Conversion methods for foreign currency monetary items and foreign currency non-monetary items

On the balance sheet day, the spot exchange rate on the balance sheet date is adopted for the conversion of foreign currency monetary items, and the resulting exchange difference shall be treated in accordance with the principle of capitalization of borrowing costs and other book balances of foreign currency monetary items available for sale other than the amortized cost, except for the exchange difference arising from special foreign currency loans related to the acquisition and construction of assets eligible for capitalization. The exchange difference resulting from the change in the amount is included in the current profits and losses, except for other comprehensive gains. Foreign currency non-monetary items measured at historical cost shall still be announced by the People's Bank of China at the end of last month on the date of transaction occurrence.

The amount of the base currency of the intermediate exchange rate conversion is measured. Foreign currency non-monetary items measured by fair value shall be converted at spot exchange rate on the date of determination of fair value. The difference between the converted amount of base currency and the original amount of base currency shall be treated as changes in fair value (including changes in exchange rate), shall be included in current profits and losses or recognized as other comprehensive gains and included in capital reserve.

## For the Year Ended 31st December, 2018

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### 5. Financial instruments

#### (1) Determination of financial assets and liabilities' fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For a financial instrument which has an active market, the Company uses quoted price in the active market to establish its fair value. The quoted price in the active market refers to the price that can be regularly obtained from exchange market, agencies, industry associations, pricing authorities; it represents the fair market trading price in the actual transaction.

For a financial instrument which does not have an active market, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

#### (2) Classification, recognition and measurement of financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. On initial recognition, the Company's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables and available-for-sale financial assets. A financial asset is recognized initially at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are immediately charged to the profit and loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognized.

##### ① Financial assets at fair value through profit or loss:

Including financial assets held-for-trade and financial assets designated at fair value through profit or loss.

Financial asset held-for-trade is the financial asset that meets one of the following conditions:

- A. the financial asset is acquired for the purpose of selling it in a short term;
- B. the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits;
- C. the financial asset is a derivative, except for a derivative that is designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured. For such kind of financial assets, fair values are adopted for subsequent measurement.

Financial asset is designated on initial recognition as at fair value through profit or loss only when it meets one of the following conditions:

- A. the designation eliminates or significantly reduces the inconsistency in the measurement or recognition of relevant gains or losses that would otherwise arise from measuring the financial instruments on different bases.
- B. a Company of financial instruments is managed, and its performance is evaluated on a fair value basis and is reported to the enterprise's key management personnel. Formal documentation regarding risk management or investment strategy has prepared.

Financial assets at fair value through profit or loss are subsequently measured at the fair value. Any gains or losses arising from changes in the fair value and any dividends or interest income earned on the financial assets are recognized in the profit or loss.

## For the Year Ended 31st December, 2018

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### ② Investment held-to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Such kind of financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in profit or loss for the current period.

Effective interest rate is the rate that exactly discounted estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company shall estimate future cash flow considering all contractual terms of the financial asset or financial liability without considering future credit losses, and also consider all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

### ③ Loans and receivables

Loans and receivables are non-derivative financial assets with fixed determinable payment that are not quoted in an active market. Financial assets classified as loans and receivables by the Company include note receivables, account receivables, interest receivable dividends receivable and other receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

### ④ Financial assets available-for-sale

Financial assets available-for-sale include non-derivative financial assets that are designated on initial recognition as available for trade, and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or investment held-to-maturity.

Financial assets available-for-sale are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and dividends declared by the investee during the period in which the financial assets available-for-sale are held, are recognized in investment gains.

### (3) Impairment of financial assets

The Company assesses at the balance sheet date the carrying amount of every financial asset except for the financial assets that measured by the fair value. If there is objective evidence indicating a financial asset may be impaired, a provision is provided for the impairment.

The Company makes an impairment test for a financial asset that is individually significant. For a financial asset that is not individually significant, it is included in a Company of financial assets with similar credit risk characteristics and collectively assessed for impairment [or individually assessed for impairment]. If no objective evidence of impairment incurs for an individually assessed financial asset (whether the financial asset is individually significant or not individually significant), it is included in a Company of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets for which an impairment loss is individually recognized is not included in a Company of financial assets with similar credit risk characteristics and collectively assessed for impairment.

## For the Year Ended 31st December, 2018

### ① Impairment on held-to maturity investment, loans and receivables

The financial assets measured by cost or amortized cost write down their carrying value by the estimated present value of future cash flow. The difference is recorded as impairment loss. If there is objective evidence to indicate the recovery of value of financial assets after impairment, and it is related with subsequent event after recognition of loss, the impairment loss recorded originally can be reversed. The carrying value of financial assets after impairment loss reversed shall not exceed the amortized cost of the financial assets without provisions of impairment loss on the reserving date.

### ② Impairment loss on available-for-sale financial assets

When decision is made with all related factors on whether the fall of fair value investment of an equity instrument available-for-sale is significant or non-transient, it indicates impairment of such equity instrument investment, in which, “significant” means over 20% of fall in fair value and “non-transient” means over 12 months of subsequent fall.

When an available-for-sale financial asset is impaired, the cumulative loss arising from declining in fair value that had been recognized in capital reserve shall be removed and recognized in profit or loss. The amount of the cumulative loss that is removed shall be difference between the acquisition cost with deduction of recoverable amount less amortized cost, current fair value and any impairment loss on that financial asset previously recognized in profit or loss.

