



温州康宁医院股份有限公司

Wenzhou Kangning Hospital

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2015 2015 2015 2015 2015 2015 2015 2015 2015 2015



2015

Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. GUAN Weili (*Chairman*)

Ms. WANG Lianyue

Ms. WANG Hongyue

Non-executive Directors

Mr. YANG Yang

Ms. HE Xin

Independent Non-executive Directors

Mr. CHONG Yat Keung

Mr. HUANG Zhi

Mr. WONG Raymond Fook Lam

Audit Committee

Mr. HUANG Zhi (*Chairman*)

Mr. WONG Raymond Fook Lam

Ms. HE Xin

Nomination Committee

Mr. GUAN Weili (*Chairman*)

Mr. CHONG Yat Keung

Mr. WONG Raymond Fook Lam

Remuneration Committee

Mr. CHONG Yat Keung (*Chairman*)

Mr. HUANG Zhi

Mr. YANG Yang

CORPORATE INFORMATION (Continued)

STRATEGY AND RISK MANAGEMENT COMMITTEE

Mr. WONG Raymond Fook Lam (Chairman)

Mr. HUANG Zhi

Mr. YANG Yang

SUPERVISORY COMMITTEE

Mr. SUN Fangjun (Chairman)

Ms. HUANG Jingou

Mr. XIE Tiefan

JOINT COMPANY SECRETARIES

Mr. WANG Jian

Ms. NG Wing Shan

AUTHORIZED REPRESENTATIVES

Ms. WANG Hongyue

Ms. NG Wing Shan

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISORS AS TO HONG KONG LAWS

Kirkland & Ellis

COMPLIANCE ADVISER

REORIENT Financial Markets Limited

CORPORATE INFORMATION (Continued)

REGISTERED OFFICE AND HEAD OFFICE IN THE PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2120

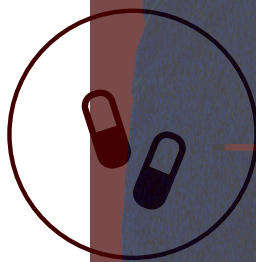
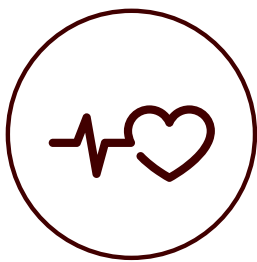
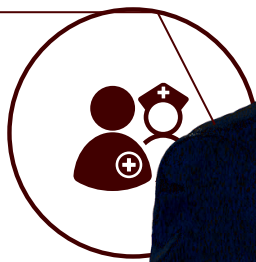
COMPANY'S WEBSITE

www.knhosp.cn

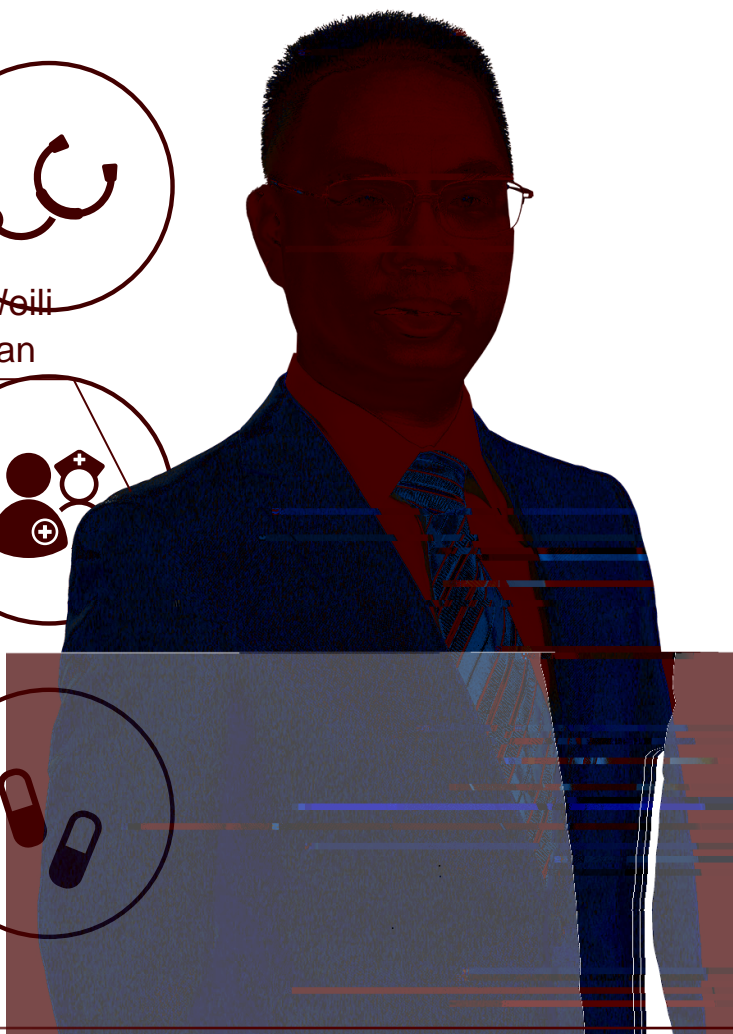
FINANCIAL HIGHLIGHTS

	For the year ended December 31,			
	2015	2014	2013	2012
	RMB'000			
Revenue	343,674	296,296	226,363	170,813
Profit before income tax	70,170	68,567	47,576	17,964
Income tax expense	(18,548)	(17,369)	(11,383)	(4,733)
Total comprehensive income	51,622	51,198	36,193	13,231
Total comprehensive income attributable to equity holders of the Company	55,709	51,198	36,193	13,231
Non-controlling interests	(4,087)	–	–	–
	As of December 31,			
	2015	2014	2013	2012
	RMB'000			
Total assets	1,224,434	372,339	305,679	226,667
Total liability	262,205	111,249	96,818	202,601
Total equity	962,229	261,090	208,861	24,066
Equity attributable to owners of the Company	959,716	261,090	208,861	24,066
Non-controlling interests	2,513	–	–	–

CHAIRMAN'S STATEMENT



GUAN Weili
Chairman



Dear Shareholders,

The year 2015 marked a significant milestone in the development history of the Group. The Company was successfully listed on the Main Board of the Hong Kong Stock Exchange, which cemented a solid foundation for our future development.

CHAIRMAN'S STATEMENT (Continued)

For the year ended December 31, 2015, the Group recorded revenue of RMB343.7 million, representing a year-on-year increase of 16.0%. Profit attributable to Shareholders amounted to RMB55.7 million, representing a year-on-year increase of 8.8% as compared with 2014. Excluding the one-off listing expenses, profit attributable to Shareholders amounted to RMB60.9 million, representing a year-on-year increase of 18.9%. The Board recommended to distribute a final dividend of RMB0.25 per Share (inclusive of applicable tax) for the year ended December 31, 2015.

As China further intensifies its healthcare system reform and launches a series of policies encouraging social capital to invest in the healthcare industry, private hospitals will embrace new development opportunities. In 2015, based on such policy support and sufficient preparation, the Group implemented its nationwide strategic deployment through a light-asset model while consolidating its existing business of owned hospitals in Zhejiang, the PRC. Accordingly, three psychiatry specialty healthcare facilities under our entrustment management successively commenced operation in the Bohai rim and Southwest China. In addition, healthcare facilities in Shenzhen, Hangzhou, Linhai and Pingyang of the PRC are under intense preparation.

Looking into the future, by fully leveraging on the favorable government policies in China which encourage the public to establish healthcare facilities, we will launch the "Entrepreneurial Program for 100 People"* (百人創業計劃), come up with new ways of attracting talents and integrating resources, and further expand the healthcare facilities network of the Group in 2016. Meanwhile, the Company will cooperate with Wenzhou Medical University* (溫州醫科大學) in operating the Psychiatry School of Wenzhou Medical University* (溫州醫科大學精神醫學學院) (for details, please refer to the announcement of the Company dated January 22, 2016) to enhance its capabilities in scientific research and talents fostering, thus securing a pool of talents for the long-term development of the Group.

GUAN Weili

Chairman of the Board

Zhejiang, the PRC

March 24, 2016

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Psychiatric Specialty Healthcare Service Industry in China

As the most populous country in the world, China is witnessing a growing aging population and increasing public awareness of health, which will create favorable market conditions for the development of the healthcare service industry. Since 2010, the PRC government constantly issued favorable policies to encourage and guide social capital to set up medical facilities and took various measures to expand the scope for medical facilities established by the public, leaving more room for the development of private medical institutions. The “Outline of the National Medical and Healthcare Service System Plan (2015-2020)” issued on March 6, 2015 further reserves room for the development of private hospitals by stipulating a minimum of 1.5 hospital beds for every 1,000 residents by 2020.

In the field of psychiatric specialty, approximately 180 million people in China suffer from psychiatric disorders of varying degrees. However, due to shortages in psychiatric healthcare infrastructure and relevant resources, this demand remains largely unmet. The “Mental Health Law” promulgated in 2013 requires governments at various levels to allocate financial resources to improve infrastructure in psychiatric specialty hospitals, and encourages the public to establish psychiatric specialty medical facilities.

