



温州康宁医院股份有限公司 Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)
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2016 ANNUAL ESG REPORT

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About the Report

Wenzhou Kangning Hospital Co., Ltd. (“Kangning”, “We” or “Our Company”, together with its subsidiaries, the “Group”) was established in 1996, with its head office located in Wenzhou City, Zhejiang Province, the People’s Republic of China (the “PRC” or “China”). It is primarily engaged in providing psychiatric specialty healthcare services, and is currently the largest private psychiatric specialty hospital group in China. As at 31 December 2016, the Group owned and managed 14 healthcare facilities, and the number of beds under operation and management was 3,367.

This report, as our first Environment, Social and Governance (“ESG”) report, is prepared in accordance with the “ESG Reporting Guide” set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “SEHK”). This report aims to disclose the overall management approaches, strategies, and performance on the sustainable development of the Group during the reporting period from 1 January 2016 to 31 December 2016. Unless otherwise stated, this report covers self-owned healthcare facilities of the Group located in the PRC, including (i) 8 hospitals in operation, namely Wenzhou Kangning Hospital, Qingtian Kangning Hospital Co., Ltd., Cangnan Kangning Hospital Co., Ltd., Yongjia Kangning Hospital Co., Ltd., Yueqing Kangning Hospital Co., Ltd., Linhai Kangning Hospital Co., Ltd., Wenzhou Yining Geriatric Hospital Co., Ltd. and Quzhou Yining Hospital Co., Ltd.; and (ii) 3 hospitals under construction, namely Pingyang Kangning Hospital Co., Ltd., Shenzhen Yining Hospital Co., Ltd. and Hangzhou Yining Hospital Co., Ltd.

We welcome any opinions and suggestions with regards to this report and our sustainability performance. Please contact us by email to ir@knhosp.cn.

Strategy of Sustainable Development

The objective of “create a hospital with love” provides guidance for every step we take for development. As the largest psychiatric specialty hospital group in China, we carry out “create a hospital with love” in our every level and integrate environmental, social and governance factors into business, and strive to bring long term benefits to all stakeholders.

Stakeholder Engagement

We attach great importance on communication with stakeholders, and treat it as an important way to improve performance and business operation. Our

Environment Protection

We commit ourselves to make contributions to addressing the global climate change issues. We will monitor the performance of environment protection for the hospitals that under construction and in operation, and endeavor to minimize the impact on environment. Meanwhile, we integrate the environment protection concepts into the facilities and services of the hospitals, so as to create a hospital group that adheres to environment protection.

Green Construction

Before we select locations for hospitals, we will engage a qualified organization to conduct environmental proposal design and environmental impact evaluation in accordance with the requirements set out in Environmental Protection Law of the PRC (“Environmental Protection Law”), and obtain approval from the local environment authority for the new hospital environmental appraisal. We will try our best to reduce the impact on the environment during the process of designing the proposal. For example, we adopt a more water saving and environmental friendly system—a new-generation medical waste treatment program, which enables the treated sewage to be used as the supplement for the circulating cooling water, to water flowers and flush toilets. At the same time, we have adopted the following measures during our construction process:

➤ *Air pollution management*

Since there are dusts generated from the site formation, piling and digging work during the construction period, we will avoid loading and unloading work for cement and other materials under windy weather, avoid piling up materials like cement outdoor or cover it by waterproof cloth to reduce construction dusts due to strong wind. We also require the contractor to reduce bare soil and to timely refill and tamp the hole after digging during the construction, and sprinkling water regularly on the construction site to prevent dusty.

➤ *Noise pollution management*

We strictly implement Noise Standard on Construction Site Boundary (GB12523-90) during the construction period, to ensure the noise incurred by construction not exceeding the levels for different types of noise environment functional areas outside the construction site both in day and at night. We adopt measures like reducing noise and sound proofing, and arrange working times for construction in a reasonable manner, especially try to avoid operating strong noise machinery like piling machine during school hours and at night.

➤ *Sewage and solid waste management*

For the construction waste incurred during the construction process, we will find out recyclable parts to recycle and then deliver the remaining to temporary yards, and prohibit contractors to pile up without permission or discharge construction wastes into waterway nearby. For domestic waste, it is prohibited that the staff of the contractor to discharge and abandon waste arbitrarily. They have to discharge all kinds of domestic sewage into septic tank for simple treatment and gather domestic waste at fixed locations and not to pile up and abandon arbitrarily, so as to reduce the impact on the environment.