If, after an impairment loss has been recognized, there is objective evidence that the value of the financial asset is recovered, and it is objectively related to an event occurring after the impairment loss was recognized, the initial impairment loss can be reversed and the reserved impairment loss on available-for-sale equity instrument is recorded in the profit or loss, the reserved impairment loss on available-for-sale debt instrument is recorded in the current profit or loss.

The equity instrument where there is no quoted price in an active market, and whose fair value cannot be reliably measured, or impairment loss on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument shall not be reversed.

### (4) Recognition and measurement of financial assets transfer

The Company derecognizes a financial asset when one of the following conditions is met:

- 1) The rights to receive cash flows from the asset have expired;
- 2) The enterprise has transferred its rights to receive cash flows from the asset to a third party under a “pass-through” arrangement;
- 3) The enterprise has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

If the enterprise has neither retained all the risks and rewards from the financial asset nor control over the asset, the asset is recognized according to the extent it exists as financial asset, and correspondent liability is recognized. The extent of existence refers the level of risk by the financial asset changes the enterprise is facing.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, (a) The carrying amount of the financial asset transferred; and (b) the sum of the consideration received from the transfer and any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair value of those parts. The difference between (a) the carrying amount allocated to the part derecognized; and (b) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

## For the Year Ended 31st December, 2018

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### (5) Classification and measurement of financial liabilities

The Company's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, relevant transaction costs are immediately recognized in profit or loss for the current period, and transaction costs relating to other financial liabilities are included in the initial recognition amounts.

#### ① Financial liabilities measured by the fair value and the changes recorded in profit or loss

The classification by which financial liabilities held-for-trade and financial liabilities designed at the initial recognition to be measured by the fair value follows the same criteria as the classification by which financial assets held-for-trade and financial assets designed at the initial recognition to be measured by the fair value and their changes are recorded in the current profit or loss.

For the financial liabilities measured by the fair value and changes recorded in the profit or loss, fair values are adopted for subsequent measurement. All the gains or losses on the change of fair value and the expenses on dividends or interests related to these financial liabilities are recognized in profit or loss for the current period.

#### ② Other financial liabilities

Derivative financial liabilities that linked with equity instruments, which do not have a quoted price in an active market and their fair value cannot be measured reliably, is subsequently measured by cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition or amortization is recognized in profit or loss for the current period.

#### ③ Financial Guarantee Contract and Loan Commitment

A financial guarantee contract that does not belong to a financial liability designated to be measured at fair value and whose changes are included in the profits and losses of the current period, or a loan commitment that is measured at fair value and whose changes are recorded in the profits and losses and will be loaned at a rate lower than the market interest rate, is initially confirmed at fair value, and the amount and amount determined in accordance with Accounting Standards for Enterprises No. 13-Contingencies after initial confirmation are determined. The higher balance of the initial confirmed amount deducted from the accumulated amortized amount determined in accordance with the principles of Accounting Standards for Enterprises No. 14 - Income is subsequently measured.

### (6) Derecognition

The Company derecognizes a financial liability (or part of it) when the underlying present obligation (or part of it) is discharged or cancelled or has expired. An agreement between the Company (an existing borrower) and existing lender to replace original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new liability.

When the Company derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

### (7) Offsetting financial assets and financial liabilities

When the Company has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

## For the Year Ended 31st December, 2018

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### 6. Accounts receivable

Receivables include accounts receivable, other receivables, etc.

#### (1) Criteria for confirmation of provision for bad debts

The company inspects the book value of receivables on the balance sheet date, and makes provision for impairment if there is objective evidence that receivables have impaired;

The debtor has serious financial difficulties: ① Serious financial difficulties occurred to the debtor; ② The debtor violates the contract terms (such as interest payment or principal default or overdue, etc.); ③ The debtor is likely to fail or undergo other financial restructuring; ④ Other objective evidence indicating impairment of receivables;

#### (2) The method of recognizing provision for bad debts

At the end of the period, the individual receivables (including accounts receivable, notes receivable, prepaid accounts, other receivables, long-term receivables, etc.) are separately tested for impairment. If there is objective evidence that the impairment occurred, the impairment loss shall be confirmed and the provision for bad debts shall be calculated according to the difference between the present value of future cash flow and its book value.

#### (3) Reversal of bad debts provision

If there is objective evidence that the value of the receivable has been restored and is objectively related to the events occurring after the loss has been confirmed, the loss of impairment previously recognized shall be reversed and recorded in current profits and losses. However, the book value of the transferred account does not exceed the amortized cost of the receivable on the date of return, assuming no provision for impairment is made.

### 7. Inventory

#### (1) Classification of inventory

Inventory mainly includes inspection of raw materials, in-process products and finished products.

#### (2) Valuation method for inventory acquisition and issuance

Inventory is valued at actual cost when it is acquired. Inventory cost includes purchase cost, processing cost and other costs. The Company's inventories are accounted for using the first-in-first-out (FIFO) method upon acquisition and issuance.

#### (3) Basis for determining the net realizable value of inventories and provision for decline in the value of inventories

Net realizable value (NPV) refers to the estimated price of inventory minus the estimated cost, estimated sales cost and the amount of tariff charges to be incurred at the time of completion in daily activities. When determining the net realizable value of inventory, it is based on the conclusive evidence obtained, considering the purpose of holding inventory and the impact of events after the balance sheet date.

On the balance sheet date, the ending inventory is measured by the lower of cost and net realizable value. Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Provision for inventory based on the difference between the cost of a single inventory item and its net realizable value.