Business Review for 2015

In 2015, the Group continuously enhanced the operational capabilities of its hospital network, facilitated resource sharing among its member hospitals and improved operational efficiency via center-satellite model. In 2015, the five hospitals owned by the Group enjoyed growing number of beds in operation, which increased from 1,760 beds in 2014 to 2,010 beds in 2015, and high utilization rate of beds, which generated stable revenue for the Group.

While consolidating our own hospital business, we also made strategic layout in key regions across the country and entered markets in other regions through the asset-light entrustment management model. In 2015, the Group started undertaking entrustment management of Yanjiao Furen Hospital, Chengdu Renyi Ward and Beijing Yining Hospital, increasing the beds of the medical facilities under its management from 150 in 2014 to 370 in 2015 and laying a solid foundation for further countrywide expansion.

The Group has always believed that talents are the Group’s core competitiveness and the Group increased investments in scientific research and talents fostering. In 2015, the Group’s specialized research team, whose members were increased to 12, published 25 papers of different types, 5 of which were incorporated into the Science Citation Index* (科學引文索引), and landed a project funded by the National Natural Science Foundation of China (國家自然科學基金委員會) for the first time. As driven by the enhancement of our scientific research, the number of the Group’s doctors increased from 150 at the beginning of 2015 to 181 at the end of 2015, showcasing an initial effect of talents accumulation.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Highlights

On January 22, 2016, the Company entered into (i) a framework agreement with Wenzhou Medical University in relation to the proposed establishment and operation of the Psychiatry School of Wenzhou Medical University; and (ii) a memorandum of understanding with Wenzhou Medical University Asset Management Company Limited* (溫州醫科大學資產經營有限公司) and Wenzhou Guoda Information Technology Company Limited* (溫州國大信息科技有限公司) in relation to the proposed acquisition of 51% of the equity interests in Wenzhou Guoda Investment Company* (溫州國大投資有限公司) by the Company from Wenzhou Medical University Asset Management Company Limited through public bidding, subject to the entering into of relevant formal agreement(s). For details, please refer to the Company's announcement dated January 22, 2016. The Psychiatry School of Wenzhou Medical University was established on March 20, 2016. As of the date of this annual report, the Company had not acquired any equity interest in Wenzhou Guoda Investment Company.

On January 28, 2016, the Company entered into a framework agreement with Mr. HUANG Feng and Mr. HUANG Chen (collectively, the "**Vendors**") in relation to (i) the proposed establishment of a target company (the "**Target Company**") by the Vendors; (ii) the proposed provision of management and consultancy services by the Target Company to Pujiang Huangfeng Psychiatry Specialty Hospital* (浦江黃鋒精神專科醫院) and Chun'an Huangfeng Kang'en Hospital* (淳安黃鋒康恩醫院); and (iii) the proposed acquisition of 26% equity interests and subsequent capital increase in the Target Company by the Company. The Target Company was established in the PRC by the Vendors on February 5, 2016 as Zhejiang Huangfeng Hospital Management Co., Ltd.* (浙江黃鋒醫院管理有限公司). On March 31, 2016, the Vendors, the Company and the Target Company entered into a formal agreement and a supplemental agreement in relation to the Company's subscription in the registered capital of the Target Company. The consideration for such subscription was RMB24,045,000, which was determined after arms-length negotiation between the Company and the Vendors. As a result of such subscription, the Company holds 51.22% equity interests in the Target Company. The Target Company has entered into agreements to provide management and consultancy services to those two hospitals.

On February 22, 2016, the Company entered into a partnership agreement with Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd. (上海金浦健服股權投資管理有限公司, "**Jinpu Jianfu**"), Shanghai Yincheng Assets Management Center L.P. (上海銀驕資產管理中心 (有限合夥)), Chongqing Industry Guidance and Equity Investment Fund Co., Ltd. (重慶產業引導股權投資基金有限責任公司), Shinva Medical Instrument Co., Ltd. (山東新華醫療器械股份有限公司), Jiangsu Shagang Group Co., Ltd. (江蘇沙鋼集團有限公司) and USUM Investment Group Co., Ltd. (渝商投資集團股份有限公司) in relation to (i) the establishment of Chongqing Jinpu Healthcare Services Industrial Equity Investment Fund L.P.* (重慶金浦醫療健康服務產業股權投資基金合夥企業 (有限合夥)), the "**Investment Fund**"; and (ii) the Company's contribution of RMB50.0 million for the subscription to the Investment Fund. On the same date, the Company and Jinpu Jianfu, the managing partner of the Investment Fund, entered into a strategic cooperation agreement in relation to, among others, certain rights of the Company as a limited partner of the Investment Fund. For details, please refer to the Company's announcement dated February 23, 2016. The Investment Fund was established in the PRC on March 22, 2016. The Company made the contribution of RMB50.0 million on March 30, 2016.

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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

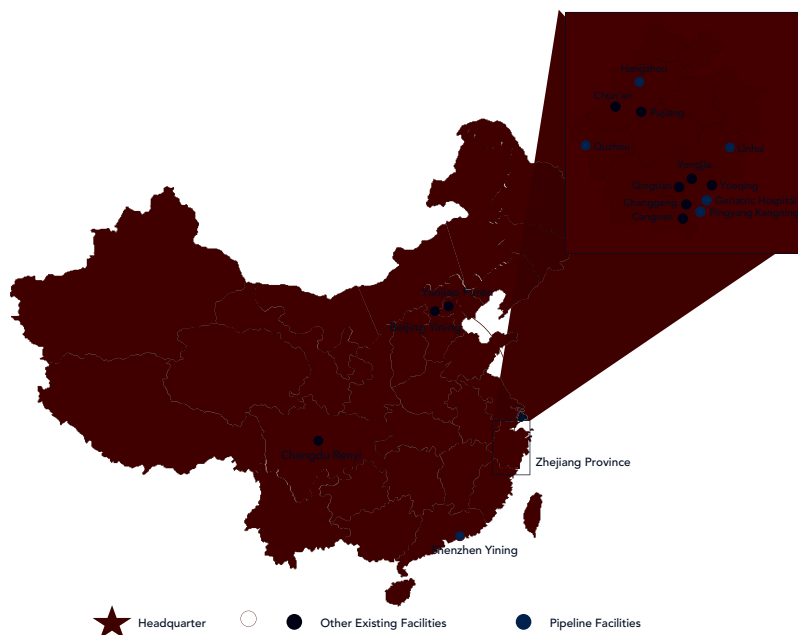
Industry Outlook

As the PRC government encourages the public to establish medical facilities and fully intensify the healthcare system reform, it is expected that control over the establishment of new hospitals will be further lifted, qualification of medical institutions designated for social medical insurance will be obtained through consultation instead of prior approval, and there will be more movement of doctors between public and private hospitals. At the same time, the pharmaceutical prices are declining as a whole, which will leave more room for adjustments of healthcare service prices. Such policies are expected to create development opportunities for private hospitals focusing on healthcare services.

Driven by increasing public awareness of psychiatric and psychological health, it is expected that public expenditures on psychiatric healthcare services will continue to increase in the future. However, due to the shortage of psychiatry professionals, psychiatric healthcare services are expected to be in short supply for a long time. Meanwhile, as the disposable income per capita grows, the public's demand for multi-level medical and healthcare service will increase as well, which will facilitate the development of mid- and high-end psychiatric healthcare services.

Business Outlook

Looking into the future, the Company will fully leverage on the favorable government policies in China which encourage the public to establish medical facilities and ramp up and expand our healthcare facility network through opening more owned hospitals in 2016. It is expected that Linhai Kangning Hospital and Geriatric Hospital will commence operation in the first half of 2016. At the same time, we will also speed up the preparation for the opening of Pingyang Kangning Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital, aiming for them to commence operation in the second half of 2016. Meanwhile, we have launched the "Entrepreneurial Program for 100 People", and will come up with new ways of attracting talents and integrating resources and further expand the healthcare facilities network of the Group through various channels in 2016. In addition, the Company will continue to adhere to believing that talents are the core competitiveness, cooperate with Wenzhou Medical University in operating the Psychiatry School of Wenzhou Medical University to enhance its capabilities in scientific research and talents fostering, thus securing a pool of talents for the long-term development of the Group.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Development Strategies

Talent fostering has always been the core strategy of the Group as well as a key factor for the success of the Group in its previous business development. As part of the development plan for the next few years, the Group will attach more importance to talent fostering and retaining, thus providing a powerful guarantee for the expansion of the healthcare network. We plan to:

- strengthen our leading position in the market through continuing expansion of our healthcare network;
- target the high-end psychiatric healthcare market in China through improving our mid- and high-end service capabilities;
- continue to attract and retain talents through our scientific research, teaching and training schemes so as to facilitate our network expansion; and
- devote more efforts to improving the construction of information technology infrastructure.

FINANCIAL REVIEW

Revenue

The Group generates revenue mainly through the following two ways: (i) revenue from operating its owned hospitals, and (ii) management fees from managing healthcare facilities.