Green Operation

> Emission

The Group conducts inspection and acceptance of completed environmental protection and obtains a Pollutant Discharge Permit in strict compliance with the Environmental Protection Law within three months after the commencement of operation of a hospital. We have adopted the following measures to reduce the impact of emissions on the environment:

- Exhaust gas

The exhaust gas is mainly comprised of oil fume from canteens. We have complied with the requirements in relation to the maximum acceptable emission concentration for cooking oil fume under the Emission Standard of Cooking Oil Fume (GB18483-2001), and the oil fume is directed to 15 meters high above the ground and then discharged after it being treated by oil fume purifiers and meeting the emission standards, which has minimal effects on the surrounding environment after atmospheric dilution.

- Noise

Noise is mainly comprised of noise from crowd activities and equipment inside and outside the hospital. We will take into account low noise requirements in purchasing equipment and enhance the maintenance of the equipment to eliminate the high noise caused by improper functioning of the equipment. In addition, we have also installed double-decker soundproof windows in corridors and wards to reduce noise from crowd activities.

- Solid waste

Solid waste is divided into medical waste and domestic waste, and we shall treat them separately.

For medical waste, we have established a complete set of procedures according to the Regulations on the Management of Medical Waste, the Regulations on the Prevention of Solid Waste Pollution in Zhejiang Province and the Implementation Measures of the Management of Medical Waste for Medical Institutions, and engaged a qualified professional collection and transportation company to dispose the waste, particulars of which are set forth below:

1. The collection and transportation company shall provide a unified standard of special packaging containers and bags, with medical waste warning signs clearly labeled on the containers.
2. Abandoned surgical tools and other sharp objects shall be put into designated boxes to avoid accidents of hurting people in the loading, unloading and transport process.
3. Medical waste shall be collected in a timely manner, and put into the containers for medical waste after the inner packing have been sealed.
4. Medical waste must be classified for collection, treated separately, stored in designated places and supervised by a designated person according to the requirement. All medical waste shall be disposed by a professional collection and transportation company, and it shall complete registration with a signature during work handover.

For domestic waste, we have introduced measures to motivate employees for recycling of waste. For example, a bonus will be granted based on the recycling volume of each department according to the relevant ratios for waste recycling set by the hospital.

- Sewage

Sewage is divided into domestic sewage and special wastewater in the hospital. We have adopted advanced sewage treatment system for sewage treatment and the sewage can be discharged only if it has met the Standard for Sewage Discharge by Medical Institutions (GB18466-2005). In addition, we monitor the sewage every day and maintain the drainage system on a regular basis in order to keep the sewerage system functioning properly and ensure the legal discharge of sewage.

➤ *Use of resources*

In terms of use of resources, we have been adhering to the concept of “conservation” and have encouraged various entities to uphold this virtue through different methods. We formulate the resource consumption indicators for the appraisal year based on the historical resource consumption for each entity, and pay bonus linked to the completion of the above indicators, in order for the staff to cultivate the habit of saving resources.

- Paper saving

In order to reduce paper waste, we have developed the Regulation on Using Office Paper to manage the procurement, management, distribution, use and disposal of office paper. The specific measures include the implementation of paperless office, double-sided printing of office paper, distribution of corporate documents and material in the form of scanning or electronic version and etc.

- Energy conservation

We have formulated the Administrative Regulations on Electricity Utilization and have promoted saving electricity. The specific electricity saving measures include minimizing the stand-by status of medical equipments and opening air-conditioners only if above 34 degrees in summer or below zero degree in winter.

- Water saving

We have set up Management System for Water Supply and established a “Leading Group for the Water Supply Management of Hospital” to be responsible for the management, coordination and direction of different kinds of water supply in the whole hospital. Water supply we manage includes toilet water, patient’s washing and cleaning water and maintenance water. We allocate different specialized personnel to manage different usages of water. Meanwhile, we encourage all staff and inpatients to cultivate the habit of water saving, and implement “The user pays” practice by charging them fees based on the actual usage shown on individual water meters.