If the factors affecting the value of the previously written-down inventory have disappeared after the provision for inventory depreciation has been made, and the net realizable value of the inventory is higher than its book value, it shall be reversed within the amount of the original provision for inventory impairment, and the amount returned shall be included in the profits and losses of the current period.

## For the Year Ended 31st December, 2018

(4) The Company adopts the perpetual inventory system.

(5) Amortization of low-value consumables and packages

Low-value consumables and packages shall be amortized by one-time amortization method when they are taken over.

### 8. Fixed assets

(1) Recognition of fixed assets

Fixed assets refer to tangible assets held to produce commodities, the provision of services, leasing or operation and management, whose service life exceeds one accounting year.

(2) Various types of fixed assets depreciation methods

Fixed assets are initially measured at cost, considering the impact of expected abandonment costs. The depreciation of fixed assets shall be calculated within the service life by the method of average life from the next month when the fixed assets reach the intended usable state. The depreciation period, depreciation period and annual depreciation rate of all types of fixed assets are as follows:

Category	Depreciation Period (Year)	Percentage of residual value (%)	Annual depreciation rate (%)
Office equipment	5	0.00	20
Communication equipment	5	0.00	20
Production equipment	5	0.00	20
R & D equipment	5	0.00	20

Estimated net residual value is the amount that the company currently obtains from the disposal of the assets after deducting the estimated disposal expenses. Estimated net residual value assumes that the expected service life of fixed assets has expired and is at the end of its service life.

(3) The method of impairment testing of fixed assets and the calculation method of impairment provision

The method of impairment testing of fixed assets and the calculation method of impairment provision are detailed in Notes IV \14 "Impairment of non-current non-financial assets".

(4) Other explanations

If the subsequent expenditure related to the fixed asset is likely to flow in and its cost can be measured reliably, it will be included in the cost of the fixed asset and the book value of the replaced part will be terminated. Subsequent expenditures other than this shall be included in current profits and losses when incurred.

The difference between the disposal income of the sale, transfer, scrap or damage of fixed assets after deducting their book value and related taxes and fees is included in the current profits and losses.

At least at the end of the year, the Company reviews the service life, estimated net residual value and depreciation method of fixed assets. If any change occurs, it will be treated as a change in accounting estimates.

### 9. Intangible Assets

Intangible assets include intangible assets with limited service life and intangible assets with uncertain service life.

(1) Valuation of intangible assets

Invisible assets are initially measured at actual cost.



## For the Year Ended 31st December, 2018

The cost of purchasing intangible assets includes the purchase price, related taxes and fees, and other expenditures directly attributable to the intended use of the assets.

### (2) Amortization of intangible assets

(a) For intangible assets with limited service life, the straight-line method shall be adopted to amortize the intangible assets within the service life period, which is consistent with the expected realization of the economic interests related to the intangible assets and is unable to determine the expected realization mode reliably.

(b) Non-amortization of intangible assets with uncertain service life.

Intangible assets shall be amortized by the following methods

Item	Estimated useful life
Software	5

At the end of each year, the service life and amortization methods of intangible assets with limited service life are reviewed. The Company has no intangible assets with uncertain service life.

### (3) Provision for the impairment of intangible assets

The impairment test shall be conducted on the balance sheet day for intangible assets with uncertain service life and intangible assets that have not yet reached the usable state.

For intangible assets with limited service life, there are signs of impairment on the balance sheet date, and the recoverable amount is estimated. Where the recoverable amount is less than its book value, the book value of intangible assets shall be written down to the recoverable amount, and the amount written down shall be recognized as the loss of impairment of intangible assets, which shall be included in the current profits and losses, and the corresponding provision for impairment of intangible assets shall be made at the same time.

Once the loss of impairment of intangible assets has been confirmed, it will not be reversed in the future accounting period.

## 10. Leases

Financial lease is a lease that essentially transfers all risks and rewards related to the ownership of assets. Its ownership may or may not be transferred eventually. Leases other than financial leases are operating leases.

### Operating Lease

#### ① The Company as Lessee under Operating Lease

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss for the current period. The contingent rents shall be recorded in the profit or loss of the period in which they arise.

#### ② The Company as Leaser under Operating Lease

Lease income from operating leases shall be recognized by the leaser in profit or loss on a straight-line basis over the lease term. The larger initial direct expenses are capitalized when they occur, and the profits and losses of the current period are recorded in stages on the same basis as the recognized rental income during the whole lease period; the smaller initial direct expenses are recorded in the profits and losses of the current period when they occur.

## 11. Revenue Recognition

Revenue refers to the total flow of economic interests formed in the daily activities of an enterprise, which will lead to the increase of the owner's rights and interests and have nothing to do with the capital invested by the owner.

## For the Year Ended 31st December, 2018

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The company recognizes revenue according to the following provisions and accounted for its current profits and losses according to the realized revenue.

The amount of income shall be determined according to the fair value of the contract or agreement price received or receivable when the company provides services in its daily business activities.

### (1) Revenue from Rendering of Service

When the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue associated with the transaction is recognized using the percentage of completion method.

The outcome of a transaction involving rendering of services can be estimated reliably when all the following conditions are satisfied:

- ① The amount of revenue can be measured reliably;
- ② It is probable that the associated economic benefits will flow to the Company;
- ③ The stage of completion of the transaction can be measured reliably;
- ④ The costs incurred and to be incurred for the transaction can be measured reliably.