Revenue from operating the Group's owned hospitals

Revenue from operating the Group's owned hospitals consists of fees charged for the outpatient visits and the inpatient services at its various hospitals, including treatment and general healthcare services, pharmaceutical sales and ancillary hospital services. The table below sets forth a breakdown of our revenue from and costs for operating the Group's owned hospitals for the periods indicated:

	For the year ended December 31,	
	2015	2014
	(RMB'000)	(RMB'000)
Treatment and general healthcare services	240,103	206,790
Pharmaceutical sales	87,740	77,384
Ancillary hospital services	2,270	1,828
Total revenue	330,113	286,002
Cost of revenue	206,283	178,766
Gross profit	123,830	107,236

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Revenue from the Group's owned hospitals amounted to RMB330.1 million, representing a year-on-year increase of 15.4%, accounting for 96.1% of the total revenue of the Group for the Reporting Period, due to the increase in (i) the annual effective service capacity of our owned hospitals and (ii) average inpatient spending per day per bed. Patient visits received by the five of the Group's owned hospitals hit a new record, with outpatient visits of approximately 129,355 (2014: approximately 119,425) and inpatient bed-days of 689,244 (2014: 615,242). Average spending per outpatient visit increased to RMB486 (2014: approximately RMB482), and total average inpatient spending per day per bed increased to RMB384 (2014: RMB369), partly due to higher prices of certain medical services charged by Cangnan Kangning Hospital and Yongjia Kangning Hospital since March 1, 2015 and January 1, 2015, respectively.

Revenue from treatment and general healthcare services accounted for 72.7% of our revenue from operating our owned hospitals (2014: 72.3%), and revenue from pharmaceutical sales accounted for 26.6% of our revenue from operating our owned hospitals (2014: 27.1%).

Cost of revenue of the owned hospitals of the Group primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, leasing expenses, depreciation and amortization, canteen expenses and testing fees.

Cost of revenue of our owned hospitals increased to RMB206.3 million, representing a year-on-year increase of 15.4%, which was in line with the increase of revenue. Gross profit margin therefore stayed as 37.5% (2014: 37.5%).

Management service fee income

The Group's management service fee income is primarily derived from rendering management services to other healthcare facilities. The table below sets forth the breakdown of our management service fee income and costs for the periods indicated:

	For the year ended December 31,	
	2015	2014
	(RMB'000)	(RMB'000)
Revenue	13,561	10,294
Cost of revenue	7,006	2,547
Gross profit	6,555	7,747

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Management service fee income of the Group amounted to RMB13.6 million, representing a year-on-year increase of 31.7% and accounting for 3.9% of the total revenue of the Group for 2015, due to the contribution of the management fee in relation to the newly-entrusted Beijing Yining Hospital in 2015 which amounted to RMB1.7 million (2014: nil).

Cost of the Group for rendering management services primarily include benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining management rights.

Cost of revenue of management services increased to RMB7.0 million, representing a year-on-year increase of 175.1%, outpacing the increase of revenue, mainly because in April 2015, we commenced management of Yanjiao Furen Hospital. The Group acquired 19 years and 9 months of operation right of this hospital and recognized RMB93.1 million of intangible assets. RMB3.5 million was amortized for such operation right in 2015 as cost of revenue of management services. Accordingly, gross profit margin decreased to 48.3% (2014: 75.3%).

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB130.4 million, representing a year-on-year increase of 13.4%. Overall gross profit margin decreased to 37.9% (2014: 38.8%), reflecting the fact that despite of the stability in gross profit margin of our owned hospitals, the three new healthcare facilities under our management just commenced operation during the year and are yet to be mature, which had a negative impact on the gross profit margin of the management and service business.

Other Income

Other income of the Group consists of government grants and provisions for accounts payable. In 2015, other income amounted to RMB3.1 million, representing a year-on-year increase of 346.2%, primarily due to government grants and subsidies.

Selling Expenses

In 2015, the selling expenses of the Group amounted to RMB2.0 million, representing a year-on-year decrease of 5.8%, accounting for 0.6% of the total revenue of this year (2014: 0.7%).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Administrative Expenses

Administrative expenses of the Group primarily consist of benefits and expenses for our management and administrative staff, expenses of the newly-built hospitals prior to their commencement of operation, depreciation, amortization and others.

In 2015, administrative expenses of the Group amounted to RMB62.5 million (2014: RMB45.6 million), representing a year-on-year increase of 37.1%, primarily due to: (i) an increase of RMB6.2 million in our employee benefits and expenses as a result of (1) the increase in our management, research and administrative staff and (2) performance-based bonuses distributed to the employees for their contribution to our business growth; (ii) an increase of RMB3.2 million in the rental fees of Geriatric Hospital which is yet to commence operation; and (iii) an increase of RMB5.2 million in the one-off listing expenses related to the Company's initial public offering.

Finance Income – Net

In 2015, net finance income increased to RMB7.6 million, representing a year-on-year increase of 917.8%, primarily because the proceeds from the initial public offering were deposited in Hong Kong dollars. Higher exchange rate of HK\$ against RMB increased the unrealized exchange gains by RMB9.8 million, which offset the finance expense relating to long-term payable of RMB4.0 million.

Share of Loss of Investments Accounted for Using the Equity Method

In 2015, share of loss of investment accounted for using the equity method amounted to RMB6.3 million (2014: nil), which represents our 49% equity interests in Beijing Yining Hospital, which commenced operation in September 2015 and recorded loss after tax of RMB12.8 million.

Income Tax Expense

In 2015, income tax expense increased to RMB18.5 million, representing a year-on-year increase of 6.8%, primarily due to the higher profit before tax of RMB70.2 million (2014: RMB68.6 million). Our effective tax rate in 2015 and 2014 were 26.4% and 25.3%, respectively.

Total Comprehensive Income

In 2015, total comprehensive income attributable to the Shareholders amounted to RMB55.7 million, representing a year-on-year increase of 8.8% as compared with 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL POSITION

Inventory

As of December 31, 2015, inventory balances decreased to RMB7.5 million (as of December 31, 2014: RMB7.9 million), primarily due to the decrease in pharmaceuticals inventory.

Trade Receivables

As of December 31, 2015, the balance of trade receivables increased to RMB123.1 million (as of December 31, 2014: RMB84.5 million), primarily due to: (i) the increase in our revenue over the same period in line with the business growth of our healthcare facilities; and (ii) the increase in the amount of trade receivables attributable to medical insurance programs. Approximately 79.5% of trade receivables of the Group were either bills not presented or aged within six months.

Other Receivables, Deposits and Prepayments

As of December 31, 2015, other receivables, deposits and prepayments increased to RMB91.0 million (as of December 31, 2014: RMB41.2 million), primarily due to: (i) the increase of RMB25.8 million in our prepayments for rental expenses relating to Geriatric Hospital; (ii) the increase of RMB13.0 million relating to the prepayment for the purchase of a property for Pingyang Kangning Hospital; and (iii) a loan of RMB12.0 million newly extended to Chengdu Renyi Hospital Company Limited by the Company.

Trade Payables

As of December 31, 2015, trade payables decreased to RMB20.0 million (as of December 31, 2014: RMB23.8 million), of which approximately 84.5% aged within 90 days.

Accruals and Other Payables

As of December 31, 2015, accruals and other payables increased to RMB166.4 million (as of December 31, 2014: RMB60.0 million), primarily due to RMB90.5 million of long-term payables for contractual rights in relation to provision of management services, which represents the annual minimum performance targets for Yanjiao Furen Hospital as set forth in our management agreement for such hospital, aggregated over the duration of such management agreement. Please refer to the section headed "Significant Investment, Acquisition and Disposal" below for more details.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Net Current Assets

As of December 31, 2015, net current assets of the Group amounted to RMB664.0 million (as of December 31, 2014: RMB86.2 million), primarily due to an increase in current assets in the amount of RMB590.7 million which are the cash flow from the initial public offering, offset by an increase in current liabilities in the amount of RMB50.0 million as a result of drawing down a loan from China CITIC Bank which is due within one year.

LIQUIDITY AND CAPITAL RESOURCES

The table below sets forth the information as extracted from the consolidated cash flow statements of the Group for the periods indicated:

	Year ended December 31,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	(5,063)	33,328
Net cash used in investing activities	(382,367)	(60,663)
Net cash generated from/(used in) financing activities	708,785	(2,977)
Net increase/(decrease) in cash and cash equivalents	321,355	(30,312)

Net Cash Used In Operating Activities

In 2015, net cash used in operating activities amounted to RMB5.1 million. We had net cash generated from operating activities before changes in working capital of RMB87.0 million, primarily consisting of profit before tax of RMB70.2 million and adjustments for depreciation of property, plant and equipment of RMB17.3 million. Changes in working capital resulted in cash outflow of RMB66.4 million, primarily consisting of an increase of RMB58.2 million in trade and other receivables as a result of: (i) increased treatment volume attributable to the continued expansion and scaling up of our healthcare facilities network; and (ii) our prepayments for rental expenses relating to Geriatric Hospital. We had further cash outflow of RMB25.7 million attributable to our income tax paid.