➤ *Greening the hospital*

Greening is the beginning of creating a comfortable and close-to-nature life. We encourage greening in the whole hospital and strive to create an environment with flowers, shade, greenery and fresh air through four seasons, so as to let patients to get treatment and rehabilitation in an elegant and pleasant place. During the maintenance work of landscaping, we conduct weeding, disinsection and plant pruning on a regular basis, maintain greening equipment once a month, and irrigate different kinds of plants based on their needs for water.

Culture of Cherishing Talents

We always consider talents as the cornerstone of our success and care for our employees in the spirit of “humble service” to create a fair, safe and harmonious working environment for them.

Employment

The Group has formulated our human resources policy in accordance with the laws and regulations such as the Labor Law of the PRC (the “Labor Law”) and the Labor Contract Law of the PRC (the “Labor Contract Law”), which specifically includes:

➤ *Recruitment, promotion and dismissal*

We set up job requirements for each post and focus on the talent, academic achievement, moral character and the ability to integrate into our corporate culture of the candidates in recruiting. We sign the “Labor Contract” or “Service Contract” with all of our employees. Annual assessment will be conducted on our employees in terms of job performance, working skills, professional ethics and ethical practice, and the assessment result will be taken as the basis of promotion.

We don’t usually take the initiative to dismiss employees, but we will start the dismissal procedures if the employees are in serious violation of relevant laws and regulations or the circumstances are particularly bad. We strictly comply with the provisions of the Labor Contract to perform the dismissal procedures and offer compensation.

➤ *Compensation and welfare*

We offer compensation mainly including wage and bonus. The wage is associated with the post, qualification and title of the employee and the bonus is related to the assessment performance of the employee. The welfare mainly includes the social insurance, housing provident fund and holiday condolences as required under the Social Insurance Law of the PRC.

➤ *Working hours and rest periods*

We arrange the working hours of our employees strictly in accordance with the Labor Law and pay overtime compensation for overtime work allowed by the law. Except for public holidays, our employees can also enjoy paid vacation leaves such as sick leave, casual leave, maternity leave and home leave as well as annual leave with varying days depending on years of working.

➤ *Equal opportunity, diversity and anti-discrimination*

We treat people of different nationalities, races, social classes, gender, region or nationality equally so that talents with different backgrounds can join the Kangning Family. The gender diversity of the Group’s management team enables us to better protect women’s rights and interests and deeply understand the needs of female employees, particularly offering abortion leave, caesarean leave and breastfeeding leave.

Health and Safety

We commit to protect the health and safety of our employees and ensure a safe and healthy working environment for them.

➤ *Protection against occupational hazard*

We pay special attention to protection against occupational hazard, as medical works will be suffered from relatively significant occupational risks. We set up a special healthcare division, which is responsible for undertaking protection against occupational hazard and enhancing the staff's awareness of self-protection by ways of training, bulletin board and distributing brochures. Meanwhile, we will arrange staffs to have a body check biennially. In addition, we also set up following measures to protect the occupation safety of medical staffs:

Protection issues	Precautionary measures
Prevent infection by pathogen	Medical staffs shall wear gloves, respirator with anti-permeation function, protective glasses, masks and even isolation gowns or aprons with anti-permeation function.
Prevent injuries by sharp objects	We will provide training on sharp object injuries and occupational exposure and self-protection knowledge to medical staffs to enhance the occupational safety and self-protection awareness of whole staffs.
Prevent suffering risk of infection by blood-borne pathogens	Apart from providing trainings and taking precautionary measures, we will also conduct 6 month tracking on staffs that suffered occupational exposure. The fees for prophylactic drugs and relevant blood examination incurred by staffs that suffered occupational exposure shall be reimbursed.
Prevent radiation occupational disease	We will carry out an examination on the performance of the radiation equipment every year and conduct occupational body check for its staffs biennially.

➤ *Balance between work and life*

We help staff to achieve a balance between work and life through a series of sport events, leisure and cultural programs, and create a proper and relaxed atmosphere for work. In 2016, we held a number of activities that created common memories and a strong sense of belongings, such activities include Kangning Culture Season, Five Man Football Game, Youth Fun Games, China Dream and Working Create Beauty, Autumn Trip, Campus Sport Meeting and etc.