If the outcome of a transaction cannot be estimated reliably, the service income will be recognized according to the amount of the service cost that has occurred and is expected to be compensated, and the service cost that has occurred will be regarded as the current cost. Income is not recognized if the incurred labor costs are not expected to be compensated.

When the contract or agreement signed by our company with other enterprises includes the sale of goods and the provision of labor services, if the sale of goods and the provision of labor services can be distinguished and measured separately, the sale of goods and the provision of labor services shall be dealt with separately.

If the sale of goods and the provision of services cannot be distinguished, or they cannot be distinguished, but cannot be measured separately, the contract will be treated as the sale of goods.

### (2) Revenue from Sale of Goods

The company has transferred the main risks and rewards in the ownership of the commodity to the buyer. The company no longer exercises the right of continuous management and actual control over the commodity. Relevant revenue has received or obtained receipts. The cost associated with the sale of the commodity can be reliably measured to confirm the realization of business income.

### (3) Recognition of income from the transfer of the right to use assets

The transfer of the right to use assets confirms the income when the relevant economic interests are likely to flow into the enterprise and the amount of income can be reliably measured.

The determination of the amount of income from the right to use the transferred assets:

- 1) The amount of interest income shall be calculated and determined according to the time when other people use the money funds of the enterprise and the actual interest rate.
- 2) The amount of royalty income shall be calculated and determined according to the time and method of royalty stipulated in the relevant contracts or agreements.

## 12. Government Grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Company at no consideration, excluding the capital invested by the government as equity owner. Government grant can be classified as grant related to the assets and grants related to the income.

## For the Year Ended 31st December, 2018

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent period, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period. For repayment of a government grant already recognized, if there is a related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized immediately in profit or loss for the period.

Government grants related to the company's daily activities shall be included in other income or cost deduction according to the essence of economic business; government subsidies unrelated to daily activities shall be included in non-operating incomes or expenses.

### 13. Discontinued Operations

#### (1) The Basic Situation of Discontinued Operations

Items	Current period		Gross profit
	Revenue	Cost	
R & D Services	6,396,615.60	5,523,005.50	873,610.10

Items	Previous period		Gross profit
	Revenue	Cost	
R & D Services	31,597,271.21	27,055,219.50	4,542,051.71

Note: The business shown in the table above has been terminated. As other items such as termination expenses cannot be ascertained, net profit data cannot be provided.

#### (2) The disposition of Discontinued Operations

Items	Total disposal gains and losses	Income Tax Expenses/Incomes	Net disposal gains and losses
Fixed assets and intangible assets	-1,149,574.58	—	-1,149,574.58

### V. Changes in Major Accounting Policies and Accounting Estimates

#### (1) Changes in Significant Accounting Policies

In June 2018, the Ministry of Finance released the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for (Cai Kuai [2018] No. 15). The format of general enterprise financial statements has been revised. The Company shall execute the aforementioned notice in accordance with the requirements of the Ministry of Finance

In accordance with the requirements of notice (Cai Kuai [2018] No. 15), the company adjusts the presentation of the following items of financial statements and adjusts the comparative data of comparable accounting periods accordingly:

The original "Notes Receivable" and "Accounts Receivable" items are incorporated into the newly added "notes receivable and accounts receivable" items;

## For the Year Ended 31st December, 2018

The original items of “Interest Receivable”, “Dividend Receivable” and “Other Receivables” are incorporated into the items of “Other Receivables”;

The original “Disposal of Fixed Assets” and “Fixed Assets” items are incorporated into “Fixed Assets”;

The original “Construction Materials” are incorporated into “Construction in Progress” items;

The original “notes payable” and “accounts payable” items are incorporated into the new “notes payable and accounts payable” items;

The original “interest payable”, “dividend payable” and “other accounts payable” items are combined into “other accounts payable” items;

The original “Special payables” items are incorporated into “long-term payable” items;

The new “R&D Expenditure” item is added. The R&D expenditure originally included in the “management expenditure” item is listed separately as the “R&D expenditure” item;

Under “Financial Expenses” Item, indicate “Interest Expenses” and “Interest Income” Detailed Items

The change of accounting policy has no substantial effect on the total assets, liabilities, net assets and net profits of the company in the current period and before the change of accounting policy.

### 2. Changes in Accounting Estimates

The company has no change in accounting estimates this year.

### VI. Taxation

The main categories and tax rates applicable to the Company are set out below:

Types of tax	Specific tax rate
Value added tax (note 1, 2 and 3)	The output tax is calculated at the rate of 17% (before 1 May, 2018) after 1 May 2018, at the rate of 16% of the taxable income for goods sold, and 6% for service provided. VAT is paid after offset the output tax with input tax allowed at current period. Tax exemption for export R&D services and technical advisory services.
City maintenance and construction tax	7% of the turnover taxes actually paid.
Educational surcharge	3% of actual turnover tax paid
Local educational surcharge	2% of actual turnover tax paid
Corporate income tax	25% of taxable income

Note 1: According to the Circular of the State Administration of Taxation on the Issue of Measures for the Administration of Tax Rebate (Exemption) for Export Goods (Trial Implementation) issued by the State Tax Issuance Document No. 51 [2005], the policies of VAT exemption, offset and refund shall apply to our export products.