Net Cash Used in Investing Activities

In 2015, net cash used in investing activities amounted to RMB382.4 million, primarily due to: (i) purchase of property, plant and equipment of RMB113.6 million, consisting of (1) amounts paid and prepaid to renovate and upgrade Wenzhou Kangning Hospital and (2) amounts paid to renovate Beijing Yining Hospital, Linhai Kangning Hospital and Geriatric Hospital prior to their opening; and (ii) a term deposit with initial term over three months of RMB251.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Net Cash Generated from Financing Activities

In 2015, net cash generated from financing activities amounted to RMB708.8 million, primarily due to: (i) net cash proceeds from the initial public offering of RMB590.7 million; (ii) proceeds of RMB78.4 million from issuance of share capital to investors prior to the initial public offering; and (iii) a loan of RMB50.0 million from China CITIC Bank.

Significant Investment, Acquisition and Disposal

The Group entered into an entrustment management agreement with Yanjiao Furen Hospital in March 2015 and a supplemental agreement in April 2015. The term of the entrustment management agreement is from April 2015 to December 2034, extendable if both parties agree three months prior to expiry. During the term of the agreement, the Group undertakes to provide management services to Yanjiao Furen Hospital and meet a predetermined schedule of annual minimum performance targets. The minimum performance target begins with RMB2.7 million for the period from April 1, 2015 to December 31, 2015, increases to RMB4.0 million for the year 2016, and subsequently increases by a predetermined fixed rate within the range of 4% to 10% until the year of 2034, for which the minimum performance target is RMB14.1 million. If Yanjiao Furen Hospital fails to meet such target, the Group is required to contribute the shortfall. On the other hand, the Group is entitled to receive any portion of profit (based on statutory accounts of Yanjiao Furen Hospital with certain adjustments agreed by two parties upfront in the entrustment management agreement) exceeding the annual minimum performance target as its management income from Yanjiao Furen Hospital. As a result, the Group is effectively obligated to pay to Yanjiao Furen Hospital a predetermined amount over the term of the agreement in exchange for the contractual rights to provide management services to the hospital over the same period. The Group recognizes such contractual right to manage Yanjiao Furen Hospital and receive management service fees as intangible assets of RMB93.1 million on the balance sheet, measured initially at the amount calculated by discounting the future annual minimum performance target using the prevailing market interest rate.

Save as disclosed above, the Group had no significant investment, acquisition or disposal in 2015.

On February 22, 2016, the Company entered into an agreement to contribute RMB50.0 million to the Investment Fund, which shall invest in healthcare and other modern services industries. In principle, the Investment Fund's investment in the healthcare service industry shall be no less than 80% of its total amount available for investment. Please refer to page 9 of this annual report for details.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Capital Expenditure

Capital expenditure of the Group primarily consisted of expenditures on: (i) property, plant and equipment, comprising buildings and construction, leasehold improvements, medical equipment, furniture and office equipment and motor vehicles; (ii) land use rights; and (iii) intangible assets. Capital expenditure of the Group in 2015 was RMB193.4 million, representing an increase of 163.1% from 2014, primarily due to the acquisition of the operation right of Yanjiao Furen Hospital for 19 years and 9 months at a discounted consideration of RMB93.1 million.

Use of Proceeds from Initial Public Offering

The Board closely monitored the use of proceeds from the initial public offering with reference to those as disclosed in the Prospectus and confirmed that there was no material change in the proposed use as previously disclosed in the Prospectus. As of December 31, 2015, the Group applied the proceeds for the following:

- RMB20.0 million for the decoration expenses of Geriatric Hospital; and
- RMB20.0 million for contribution to the registered capital of and paid on behalf of Pingyang Kangning Hospital, of which RMB13.0 million was used for the purchase of properties.

INDEBTEDNESS

Bank Borrowings

As of December 31, 2015, the balance of bank borrowings of the Group amounted to RMB50.0 million (as of December 31, 2014: nil), all due within one year.

Contingent Liabilities

As of December 31, 2015, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Asset Pledge

As of December 31, 2015, none of the Group's assets had been pledged.

Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of December 31, 2015, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB209.0 million.

Financial Instruments

Financial instruments of the Group consist of trade receivables, amounts due from related parties, other receivables, term deposits, cash and cash equivalents, bank borrowings, trade and other payables. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currency, and is mainly exposed to the fluctuation in exchange rates of Hong Kong dollars against RMB. The Group therefore is exposed to foreign exchange risk.

The Group has not used any derivatives financial instruments to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and will consider hedging significant foreign currency exposure should such need arise.

Gearing Ratio

As of December 31, 2015, the Group's gearing ratio (total interest-bearing liabilities divided by total assets) was 11.8% (2014: nil).

REPORT OF THE BOARD

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Group is operating and managing a network of healthcare facilities that primarily focus on providing psychiatric specialty care across various regions in China.

Details of the principal activities of the principal subsidiaries of the Company are set out in note 40 to the consolidated financial statements.

BUSINESS REVIEW

The business review on the Group is set out in the Management Discussion and Analysis on pages 8 to 19 of this annual report.

ENVIRONMENTAL POLICIES

The Group is conscious of its environmental protection obligations and actively seeks to implement eco-friendly technologies and solutions where feasible. With respect to medical waste management, the Group has engaged qualified third parties to arrange proper disposal for all of its healthcare facilities in accordance with applicable laws and regulations.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

There was no incident of non-compliance with relevant laws and regulations that had a significant impact on the Company during the Reporting Period.

In February 2016, Qingtian Kangning completed the environmental protection verification by the Environmental Protection Bureau of Qingtian County of Zhejiang Province, the PRC and the fire safety verification for Qingtian Kangning Hospital by the Department of Public Safety and Fire Safety of Qingtian County of Zhejiang Province, the PRC.

FINANCIAL RESULTS

The Group's financial results for the year December 31, 2015 are set out in the consolidated statement of comprehensive income on pages 64 to 65 of this annual report.

REPORT OF THE BOARD (Continued)

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on November 20, 2015. As of December 31, 2015, the Company's net proceeds from the initial public offering amounted to approximately HK\$693.2 million (equivalent to RMB580.7 million) after deducting underwriting commissions and all related expenses. As of the date of this annual report, the Company did not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

As of December 31, 2015, the Group applied the net proceeds in the followings:

- RMB20.0 million for decoration expenses of Geriatric Hospital; and
- RMB20.0 million for contribution to the registered capital of, and provision of a loan to, Pingyang Kangning Hospital, of which RMB13.0 million was used for the purchase of properties.

In addition, the Company contributed RMB50.0 million to the Investment Fund (as defined on page 9 of this annual report) on March 30, 2016. The Investment Fund shall invest in healthcare and other modern services industries. In principle, the investment in the healthcare service industry shall not be less than 80% of the total amount available for investment of the Investment Fund. For details, please refer to the Company's announcement dated February 23, 2016.

DIVIDEND

The Board recommends the payment of the Proposed Final Dividend. Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on June 14, 2016, the Proposed Final Dividend will be distributed on or about July 14, 2016 to the Shareholders whose names appear on the register of members of the Company on June 24, 2016 (the "**Record Date**").

The final dividend distribution shall be calculated based on the total number of Shares in issue as of December 31, 2015 and the final cash dividend distribution shall be based on RMB0.25 per Share (inclusive of applicable tax). In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on June 17, 2016. For the purpose of ascertaining Shareholders who qualify for the final dividend, the register of members for H Shares will be closed from June 19, 2016 to June 24, 2016 (both days inclusive).

REPORT OF THE BOARD (Continued)

The final dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the final dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the final dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Reporting Period are set out in note 16 to the consolidated financial statements.

REPORT OF THE BOARD (Continued)

RESERVES

Details of movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity and note 18 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As of December 31, 2015, details of the Company's reserves available for distribution are calculated in accordance with the PRC regulations, and the distributable reserves was RMB62.3 million, which was the lower of the retained earnings computed under PRC accounting regulations and IFRS.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2015, the Group's largest customer and five largest customers combined contributed to 3.4% and 4.2%, respectively, of the Group's total revenue.

For the year ended December 31, 2015, the Group's largest supplier and five largest suppliers combined accounted for 44.7% and 89.8%, respectively, of the Group's total purchases of pharmaceutical products, medical consumables and construction and renovation services.

None of the Directors, the Supervisors or any of their respective close associates (as defined under the Hong Kong Listing Rules), or any Shareholders, which to the knowledge of the Directors, own more than 5% of the Company's issued share capital has any interests in the Group's five largest customers or suppliers for the year ended December 31, 2015.

DONATIONS

For the year ended December 31, 2015, the charitable contributions and other donations made by the Group amounted to approximately RMB1.8 million in aggregate.

REPORT OF THE BOARD (Continued)

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 31, 2015 are set out in note 40 to the consolidated financial statements.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report are:

Executive Directors

Mr. GUAN Weili (*Chairman*)
Ms. WANG Lianyue
Ms. WANG Hongyue

Non-executive Directors

Mr. HU Changtao⁽¹⁾
Mr. YANG Yang⁽²⁾
Ms. HE Xin

Independent Non-executive Directors

Mr. CHONG Yat Keung⁽²⁾
Mr. HUANG Zhi⁽²⁾
Mr. WONG Raymond Fook Lam⁽²⁾

Notes:

(1) Mr. HU Changtao passed away in February 2015.