Development and Training

We attach great importance to providing quality training and development to medical personnel and other staff, and provide training and development opportunities for the staff, including general skills and professional skills training. In addition, we give potential and talented staff the opportunities to pursue management courses and short-term study.

We also encourage the staff to take advantage of our open policies to develop their own talents. Doctors and nurses are able to switch posts among our various medical institutions and external facilities operated with third parties. We believe these can enhance their ability to adapt to new environment and expand the scope of training opportunities.

The following table sets out some of the training programs during the reporting period:

Training Programs	Description
Induction training for new employees	The new staff will receive a one-week induction training, the main contents of which are the introduction of our hospital culture, the development and trends of mental medical disciplines, the medical system of laws and regulations and professional basic knowledge, including the concept of hospital infection and basic technical operation standards.
Standardized training of residents	According to the requirements of Implementation Regulation of Standardized Training of Clinical Residents of Zhejiang Province, clinical residents should rotate in relevant departments, and the directors of departments should organize and conduct comprehensive assessment of clinical residents, including medical ethics and practices, the practical operation capacity and the business learning ability.
External academic activities for professionals	Professionals can participate in 1 to 2 academic activities relating to their professional every year, including international academic exchange conferences, domestic academic forums, academic seminars, national continuing medical education projects and lectures of domestic and foreign well-known experts.
External training for employees	According to the needs of business and discipline development, departments can send staff to other Grade A Class 3 hospitals to study advanced treatment technology or management experience, and then pass on the new learned knowledge to colleagues after they come back to hospitals from going out study.
Reserve cadre training courses	Training courses designed for reserve administrators, including management overview, communication skills, stress management, efficient meetings, team building and etc.

Labour Standard

Kangning strictly abides by the Labor Law and the Labor Contract Law, including salary standards that meet the minimum wage standard, statutory holidays and elimination of forced labor or child labor.

We require the candidate to provide identity card information at the time of recruitment, and the recruiter will check whether the candidate's age is in compliance with the law. Also, we will conduct at least two interviews with the candidate to confirm there is no forced labor.

Strict Supply

We realize that the quality, development and reputation of our medical services shall be also affected by suppliers, so we seek to establish durable cooperative relationship with business partners on the basis of mutual benefit, and put emphasis on management and regulation of the supply chain's environment and social risks.

Supplier Inspection

As required by the Drug Administration Law of the PRC, Regulations for Implementation of the Drug Administration Law of the PRC, Regulations for the Control of Narcotic Drugs and Psychotropic Drugs, Regulations for the Supervision and Administration of Medical Devices and Management Provisions for Medical Device Distributing Enterprise License, we developed review and evaluation systems for the qualification of the suppliers of medicines and medical devices, require productions enterprises to provide copies for Drug Production License stamped with corporate seal, and require agents to provide Drug Operation License and GSP certification as well. Through review of the qualification of suppliers, we assure the safety and environmental friendliness of the products supplied by suppliers.

The Group expects suppliers to uphold integrity and fair treatment to employees, comply with disciplinary codes, protect environment and be in line with Ethics and corporate governance standards. We developed Supplier Code of Conduct in respect of environmental, social and ethical standards, try to have a positive impact on suppliers in environmental and social matters, with the main scope covering the compliance and legality of operation, human rights protection, employees' safety and health, social responsibility, commercial ethics, environmental protection and etc.

➤ *Medication*

According to our medication procurement and management systems, drug procurement is based on the Basic Medication Supply Directory of the hospital. The preparation and modification of the Basic Medication Supply Directory, the review and introduction of new drugs and temporary procurement of licensed drugs shall be decided through discussion by the Pharmaceutical Administration and Drug Therapeutics Committee.

➤ *Medical equipment and medical consumables*

According to the Administrative Measures on the Deployment and Use of Large Medical Equipment, we established equipment and consumables procurement systems, including review system for purchasing medical devices, medical equipment procurement demonstration and technical evaluation system, procurement management system for medical equipments, review and evaluation system on medical devices' conquering and prevention qualification.