Note 2: According to the announcement of Shenguo Tax South Reserve [2016] 0709 and the State Administration of Taxation on the Re-issuance of the “Measures for the Administration of Transboundary Taxable Service VAT Exemption from Business Tax to VAT (Trial Implementation)” (the announcement of the State Administration of Taxation No. 49 of 2014), the R&D services provided by the company to overseas units are exempted from VAT, and the VAT input tax of the preferential items is accounted for separately. The filing period is from January 1, 2015 to December 31, 2019

## For the Year Ended 31st December, 2018

### VII. NOTES TO MAIN ITEMS OF THE FINANCIAL STATEMENTS

Unless otherwise indicated, the opening balance refers to the balance as at 1 January 2018; the closing balance refers to the balance as at 31 December 2018; current year refers to year 2018 and prior year refers to year 2017.

#### 1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand	-	-
Cash at bank	403,980.76	1,443,653.83
<b>Total</b>	<b>403,980.76</b>	<b>1,443,653.83</b>

#### 2. Notes and accounts receivables

Items	Closing balance	Opening balance
Notes Receivable	-	-
Accounts Receivable	71,236,260.85	71,201,219.07
<b>Total</b>	<b>71,236,260.85</b>	<b>71,201,219.07</b>

(1) The aging of accounts receivable is analyzed as follows :

Aging	Closing Balance			Opening Balance		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage to total amount (%)		Amount	Percentage to total amount (%)	
Within 1 year	22,254,781.24	31.23%	—	48,575,348.07	68.19%	—
1 -2 years	46,996,182.81	65.94%	—	20,640,574.20	28.98%	—
2 -3 years	—	—	—	—	—	—
3 -4 years	—	—	—	2,018,297.72	2.83%	33,000.92
4 -5 years	2,018,297.72	2.83%	33,000.92	—	—	—
Above 5years	-	-	-	—	—	—
<b>Total</b>	<b>71,269,261.77</b>	<b>100.00%</b>	<b>33,000.92</b>	<b>71,234,219.99</b>	<b>100.00%</b>	<b>33,000.92</b>

At the end of the year, the receivables of related parties amounted to RMB 71,236,260.85. See notes VIII, 4 for details.

#### 3. Other receivables

Item	Closing balance	Opening balance
Interest Receivable	—	—
Dividend Receivable	—	—
Other Receivables	3,106,099.67	4,524,103.38
<b>Total</b>	<b>3,106,099.67</b>	<b>4,524,103.38</b>

## For the Year Ended 31st December, 2018

(1) The aging of other receivables is analyzed as follows:

Aging	Closing Balance			Opening Balance		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage to total amount (%)		Amount	Percentage to total amount (%)	
Within 1 year	1,722,969.89	55.47%	—	1,732,268.15	38.29%	—
1 -2 years	1,293,616.78	41.65%	—	303,033.63	6.70%	—
2 -3 years	89,513.00	2.88%	—	2,485,551.60	54.94%	—
3 -4 years	—	—	—	3,250.00	0.07%	—
4 -5 years	—	—	—	—	—	—
Above 5 years	—	—	—	—	—	—
Total	<b>3,106,099.67</b>	<b>100.00%</b>	—	<b>4,524,103.38</b>	<b>100.00%</b>	—

At the end of the year, the receivables of related parties amounted to RMB 3,099,439.67. See notes IX, 4 for details.

#### 4. Advances to suppliers

Aging	Closing balance		Opening balance	
	Amount	Percentage of total balance (%)	Amount	Percentage of total balance (%)
Within 1 year	16,749.00	100.00%	15,974.00	100.00%
Total	16,749.00	100.00%	15,974.00	100.00%

#### 5. Inventory

(1) Categories of inventory

Category	Closing balance	Opening balance
Raw material		103,396.50
Subtotal		103,396.50
Less: inventory impairment provision		
Total		

## For the Year Ended 31st December, 2018

### 6. Fixed asset

Item	Opening Balance	Increased in 2018	Decreased in 2018	Closing Balance
I. Total original cost	<b>15,238,234.82</b>	<b>3,584.00</b>	<b>14,327,624.93</b>	<b>914,193.89</b>
Incl: office equipment	2,425,299.05	—	2,425,299.05	—
communication equipment	2,375,762.73	3,584.00	2,253,396.78	125,949.95
production equipment	8,957,282.87	--	8,189,266.86	768,016.01
R & D equipment	1,479,890.17	—	1,459,662.24	20,227.93
II. Total accumulated depreciation	<b>13,002,484.58</b>	<b>480,942.00</b>	<b>13,040,451.29</b>	<b>442,975.29</b>
Incl: office equipment	2,405,513.38	5,136.34	2,410,649.72	—
communication equipment	1,786,852.66	89,976.54	1,805,082.73	71,746.47
production equipment	7,549,745.85	361,765.09	7,553,767.30	357,743.64
R & D equipment	1,260,372.69	24,064.03	1,270,951.54	13,485.18
Total net book value	2,235,750.24	—	—	471,218.60
Incl: office equipment	19,785.67	—	—	—
communication equipment	588,910.07	—	—	54,203.48
production equipment	1,407,537.02	—	—	410,272.37
R & D equipment	219,517.48	—	—	6,742.75
III. Total impairment provision	-	-	-	-
Incl: office equipment	-	-	-	-
communication equipment	-	-	-	-
production equipment	-	-	-	-
R & D equipment	-	-	-	-
IV. Total carrying amount	2,235,750.24	—	—	471,218.60
Incl: office equipment	19,785.67	—	—	—
communication equipment	588,910.07	—	—	54,203.48
production equipment	1,407,537.02	—	—	410,272.37
R & D equipment	219,517.48	—	—	6,742.75