(2) Appointed on April 8, 2015

SUPERVISORS

The Supervisors during the Reporting Period and up to the date of this annual report are:

Mr. SUN Fangjun (*Chairman*)
Ms. HUANG Jingou
Mr. XIE Tiefan

REPORT OF THE BOARD (Continued)

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 35 to the consolidated financial statements, no transaction, arrangement or contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director or a Supervisor, or any entity connected with any Director or Supervisor, had a material interest, whether directly or indirectly, subsisted as of December 31, 2015 or at any time during the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 35 to the consolidated financial statements, neither of the Controlling Shareholders has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

NON-COMPETITION AGREEMENT

Pursuant to the Non-Competition Agreement, each of the Controlling Shareholders has agreed not to, and to procure that his/her respective close associate(s) (as appropriate) (other than the Group) not to, either directly or indirectly, compete with the Group's principal business (which is primarily to provide psychiatric specialty care through managing healthcare facilities and hospitals) and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights. During the period from the date of the Non-Competition Agreement to December 31, 2015, the Company did not receive any Offer Notice (as defined under the section headed "Relationship with our Controlling Shareholders" in the Prospectus) from the Controlling Shareholders.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Agreement for the year ended December 31, 2015 for disclosure in this annual report. The independent non-executive Directors have also reviewed the Controlling Shareholders' compliance with the Non-Competition Agreement for the year ended December 31, 2015.

DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Particulars of the Directors' and the chief executives' emoluments and five highest paid individuals for the year ended December 31, 2015 are set out in notes 41 and 27 to the consolidated financial statements. The remuneration policy of the Company is set out in the section headed "Corporate Governance Report" on pages 35 to 50 of this annual report.

No Director has waived or has agreed to waive any emoluments during the Reporting Period.

REPORT OF THE BOARD (Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors or their respective associates (as defined under the Hong Kong Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

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

As of December 31, 2015, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under section 352 of the SFO, or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate Percentage of the Same Class ⁽³⁾	Approximate Percentage of the Company's Total Issued Share Capital ⁽³⁾
Mr. GUAN Weili	Domestic Shares	Beneficial owner	19,810,250(L)	23,604,750(L)	44.71%	32.32%
		Interest of spouse	3,794,500(L) ⁽¹⁾			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	23,604,750(L)	44.71%	32.32%
		Interest of spouse	19,810,250(L) ⁽¹⁾			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	5,304,350(L)	6,847,350(L)	12.97%	9.37%
		Interest in a controlled corporation	1,543,000(L) ⁽²⁾			

REPORT OF THE BOARD (Continued)

Notes:

- (L): Long position
- (1) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.
- (2) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. ("**Xinshi Kangning**"), which is a limited partnership, and holds approximately 13.73% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in the Company.
- (3) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares issued by the Company as of December 31, 2015.

Save as disclosed above, as of December 31, 2015, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As of December 31, 2015, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors, the Supervisors or chief executives of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

REPORT OF THE BOARD (Continued)

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class ⁽¹⁾	Approximate Percentage of the Company's Total Issued Share Capital ⁽¹⁾
Guangzhou GL Capital Investment Fund L.P. ("Defu Fund")	Domestic Shares	Beneficial owner	15,384,541(L)	29.14%	21.06%
Guangzhou GL Capital GP L.P. ⁽²⁾	Domestic Shares	Interest in a controlled corporation	15,384,541(L)	29.14%	21.06%
Guangzhou Automobile Group Capital Co., Ltd. ⁽³⁾	Domestic Shares	Interest in a controlled corporation	15,384,541(L)	29.14%	21.06%
Beijing CDH Weixin Venture Capital L.P. ("Beijing CDH Weixin") ⁽⁴⁾	Domestic Shares	Beneficial owner	3,838,754(L)	7.27%	5.26%
Beijing CDH Weisen Venture Capital L.P. ("Beijing CDH Weisen") ⁽⁴⁾	Domestic Shares	Beneficial owner	2,667,605(L)	5.05%	3.65%
CDH Huatai Investment Management (Beijing) Company Limited ("CDH Huatai") ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
CDH Equity Investment Management (Tianjin) Company Limited ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Tianjin Taiding Investment Company Limited ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Tianjin Haoyong Investment Management Company Limited ("Tianjin Haoyong") ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Ningbo Economic & Technical Development Zone Runyong Investment Consulting Company Limited ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%

REPORT OF THE BOARD (Continued)

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class ⁽¹⁾	Approximate Percentage of the Company's Total Issued Share Capital ⁽¹⁾
Ningbo Economic & Technical Development Zone Chunyong Investment Consulting Company Limited ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Ningbo Economic & Technical Development Zone Huiyong Investment Consulting Company Limited ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
East Oak Company Limited ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Mr. WU Shangzhi ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Mr. XU Yi ⁽⁵⁾	Domestic Shares	Interest of spouse	6,847,350(L)	12.97%	9.37%
Citigroup Inc.	H Shares	Interest of corporation	2,990,100(L)	14.77%	4.09%
		controlled/Person having a security interest	125,400(S)	0.62%	0.17%
Baring Asset Management Limited	H Shares	Investment manager	2,858,700(L)	14.12%	3.91%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Trustee	2,093,700(L)	10.34%	2.87%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000(L)	7.18%	2.00%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900(L)	10.63%	2.94%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900(L)	6.32%	1.75%

REPORT OF THE BOARD (Continued)

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class⁽¹⁾	Approximate Percentage of the Company's Total Issued Share Capital⁽¹⁾
Prime Capital Management Company Limited	H Shares	Investment manager	2,803,800(L)	13.85%	3.84%
OrbiMed Partners II, LP	H Shares	Beneficial owner	1,052,000(L)	5.20%	1.44%

Notes:

(L): Long position

(S): Short position

(1) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares issued by the Company as of December 31, 2015.

(2) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is a limited partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(3) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(4) As of December 31, 2015, Mr. WU Shangzhi held 100% interest in East Oak Company Limited, which held 100% interest in Ningbo Economic & Technical Development Zone Huiyong Investment Consulting Company Limited, which held 100% interest in Ningbo Economic & Technical Development Zone Chunyong Investment Consulting Company Limited, which held 100% interest in Ningbo Economic & Technical Development Zone Runyong Investment Consulting Company Limited, which held 100% interest in Tianjin Haoyong. Tianjin Haoyong held 34.16% interest in Tianjin Taiding Investment Company Limited, which held 85.4% interest in CDH Equity Investment Management (Tianjin) Company Limited, which held 57.16% interest in CDH Huatai. CDH Huatai is the general partner of both Beijing CDH Weixin and Beijing CDH Weisen, which are limited partnerships. Therefore, by virtue of Part XV of the SFO, each of Mr. WU Shangzhi, East Oak Company Limited, Ningbo Economic & Technical Development Zone Huiyong Investment Consulting Company Limited, Ningbo Economic & Technical Development Zone Chunyong Investment Consulting Company Limited, Ningbo Economic & Technical Development Zone Runyong Investment Consulting Company Limited, Tianjin Haoyong, Tianjin Taiding Investment Company Limited, CDH Equity Investment Management (Tianjin) Company Limited and CDH Huatai is deemed to be interested in all the Domestic Shares held by Beijing CDH Weixin and Beijing CDH Weisen in the Company.

(5) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.

REPORT OF THE BOARD (Continued)

Save as disclosed above, as of December 31, 2015, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or chief executive of the Company) had, or were deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, the Supervisors, or chief executives of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTION

The Board confirms that none of the related party transactions set out in note 35 to the consolidated financial statements constituted connected transactions or continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. During the Reporting Period, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the Hong Kong Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to December 31, 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the PRC Company Law which oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

BANK BORROWINGS

Details of the bank borrowings of the Group as of December 31, 2015 are set out in note 20 to the consolidated financial statements.

REPORT OF THE BOARD (Continued)

CORPORATE GOVERNANCE

The Board is of opinion that the Company has complied with all material code provisions and the recommended best practices under the CG Code throughout the period from the Listing Date to December 31, 2015, save for the deviation from code provision A.2.7 which was primarily due to the short period of time from the Listing Date to December 31, 2015. Code provision A.2.7 requires that the chairman should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 35 to 50 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the Latest Practicable Date, the Company had maintained the public float of the issued Shares as required under the Hong Kong Listing Rules.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM

The register of members of the Company will be closed from May 15, 2016 to June 14, 2016, both days inclusive, during which period no transfer of the Shares will be effected. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 13, 2016.

For determining the entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from June 19, 2016 to June 24, 2016, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the Proposed Final Dividend (subject to the approval by the Shareholders at the AGM), all completed share transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on June 17, 2016.

REPORT OF THE BOARD (Continued)

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The important events after the Reporting Period are set out in note 38 to the consolidated financial statements.

AUDITOR

The Company has appointed PricewaterhouseCoopers as its auditor for the year ended December 31, 2015. A resolution will be proposed for approval by the Shareholders at the AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

For and on behalf of the Board

GUAN Weili

Chairman

Zhejiang, the PRC

March 24, 2016

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders:

The Supervisory Committee, in compliance with the relevant laws and regulations and the Articles, has conducted its work in accordance with the fiduciary principle, and has taken up an active role to work seriously and with diligence to protect the interests of the Company and the Shareholders.