➤ *Construction and decoration services*

According to the Construction Law of the PRC, Tender Law of the PRC and the relevant laws and regulations promulgated by the state, Zhejiang province and Wenzhou city, we established the Administrative System for Infrastructure Office, and the infrastructure office completed bidding and relative cooperative matters of the construction and decoration service suppliers, under the guidance of the infrastructure leading group of the hospital.

Respect and Care for Life

As a hospital group with the vision

Patients' Interest

➤ *Rules protecting patients*

We strictly prohibit the use of restraining or quarantine and other protective medical measures to punish patients with

Listen to Patients

In order to understand as much as possible the needs and feelings of potential patients or hospitalized patients, we have put in place petition and complaint systems according to the Administrative Regulations on Medical Institutions, the Working Measures for Hygiene Petition and the Management Measures for Hospital Complaint (trial), so as to regulate compliant handling procedures and safeguard the interests of both hospital and patients.

We regularly conduct satisfaction survey on hospitalized and discharged patients, supervising and inspecting the daily service of our hospital's medical staff and the hospital's environment from the aspects of service attitude, service quality and environment facility. Through such survey, we can better understand patients' needs or dissatisfaction, thereby guiding the daily work and operations of relevant personnel better for improvement in specific issues.

Anti-corruption

As an industry first-mover with social responsibility, we are endeavored to promoting a culture of integrity, with a special focus on occupational ethics of our hospital's personnel, and also strict comply with relevant laws and regulations issued by the PRC government entities, including the Code of Conduct for the Practitioners of Medical Institutions, the Notice on Printing and Circulating of "Nine Prohibitions" for Enhancing the Construction of Medical Health Industry Style and the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medical Purchase and Sales Industry.

In addition, we have developed whistle-blowing procedures, including special hotlines and dedicated e-mail addresses, to accept reporting on corruption issues. We implement zero tolerance policy targeting any act of taking bribes by medical staff in our hospital. Any employee who is found to have violated our anti-corruption and bribery policy will be laid off. In 2016, we have no record of any corruption, bribery, fraud and money laundering and other misconducts.

Giving Back to Community

We actively fulfill social responsibility and take the fostering of psychiatric talents, the promotion of psychiatric research, the popularizing of mental health knowledge and the funding of patients with financial difficulties as our own responsibilities. We are committed to promoting the development of mental health in the PRC.

> Cultivating psychiatric talents

During the reporting period, we established the Psychiatry School of Wenzhou Medical University (the “School”) jointly with Wenzhou Medical University to cultivate psychiatric talents for the society. We provided venues and facilities free of charge to the School and agreed to donate RMB20 million in aggregate to the School. In addition, we also provided scholarships to medical students engaged in psychiatry and we have provided scholarships of RMB2.8million in aggregate since 2014.

We are the training hospital of a number of medical schools and the standardized training base of Zhejiang resident physicians (Psychiatry). During the reporting period, we accepted 183 students for internship and carried out standardized trainings for 45 students.

> Promoting psychiatric research

We established Kangning Mental Health Institute to conduct psychiatric research, which staffed 14 full-time researchers and constructed a mental disease model animal laboratory, an addiction behavior research room, a clinical psychiatry laboratory and a cellular biology laboratory. We invested RMB6.3 million as research funds during the reporting period.

In addition, we also organized the Kangning International Symposium on Psychiatric Psychology and other large and medium medical conferences in order to promote academic exchanges and cooperation.

> Popularizing mental health knowledge

We took it as our own responsibility of raising public awareness of mental health and invited renowned psychotherapists and experts to hold public lectures to publicize mental health knowledge, we also invested and developed the online psychological counseling platform “Didi Psychology” and provided free mental health advisory services for the public through such platform.

In addition, we regularly organized free community clinics and free physical examinations and other activities to contribute to the communities. During the reporting period, we publicized the knowledge on healthy sleeping and provided free medical treatments to community residents on World Sleep Day, we conducted a free treatment themed “Caring Women’s Health, Enjoying Happiness in Life” on Women’s Day, and we hold 7 public welfare activities on World Mental Health Day and exempted outpatient registration fees.

> Public donations and charity relief

We helped patients with economic difficulties by donating to the public welfare organizations and we donated RMB4.5 million to 6 charity funds during the reporting period. In addition, we also provided free treatments for poor patients with mental disorders and gave medicines free of charge.



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