### 7. Intangible assets

#### (1) List of intangible assets

Items	Software	Total
I. Original book value		
1. Opening balance	210,900.07	210,900.07
2. Increased at this period		
1. Purchase		
3. Decreased at this period	113,108.57	113,108.57
1 Disposal	113,108.57	113,108.57
4. Closing balance	97,791.50	97,791.50
II. Accumulated amortization		
1 Opening balance	143,261.26	143,261.26
2 Increased at this period	23,127.49	23,127.49
(1) Provision	23,127.49	23,127.49
3 Decreased at this period	94,194.85	94,194.85
(1) Disposal	94,194.85	94,194.85
4. Closing balance	72,193.90	72,193.90
III. Impairment allowance	—	—
IV. Book value		
1. Closing book value	25,597.60	25,597.60
2. Opening book value	67,638.81	67,638.81

## For the Year Ended 31st December, 2018

### 8. Notes payable and Accounts payable

Items	Closing balance	Opening balance
Notes payable	—	—
Accounts payable	<b>42,375,683.59</b>	<b>42,818,838.62</b>
Total	<b>42,375,683.59</b>	<b>42,818,838.62</b>

(1) The aging of accounts payable is analyzed as follows:

Items	Closing balance	Opening balance
Within 1 year	78,048.40	1,337,623.44
1 -2 years	1,303,647.84	—
2 -3 years	—	—
Over 3years	40,993,987.35	41,481,215.18
Total	<b>42,375,683.59</b>	<b>42,818,838.62</b>

At the end of the year, the amount payable to the related parties is RMB 42,375,683.59, as detailed in notes IX, 4.

### 9. Employee benefits payable

(1) Details of employee benefits payable

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
I. Short-term employee benefits payable	2,730,622.21	5,317,869.61	7,614,892.12	433,599.70
II. Defined contribution plans payable	—	415,114.57	415,114.57	—
III. Termination benefits	4,022,385.80	7,016,932.60	11,039,318.40	—
IV. Others	130,263.34	—	—	130,263.34
Total	<b>6,883,271.35</b>	<b>12,749,916.78</b>	<b>19,069,325.09</b>	<b>563,863.04</b>

(2) Details of short-term employee benefits

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
I. Salary, bonus, allowance and subsidies	780,620.72	4,397,571.41	4,950,455.33	227,736.80
II. Employee welfare	—	131,319.78	131,319.78	—
III. Social insurance premium	—	177,577.07	177,577.07	—
Including: medical insurance	—	184,187.40	184,187.40	—
Work injury insurance	—	9,781.06	9,781.06	—
Maternity insurance	—	-33,220.45	-33,220.45	—
Disabled employment security fund	—	16,829.06	16,829.06	—
V. Housing funds	—	190,891.40	190,891.40	—
VI. Labor union funds and employee education	—	—	—	—
VII. Funds	—	42,553.59	42,553.59	—
VI. Short-term compensated absences	1,950,001.49	377,956.36	2,122,094.95	205,862.90
Total	<b>2,730,622.21</b>	<b>5,317,869.61</b>	<b>7,614,892.12</b>	<b>433,599.70</b>

(3) The details of defined contribution plans

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
I. Basic pension insurance	—	410,601.95	410,601.95	—
II. Unemployment insurance	—	4,512.62	4,512.62	—
Total	—	<b>415,114.57</b>	<b>415,114.57</b>	—



## For the Year Ended 31st December, 2018

### 10. Taxes payable

Items	Closing balance	Opening balance
Value added tax	-280.07	-4,992.50
City maintenance and construction tax	—	1,842.51
Individual income tax payable	17,783.61	180,939.88
Educational surcharge payable	—	1,316.08
Total	<b>17,503.54</b>	<b>179,105.97</b>

### 11. Other payables

#### (1) Categories of other payables

Items	Closing balance	Opening balance
Temporary collection payable	—	139,861.57
Inventory and services Payable (Accrued expenses)	338,978.74	595,742.38
Total	<b>338,978.74</b>	<b>735,603.95</b>

(2) There are no significant other payables over a period of one year.

(3) There are no significant other payables of related party.

### 12. Other current liabilities

Items	Closing balance	Opening balance
Deferred income	—	255,072.14
Total	—	<b>255,072.14</b>

### 13. Long-term payable

Items	Closing balance	Opening balance
Loans principal and interests payable to related party	38,470,240.05	34,882,761.36
Total	38,470,240.05	34,882,761.36

The outstanding balance includes the borrowing principal and the interest payable to the related party. The Company signed borrowing agreement with the ultimate parent company. Radisys Corporation with annual compounded interest rate of 5% for 5 years, which principal and interest will be paid at maturity. On September 16, 2010, the Company signed an extended agreement with Radisys Corporation with maturity date to September 30, 2034 other terms and conditions remained unchanged.