During the Reporting Period, the Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they were in compliance with the laws and regulations of the PRC and the Articles, and in the interests of the Shareholders.

We have reviewed and agreed to the Report of the Board, audited financial statements and the Proposed Final Dividend proposed by the Board for presentation at the AGM. We are of the opinion that the Directors and the chief executives and other senior management of the Company are able to strictly observe their fiduciary duties, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles. We are witnessing better operations and internal controls.

Up to the date of approval of this report, none of the Directors and chief executives and senior management members of the Company had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the Shareholders. None of them was found to be in breach of any laws and regulations or the Articles. The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in the Reporting Period and has great confidence in the future prospects of the Company.

For and on behalf of the Supervisory Committee

SUN Fangjun

Chairman

Zhejiang, the PRC

March 24, 2016

CORPORATE GOVERNANCE REPORT

The Company recognizes the value and importance of achieving high standard of corporate governance to enhance the corporate performance accountability and is committed to doing so. The Company has applied the principles as set out in the CG Code as its own code of corporate governance. Save and except for the deviation disclosed in this annual report, the Directors are of the opinion that the Company had complied with all the code provisions set out in the CG Code during the Reporting Period and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

THE BOARD

Board Composition

The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" on pages 51 to 59 of this annual report. The overall management and supervision of the Company's operation and the function of formulating overall business strategies were vested in the Board.

During the Reporting Period and up to the date of this annual report, the Board had met the requirements of Rules 3.10 and 3.10A of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise and the requirement that the independent non-executive Directors represent at least one-third of the Board.

The Company has received annual confirmation on independence from each independent non-executive Director pursuant to the requirements under the Hong Kong Listing Rules. The Company considers that each independent non-executive Director to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Hong Kong Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee.

The CG Code requires the Directors to disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments as well as their identities and the time involved. The Directors have agreed to disclose to the Company their other commitments in a timely manner.

CORPORATE GOVERNANCE REPORT (Continued)

CHAIRMAN AND CHIEF EXECUTIVES

Mr. GUAN Weili is an executive Director and the chairman of the Board, Ms. WANG Lianyue is an executive Director and the general manager of the Company, and Ms. WANG Hongyue is an executive Director and the chief financial officer of the Company. The three of them have separate roles.

Relationship between Directors and Chief Executives

Mr. GUAN Weili is the spouse of Ms. WANG Lianyue, and Ms. WANG Lianyue is the sister of Ms. WANG Hongyue. Save as disclosed above, there are no financial, business, familial or other material relationships among other members of the Board.

ROLE AND FUNCTION OF AND DELEGATION BY THE BOARD

The Board is responsible for and has general powers for the management and conduct of the business of the Company. It delegates day-to-day management of the Company to the executive Directors and the senior management of the Company within the control and the authority framework set by the Board. The delegated functions and responsibilities are periodically reviewed by the Board.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, recommendation for appointment of Directors and other significant financial and operational matters. For details, please refer to the Articles.

In addition, the Board has also delegated to the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee various responsibilities as set out in their respective terms of reference. Further details of these committees are set out in this annual report.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interest of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify its Directors in respect of legal actions against them.

CORPORATE GOVERNANCE REPORT (Continued)

CHANGES IN INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

Save as disclosed in this annual report, since the date of the Prospectus, there has been no change in information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

INDUCTION OF AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

Prior to the Listing Date, all of the Directors have been provided with the relevant induction to ensure that they have a proper understanding of the business and operations of the Company and that they are fully aware of the responsibilities and obligations as being a director of a listed company as well as the compliance requirements under the Hong Kong Listing Rules. The Directors are kept updated on the statutory and regulatory development and changes in the business and the market so as to facilitate the discharge of their responsibilities. Continuous briefing and professional development for Directors will be arranged where necessary.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as a code of conduct of the Company for Directors' and Supervisors' securities transactions. Having made specific enquiry of all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from the Listing Date to December 31, 2015. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period.

CORPORATE GOVERNANCE

The Board is of opinion that the Company has complied with all material code provisions and the recommended best practices under the CG Code throughout the period from the Listing Date to December 31, 2015, save for the deviation from code provision A.2.7 which was primarily due to the short period of time from the Listing Date to December 31, 2015. Code provision A.2.7 requires that the chairman should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. The Company will continue to review and enhance its corporate governance to ensure that it will continue to meet the requirements of the CG Code.

CORPORATE GOVERNANCE REPORT (Continued)

DIRECTORS' SERVICE CONTRACTS

Each of the Directors entered into a service contract with the Company on April 8, 2015. According to these service contracts, each Director's term of office is (a) three years commencing from the date when their respective appointments were approved by the Shareholders; and (b) subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles and applicable laws, rules or regulations.

None of the Directors or the Supervisors has entered or is proposed to enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

ATTENDANCE AT BOARD MEETINGS AND GENERAL MEETINGS

The Company has adopted the practice of holding Board meetings for at least four times a year at approximately quarterly intervals pursuant to code provision A.1.1 of the CG Code. Notice of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting pursuant to code provision A.1.3 of the CG Code.

During the Reporting Period, five Board meetings were held and the attendance of the Directors at the Board meetings was as follows:

Name of Directors	Number of Board meetings convened/ attended
Executive Directors	
Mr. GUAN Weili (<i>Chairman</i>)	5/5
Ms. WANG Lianyue	5/5
Ms. WANG Hongyue	5/5
Non-executive Directors	
Mr. HU Changtao ⁽¹⁾	5/0
Mr. YANG Yang ⁽²⁾	5/4
Ms. HE Xin	5/5

CORPORATE GOVERNANCE REPORT (Continued)

Name of Directors	Number of Board meetings convened/ attended
Independent non-executive Directors	
Mr. CHONG Yat Keung ⁽²⁾	5/4
Mr. HUANG Zhi ⁽²⁾	5/4
Mr. WONG Raymond Fook Lam ⁽²⁾	5/4

Notes:

- (1) Mr. HU Changtao passed away in February 2015 and no Board meeting was held during the period from January 1, 2015 to the decease of Mr. Hu.
- (2) Each of Mr. YANG Yang, Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. WONG Raymond Fook Lam was appointed as a Director on April 8, 2015 and therefore did not attend one Board meeting held before their respective appointments.

All Directors are provided with agenda and relevant information in advance before the meeting. They have access to the senior management and the joint company secretaries of the Company at all time and, upon reasonable request, can seek independent professional advice at the Company's expense.

Minutes of the meetings are kept by the secretary to the Board with copies circulated to all Directors for information and records. Minutes of the Board meetings and committee meetings record sufficient detail of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which a meeting is held. The minutes of the Board meetings are open for inspection by Directors.

CORPORATE GOVERNANCE REPORT (Continued)

During the Reporting Period, three general meetings were held and the attendance of the Directors at the general meetings was as follows:

Name of Directors	Number of general meetings convened/ attended
Executive Directors	
Mr. GUAN Weili (<i>Chairman</i>)	3/3
Ms. WANG Lianyue	3/3
Ms. WANG Hongyue	3/3
Non-executive Directors	
Mr. HU Changtao ⁽¹⁾	3/0
Mr. YANG Yang ⁽²⁾	3/1
Ms. HE Xin	3/3
Independent non-executive Directors	
Mr. CHONG Yat Keung ⁽²⁾	3/1
Mr. HUANG Zhi ⁽²⁾	3/1
Mr. WONG Raymond Fook Lam ⁽²⁾	3/1

Notes:

- (1) Mr. HU Changtao passed away in February 2015 and no general meeting was held during the period from January 1, 2015 to the decease of Mr. Hu.
- (2) Each of Mr. YANG Yang, Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. WONG Raymond Fook Lam was appointed as a Director on April 8, 2015 and therefore did not attend two general meetings held before their respective appointments.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee, to handle particular responsibilities of the Board and the Company's affairs. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Hong Kong Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

CORPORATE GOVERNANCE REPORT (Continued)

AUDIT COMMITTEE

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Audit Committee by the Board. The primary responsibilities of the Audit Committee are reviewing and supervising the Company's financial reporting procedures, including proposing on appointing or changing the external auditor; supervising the Company's internal audit system and its implementation; communication between the internal auditor and external auditor; auditing the financial information and its disclosure; reviewing the Company's internal control system and auditing the significant connected transactions; nominating the heads of the internal audit department; and other matters that the Board has authorized it to deal with.

The Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. WONG Raymond Fook Lam, and one non-executive Director, Ms. HE Xin. One Audit Committee meeting was held during the period from the Listing Date to December 31, 2015 to discuss the annual auditing plan for the year 2015 with the auditor.

The attendance of the Directors at the Audit Committee meeting held during the period from the Listing Date to December 31, 2015 was as follows:

Directors	Number of meetings convened/attended
Mr. HUANG Zhi (<i>Chairman</i>)	1/1
Mr. WONG Raymond Fook Lam	1/0 ^{Note}
Ms. HE Xin	1/1

Note: Mr. WONG Raymond Fook Lam did not attend this meeting due to other work commitment.

CORPORATE GOVERNANCE REPORT (Continued)

NOMINATION COMMITTEE

The Company established the Nomination Committee with written terms of reference in compliance with the requirements of the CG Code and the roles and the responsibilities delegated to the Nomination Committee by the Board. The primary responsibilities of the Nomination Committee are preparing the procedures and criteria for determining the candidates for Directors and the senior management of the Company and conducting preliminary review on their qualifications and credentials, including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for Directors and the general manager of the Company and making proposals to the Board; looking for the qualified candidates for Directors and general manager; reviewing and making proposals on the candidates for the Directors and general manager; reviewing and making proposals on the candidates for the other senior management such as the vice general managers, secretary to the Board and chief accountant, on which the Board needs to resolve and other matters that the Board has authorized it to deal with.

The Nomination Committee consists of one executive Director, Mr. GUAN Weili (chairman of the Nomination Committee), and two independent non-executive Directors, Mr. CHONG Yat Keung and Mr. WONG Raymond Fook Lam. The Nomination Committee did not convene any meeting during the period from the Listing Date to December 31, 2015 as the Company was only listed in November 2015. During the period from January 1, 2016 to the date of approval of this annual report, one Nomination Committee meeting was held to review and recommend the proposed appointment of Mr. GOT Chong Key Clevin ("**Mr. Got**") as an independent non-executive Director, a member of the Audit Committee, a member of the Nomination Committee and the chairman and a member of the Strategy and Risk Management Committee for a term commencing from the date of appointment and ending on expiry of the term of the first session of the Board. Taking into account (i) the Company's Board diversity policy, (ii) the Company's internal policy on qualifications of independent non-executive Directors, and (iii) Mr. Got's previous work experience, the Nomination Committee is of the view that Mr. Got is an appropriate candidate for an independent non-executive Director as his previous experience can help the Company improve its marketing and branding and achieve strategic planning in the future.

CORPORATE GOVERNANCE REPORT (Continued)

The attendance of the Directors at the Nomination Committee meeting held during the period from January 1, 2016 to the date of approval of this annual report was as follows:

Directors	Number of meetings convened/attended
Mr. GUAN Weili (<i>Chairman</i>)	1/1
Mr. CHONG Yat Keung	1/1
Mr. WONG Raymond Fook Lam	1/1

The Board has adopted a board diversity policy and discussed all measurable objectives set for implementing the policy. Please refer to "Board Diversity Policy" on page 45 of this annual report for more details.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Remuneration Committee by the Board. The primary responsibilities of the Remuneration Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in the other comparable companies; the remuneration plans and proposals including but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company and other matters that the Board has authorized it to deal with.

The Remuneration Committee comprises two independent non-executive Directors, Mr. CHONG Yat Keung (chairman of the Remuneration Committee) and Mr. HUANG ZHI, and one non-executive Director, Mr. YANG Yang. The Remuneration committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Hong Kong Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Director and senior management member). The Remuneration Committee did not convene any meeting during the period from the Listing Date to December 31, 2015 as the Company was only listed in November 2015. During the period from January 1, 2016 to the date of approval of this annual report, one Remuneration Committee meeting was held to, among other matters, review the proposed plan for adjusting the remuneration of certain Directors and certain senior management members of the Company.

CORPORATE GOVERNANCE REPORT (Continued)

The attendance of the Directors at the Remuneration Committee meeting held during the period from January 1, 2016 to the date of approval of this annual report was as follows:

Directors	Number of meetings convened/attended
Mr. CHONG Yat Keung (<i>Chairman</i>)	1/1
Mr. HUANG Zhi	1/1
Mr. YANG Yang	1/1

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance. The remuneration package includes basic salary, performance and/or discretionary bonus and other benefits. Remuneration of the non-executive Directors and the independent non-executive Directors includes mainly the Directors' fee which is a matter for the Board to decide by reference to their duties and responsibilities.

The emoluments of each Director for the year ended December 31, 2015 are set out in note 41 to the consolidated financial statements.

STRATEGY AND RISK MANAGEMENT COMMITTEE

The Company established the Strategy and Risk Management Committee with written terms of reference in compliance with the roles and responsibilities delegated to the Strategy and Risk Management Committee by the Board. The primary responsibilities of the Strategy and Risk Management Committee include reviewing and providing suggestions on the Company's long term strategic plan and significant investment decision, reviewing the Company's risk management policies and standards, and supervising and monitoring the Company's exposure to legal risks.

The Strategy and Risk Management Committee consists of two independent non-executive Directors, Mr. WONG Raymond Fook Lam (chairman of the Strategy and Risk Management Committee) and Mr. HUANG Zhi, and one non-executive Director, Mr. YANG Yang. The Strategy and Risk Management Committee did not convene any meeting during the period from the Listing Date to December 31, 2015 as the Company was only listed in November 2015. During the period from January 1, 2016 to the date of approval of this annual report, one Strategy and Risk Management Committee meeting was held to, among other things, to review and recommend to the Board the report on internal control and risk management for the year 2015.

CORPORATE GOVERNANCE REPORT (Continued)

The attendance of the Directors at the Strategy and Risk Management Committee meeting held during the period from January 1, 2016 to the date of approval of this annual report was as follows:

Directors	Number of meetings convened/attended
Mr. CHONG Yat Keung (<i>Chairman</i>)	1/1
Mr. HUANG Zhi	1/1
Mr. YANG Yang	1/1

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy and discussed all measurable objectives set for implementing the policy. The Company recognizes and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of all Board appointments should be based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties including but not limited to:

- (a) to review the Company's compliance with the CG Code and disclosure in the corporate governance report;
- (b) to review and monitor the training and continuous professional development of Directors, Supervisors and senior management; and
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

CORPORATE GOVERNANCE REPORT (Continued)

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2015 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner.

The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement prepared by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Auditor's Report on pages 60 to 61 of this annual report.

INTERNAL CONTROL

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. A defined management structure with specified limits of authority and responsibilities is developed for safeguarding assets against unauthorized use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations.

An internal audit department has been established to perform regular financial and operational reviews and recommend necessary actions to the relevant management. The internal audit department's work is to ensure the internal controls are in place and function properly as intended. The results of the internal audit and reviews are reported to the Audit Committee. The Directors have reviewed the effectiveness of the Group's internal control system and are satisfied with the adequacy of the system of internal control of the Group for the year ended December 31, 2015.

For the annual review on the internal controls, the Strategy and Risk Management Committee considered the internal control and risk management report was satisfied as to the effectiveness of the Group's internal control system. There were no matters of material concerns relating to financial, operational or compliance controls. The Board is satisfied with the adequacy of the system of the internal control of the Group during the Reporting Period.

CORPORATE GOVERNANCE REPORT (Continued)

SENIOR MANAGEMENT'S REMUNERATION

The annual remuneration of the senior management members of the Company whose particulars are contained in the section headed "Directors, Supervisors and Senior Management" in this annual report for the year ended December 31, 2015 by band is set out below:

Remuneration band (RMB)	Number of individuals
0-250,000	10
250,000-500,000	7

AUDITOR'S REMUNERATION

For the year ended December 31, 2015, apart from the provisions of annual audit services, the Group's auditor, PricewaterhouseCoopers, was also the reporting accountant of the Company in relation to its listing. During the year ended December 31, 2015, the total fee paid/payable in respect of audit and non-audit services provided by the Group's auditor is set out below:

Audit services	
– Audit service in relation to listing	RMB3,470,000
– Audit service of annual report ⁽¹⁾	RMB1,500,000
Non-Audit service	
– Non-Audit service in relation to listing	RMB450,000

Note:

(1) Including fees for statutory audit of annual financial statements of the Group.

CORPORATE GOVERNANCE REPORT (Continued)

JOINT COMPANY SECRETARIES

Ms. NG Wing Shan of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as one of the joint company secretaries. Ms. Ng's primary contact person at the Company is Mr. WANG Jian, the secretary to the Board and the other joint company secretary.

During the Reporting Period and up to the date of this annual report, Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. Mr. Wang attended training relating to the roles, functions and duties of directors of a listed company in Hong Kong and was from time to time been updated and with training materials provided by the external lawyers during the Reporting Period. He will continue to attend relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ending December 31, 2016.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board believes that effective communication with investors is essential for establishing investors' confidence and attracting new investors. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables investors to make the best investment decision.

The general meetings of the Company provide an important channel for communications between the Board and the Shareholders. The chairman of the Board, as well as chairmen of the four Board committees or, in their absence, other members of the respective committee and where appropriate, the independent Board committee, will be available to answer questions at Shareholders' meetings.

From the Listing Date to December 31, 2015, no general meeting was held.

Published documents together with the latest corporate information and news are available on the Company's website at <http://www.knhosp.cn>. Investors can also communicate with the Company through email at ir@knhosp.cn.

CORPORATE GOVERNANCE REPORT (Continued)

SHAREHOLDERS' RIGHTS

Procedures for Shareholder(s) to Convene an Extraordinary General Meeting ("**EGM**")

Shareholders requesting the convening of an EGM shall proceed in accordance with the procedures set forth below:

The Shareholders individually or jointly holding over 10% of the Shares with the voting power at the proposed meeting have the right to request the Board to hold the EGM or a class meeting in writing. According to laws, administrative regulations and the Articles, the Board shall give written feedback to agree or disagree to hold the EGM or the class meeting within ten days after receiving the proposal.