### 14. Paid-in capital

Investor	Closing balance		Opening balance	
	Percentage of shareholding (%)	Capital contributed	Percentage of shareholding (%)	Capital contributed
Radisys Cayman Limited	100.00%	41,283,841.68	100.00%	41,283,841.68

### 15. Capital reserve

Items	Opening balance	Increase	Decrease	Closing balance
Other capital reserve	3,686,573.29	—	—	3,686,573.29

### 16. Retained earnings

Items	2018	2017
Retained earnings at the beginning of the year before restatement	-51,133,332.53	-50,130,403.34
Adjustment for prior year	—	—
Retained earnings at the beginning of the year after adjustment	-51,133,332.53	-50,130,403.34
Add: Net profit attributable to shareholders of the parent company	-343,444.92	-1,002,929.19
Less: Appropriation to statutory surplus reserve	—	—
Retained earnings at the end of the year	-51,476,777.45	-51,133,332.53

## For the Year Ended 31st December, 2018

<b>16. Revenue and cost of sales</b>				
Items	2018		2017	
	Revenue	COGS	Revenue	COGS
Revenue from main operations	16,637,895.30	11,869,315.76	48,528,610.71	40,425,344.63
Incl: Maintenance and technical support services	10,241,279.70	6,346,310.26	16,931,339.50	13,370,125.13
Research and development Services	6,396,615.60	5,523,005.50	31,597,271.21	27,055,219.50
<b>Total</b>	<b>16,637,895.30</b>	<b>11,869,315.76</b>	<b>48,528,610.71</b>	<b>40,425,344.63</b>
<b>17. Taxes and surcharges</b>				
Items	2018		2017	
City maintenance and construction tax	11,256.49		6,725.24	
Educational surcharge	8,040.37		4,803.75	
Stamp tax	8,209.11		13,801.38	
<b>Total</b>	<b>27,505.97</b>		<b>25,330.37</b>	
<b>18. Selling and distribution expenses</b>				
Items	2018		2017	
Freight charges	—		156,008.09	
<b>Total</b>	<b>—</b>		<b>156,008.09</b>	
<b>19. General and administrative expenses</b>				
Items	2018		2017	
Employee benefits	2,915,365.74		3,409,321.75	
Depreciation and amortization expenses	101,068.43		654,277.66	
Maintenance expense	5,767.97		64,309.37	
Rental and property management fees	168,638.92		334,324.53	
Office expenses	166,979.05		660,573.63	
Travelling and transportation expenses	80,024.61		163,191.53	
Entertainment expenses	—		2,741.00	
Professional service fees	316,303.04		222,112.23	
Other expense	253,670.33		262,271.20	
<b>Total</b>	<b>4,007,818.09</b>		<b>5,773,122.90</b>	
<b>20. Finance costs</b>				
Items	2018		2017	
Interest on borrowings	1,771,211.87		1,709,554.26	
Less: Interest income	3,251.38		3,869.89	
Net gains on exchange	-524,801.76		1,075,457.89	
Commission expenses and others	7,372.54		6,546.40	
<b>Total</b>	<b>1,250,531.27</b>		<b>2,787,688.66</b>	
<b>21. Losses on disposal of assets</b>				
Items	2018		2017	
Losses on disposals of fixed assets and intangible assets	-1,149,574.58		-228,775.24	
<b>Total</b>	<b>-1,149,574.58</b>		<b>-228,775.24</b>	

## For the Year Ended 31st December, 2018

### 22. Other income

Items	2018	2017
Individual income tax refund	236,496.46	—
<b>Total</b>	<b>236,496.46</b>	<b>—</b>

### 23. Non-operating income

Items	2018	2017
Others	1,092,899.94	241,145.99
<b>Total</b>	<b>1,092,899.94</b>	<b>241,145.99</b>

### 24. Non-operating expenses

Items	2018	2017
Penalties and overdue fines	5,990.95	376,416.00
<b>Total</b>	<b>5,990.95</b>	<b>376,416.00</b>

### 25. Supplementary information to the cash flow statement

Reconciliation from net profit to cash flows from operating activities:

Items	Current period	Previous period
<b>1) Adjusting net profit to cash flow from operating activities</b>		
Net profit	-343,444.92	(1,002,929.19)
Add: Impairment loss provision of assets		
Depreciation of fixed assets, oil and gas assets and consumable biological assets	480,942.00	3,088,123.64
Amortization of intangible assets	23,127.49	36,183.37
Amortization of long-term prepaid expenses		
Loss on disposal of fixed assets, intangible assets and other long-term deferred assets (gain as in “-”)	1,149,574.58	228,775.24
Loss on scrap of fixed assets (gain as in “-”)		
Loss on fair value changes (gain as in “-”)		
Financial cost (gain as in “-”)	1,246,410.11	(341,541.43)
Loss on investment (gain as in “-”)		
Decreased in deferred income tax assets (increase as in “-”)		
Increased of deferred income tax liabilities (increase as in “-”)		
Decreased of inventories (increase as in “-”)	103,396.50	84,347.65
Decreased of operating receivables (increase as in “-”)	2,833,914.61	(3,677,697.94)
Increased of operating Payable (decrease as in “-”)	(7,576,831.56)	2,950,634.13
Others		
Net cash flows from operating activities	(2,082,911.19)	1,365,895.47
<b>2) Significant investment and financing activities that without cash flows:</b>		
Debt-to-capital conversion		
Convertible loan due within 1 year		
Fixed assets acquired under financial lease		
<b>3) Movement of cash and cash equivalents:</b>		
Ending balance of cash	403,980.76	1,443,653.83
Less: Beginning balance of cash equivalents	1,443,653.83	863,067.82
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase of cash and cash equivalents	(1,039,673.07)	580,586.01

## For the Year Ended 31st December, 2018

### 26. Monetary items denominated in foreign currency

Items	Closing foreign currency balance	Exchange rate	Closing convert to RMB balance
Cash at bank and on hand (USD)	5,423.71	6.8632	37,224.01
Notes and accounts receivables (USD)	7,823,148.93	6.8632	53,691,835.74
Long-term payable (USD)	5,605,292.00	6.8632	38,470,240.05

### VIII. Risks associated with financial instruments

The company's main financial instruments include long-term accounts payable, accounts receivable, accounts payable, etc. Detailed descriptions of various financial instruments can be found in the relevant items in Note IV of the financial statements. The risks associated with these financial instruments and the risk management policies adopted by our company to reduce these risks are described below. The company's management manages and monitors these exposures to ensure that the above risks are within the limits. The company uses sensitivity analysis technology to analyze the impact of reasonable and possible changes in risk variables on current profits and losses or shareholders' rights and interests. Thus, the following is assuming that each variable change independently.

#### Risk management objectives and policies

The company's goal in risk management is to strike a proper balance between risk and return, to minimize the negative impact of risk on the company's operating performance, and to maximize the interests of shareholders and other equity investors. Based on this risk management objective, the basic strategy of the company's risk management is to identify and analyze the various risks faced by the company, establish an appropriate risk-bearing bottom line and carry out risk management, and timely and reliable supervision of various risks, so as to control the risks within a limited range.

#### 1. Market risk

##### (1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate changes. The company bears the risk that is mainly related to the US dollar. The Company purchases and sells in US dollars with Radisys Corporation, the ultimate controlling party. Other business activities of the company are settled in RMB. On December 31, 2018, the company's foreign currency financial assets and liabilities are listed in Notes. VII. 27. Except that the assets or liabilities mentioned in the above statement are in US dollar balance, the other assets and liabilities of the company are in RMB balance. Foreign exchange risks arising from assets and liabilities in foreign currency balances may have an impact on the company's operating performance. The Company pays close attention to the impact of exchange rate changes on its foreign exchange risk. At present, The Company has not taken any measures to avoid foreign exchange risk.

##### (2) Interest rate risk

As of December 31, 2018, the Company's long-term payables were 38,470,240.05 yuan, based on the compound interests at 5% fixed rate per annum, repayment of principal and interests on September 30, 2034. There is no significant interest rate risk.

#### 2. Credit risk

Credit risk refers to the risk that one party of a financial instrument fails to fulfill its obligations and causes financial losses to the other party. Financial instruments are mainly related to the related parties. The Company's financial assets and liabilities between the company and the related parties are listed in Notes.IX.4. There is no significant credit risk.

#### 3. Liquidity risk

In managing liquidity risks, the company maintains and monitors cash and cash equivalents that management considers adequate to meet the company's operational needs and reduce the impact of cash flow fluctuations.

## For the Year Ended 31st December, 2018

### IX. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS

#### 1) Information of parent company

Name of parent	Registration place	Nature of business	Registered capital (USD)	Controlling by parent	Voting right (%) by parent
Radisys Cayman Limited	Cayman	Investment holding	0.00	100.00%	100.00%

The ultimate parent company is Radisys Corporation

#### 2) Information of subsidiary company : none

#### 3) Related parties that have transactions with the Company

Entity	Relationship with the Company
Radisys Corporation	Ultimate controlling party
Radisys Singapore	Fellow subsidiary under the same control
Radisys Systems Equipment Trading (Shanghai) Co., Ltd.	Fellow subsidiary under the same control

#### 4) Main business transactions between the Company and related parties

##### (1) Sales and purchase

Related Parties	Content of business transactions	2018	2017
Radisys Corporation	Purchasing raw materials	49,364.25	802,469.47
Radisys Corporation	Purchasing fixed assets	—	405,452.03
Radisys Corporation	Sale of finished products	—	698,814.63
Radisys Corporation	Providing technical support services	9,986,207.56	15,672,694.78
Radisys Corporation	Providing R&D services	6,396,615.6	31,597,271.21
Radisys Corporation	Sale of used materials	1,393,687.29	406,002.18
Radisys Corporation	Sale of fixed assets	144,522.26	1,081,970.72

##### (2) Related party balances

Related Parties	Closing balance		Opening balance	
	Amounts	Percentages (%)	Amounts	Percentages (%)
Accounts receivable				
Radisys Corporation	71,236,260.85	-	71,201,219.07	
Total	71,236,260.85	-	71,201,219.07	-
Other receivables				
Radisys Corporation	2,810,170.67	-	4,239,307.47	
Radisys Singapore	289,269.00	-	185,113.00	-
Total	3,099,439.67	-	4,424,420.47	
Accounts payable				
Radisys Corporation	39,599,511.59		40,008,691.02	
Radisys Systems Equipment Trading (Shanghai) Co., Ltd.	2,776,172.00	-	2,776,172.00	
Total	42,375,683.59	-	42,784,863.02	
Long-term payable				
Radisys Corporation	38,470,240.05	-	34,882,761.36	
Total	<b>38,470,240.05</b>	-	<b>34,882,761.36</b>	

## For the Year Ended 31st December, 2018

### **X. Commitments and contingencies**

#### (1) Commitments

As of 31 December 2018, there had been no material commitments necessary to be disclosed.

#### (2) Contingent events

As of 31 December 2018, there had been no material contingencies necessary to be disclosed.

### **XI. Events after the balance sheet date**

Jonathan Patrick Wilson, the former legal representative of the enterprise, resigned on March 6, 2019, and Robert Charles Pippert, the new legal representative, took office on March 6, 2019. Up to the date of the report, the registration of the change of legal representative has not been completed.