If the Board agrees to hold the EGM or the class meeting, a meeting notice shall be given within five days after the Board makes such a resolution. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board disagrees to hold the EGM or the class meeting or fails to give feedback within ten days after receiving the request, the Shareholders individually or jointly holding over 10% of the Shares have the right to request the Supervisory Committee to hold the EGM or the class meeting in writing.

If the Supervisory Committee agrees to hold the EGM or the class meeting, a meeting notice shall be given within five days after receiving the request. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Supervisory Committee fails to give the notice of the EGM within the specified period, it shall be deemed that the Supervisory Committee does not convene or preside over the Shareholders' meeting. Shareholders who individually or jointly hold 10% or more of the Shares for not less than 90 consecutive days may convene and preside over the EGM by themselves. Necessary expenses of the Shareholders' meeting held by the Supervisory Committee or Shareholders by themselves shall be borne by the Company.

CORPORATE GOVERNANCE REPORT (Continued)

Procedures for Shareholder(s) to Put Forward Proposals at a General Meeting

When the Company holds a Shareholders' general meeting, the Board, the Supervisory Committee and the Shareholders individually or jointly holding over 3% of the Shares have the right to submit proposals to the Company. Shareholders individually or jointly holding over 3% of the Shares may put forward interim proposal and submit to the convener in writing ten days before the EGM.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the secretary to the Board. The contact details are as follows:

Address:

No.1 Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC

Fax: (86) 577 8878 9117

Email: ir@knhosp.cn

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the period from the Listing Date to December 31, 2015, there was no change in the constitutional documents of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. GUAN Weili (管偉立), aged 46, is the chairman of the Board and an executive Director. He is primarily responsible for the overall business operation and strategic planning of the Company. He founded the Company in February 1996 and became an executive Director then. Mr. Guan was appointed as the chairman of the Board and an executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, Mr. Guan served as a clinician at Wenzhou Mental Hospital (溫州市精神病院), a local hospital in Wenzhou, from August 1987 to December 1993, where he was primarily responsible for the medical treatment of psychiatric patients. Mr. Guan graduated from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州醫學院)) in Wenzhou in August 1987, majoring in medical assistance. Mr. Guan obtained his senior business operator certificate from Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007. Mr. Guan is the spouse of Ms. WANG Lianyue and the brother-in-law of Ms. WANG Hongyue and Mr. XU Yi.

Ms. WANG Lianyue (王蓮月), aged 47, is our executive Director and our general manager. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as our general manager since September 2011 and our executive Director since April 2013. Ms. Wang was again appointed as our executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from August 1988 to December 1997, she was a nurse at Wenzhou Mental Hospital (溫州市精神病院), where she was primarily responsible for general patient care. Ms. Wang received two associate degrees from Wenzhou Medical University in Wenzhou in June 2004 and the School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校) in Wenzhou in June 2002, where she majored in nursing and economic administration, respectively. She graduated from Xi'an Jiaotong University Education College (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in law in July 2007. She also completed part-time hospital management courses at the China Europe International Business School (中歐國際工商學院) in Shanghai in September 2006. She was accredited as secondary psychological consultant (二級心理諮詢師) by the Ministry of Human Resources and Social Security of China (人力資源和社會保障部) in December 2004. Ms. Wang is the spouse of Mr. GUAN Weili, the sister of Ms. WANG Hongyue and the sister-in-law of Mr. XU Yi.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Ms. WANG Hongyue (王紅月), aged 43, is our executive Director and our chief financial officer. She is primarily responsible for the overall financial management and capital investment of the Company. She joined the Company in January 1996 and worked in our finance department from January 1996 to December 1999. She became the head of our finance department in January 2000. Ms. Wang was appointed as an executive Director in April 2013 and after the Company was converted into a joint stock limited liability company, she was appointed as an executive Director again and as chief financial officer in September 2014. Ms. Wang also served as our Supervisor from September 2011 to April 2013. Prior to joining the Company, from July 1994 to December 1995, she worked in the finance department of Wenzhou City Kangning Medicine Wholesale Company of Longwan District (溫州市龍灣區康寧醫藥批發公司), which engages in the medicine wholesale business, where she was responsible for accounting work. Ms. Wang graduated from Xi'an Jiaotong University Online Education College (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in accounting in July 2007. Ms. Wang is the sister of Ms. WANG Lianyue, the spouse of Mr. XU Yi and the sister-in-law of Mr. GUAN Weili.

Non-executive Directors

Mr. YANG Yang (楊揚), aged 60, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of the Company. He joined the Company in April 2015 and has served as our non-executive Director since then. Since January 2010, Mr. Yang has also been serving as an executive director of GL Capital Investments HK Limited, a company engaging in private equity services for investment business, where he is primarily responsible for hospital management and investments. Prior to joining the Company, from May 1988 to December 2009, Mr. Yang served as the general manager of Long Nice Industries Ltd. (長立實業有限公司), a company in Hong Kong engaging in the business of trading and the provision of investment services, where he was primarily responsible for businesses involving investment, foreign trade and manufacturing. Mr. Yang graduated from the Naval College of the Chinese People's Liberation Army (中國人民解放軍海軍學院), majoring in operational commanding, in Nanjing in March 1982.

Ms. HE Xin (何欣), aged 44, is our non-executive Director. She is primarily responsible for overseeing the corporate development and strategic planning of the Company. Ms. He joined the Company in June 2014 and has served as our non-executive Director since then. Ms. He was again appointed as our non-executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Since August 2011, Ms. He has also served as a partner of Beijing CDH Innovation Investment Consulting Co., Ltd. (北京鼎暉創新投資顧問有限公司), a company engaging in investment services such as private equity investment and wealth management, where she is primarily responsible for medical investments. Prior to joining the Company, from January 2003 to January 2008, she served as the chief executive officer of RHEI Pharmaceuticals HK Ltd., a company engaging in global pharmaceuticals business, where she was primarily responsible for the company's business operations in the U.S. and the PRC. Ms. He graduated from University of Science and Technology of China (中國科學技術大學) with a bachelor's degree in physical chemistry in Hefei in July 1994 and from Yale University with a doctorate degree in immunology in June 2002.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Independent Non-executive Directors

Mr. CHONG Yat Keung (莊一強), aged 52, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Chong joined the Company in April 2015 and has served as our independent non-executive Director since then. From February 2012 to February 2015 and since October 2015, Mr. Chong served and has been serving as the part-time deputy secretary-general of Chinese Hospital Association (中國醫院協會), where he was and is primarily responsible for hospital accreditation. From January 2004 to January 2012 and since March 2015, he served and has again been serving as the president of Guangzhou Ailibi Management Consulting Co., Ltd. (廣州艾力比管理顧問有限公司) which is a company engaging in the provision of hospital consultation services, where he was and is primarily responsible for hospital management consulting, training and hospital rating. From November 1994 to May 2000, he held various positions in a number of pharmaceutical companies including AstraZeneca Pharmaceutical Co., Ltd (阿斯利康(中國)) and Beijing Novartis Pharmaceuticals Co., Ltd. (北京諾華製藥有限公司), which are companies engaging in the sales and marketing of medicine, where he was primarily responsible for the sales and marketing of medicine. Mr. Chong graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in medical science in Guangzhou in July 1986. He graduated from Northwestern University Kellogg School of Management-Hong Kong University of Science and Technology Business School with an executive master of business administration degree in Hong Kong and Evanston, Illinois in May 2004, where he majored in business administration. He also graduated from ISCTE-Lisbon University Institute with a doctorate degree in management in November 2013.

Mr. HUANG Zhi (黃智), aged 33, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Huang joined the Company in April 2015 and has served as our independent non-executive Director since then. Since November 17, 2014, Mr. Huang has also been serving as an independent director of Wuhan East Lake High-tech Group Co., Ltd. (武漢東湖高新集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600133.SH) engaging in the investment and operation in the high-tech industry, where he is primarily responsible for supervising its internal audit system and its implementation. Since January 7, 2016, he has also been serving as an independent director of Tibet Tianlu Co., Ltd. (西藏天路股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600326) engaging in highway infrastructure construction. Since September 2014, Mr. Huang has also been serving as a partner at Shanghai Infaith Consulting Co., Ltd. (上海信公企業管理諮詢有限公司), which is a company engaging in the provision of consultation services for listed companies, where he is primarily responsible for general management of the business. Prior to joining the Company, from August 2013 to July 2014, he served as the general manager of merger and financing department at Tianfeng Securities Co., Ltd., (天風證券股份有限公司), which is a company engaging in the provision of services including securities brokerage, investment and asset management for futures companies, where he was primarily responsible for the management of the merger and financing department. From July 2011 to July 2013, he served as the manager of the first department of listed companies' regulation at the Shanghai Stock Exchange, where he was primarily responsible for supervising the compliance of listed companies. From July 2004 to June 2011, he served as a manager at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for risk and quality management. Mr. Huang graduated from Fudan University (復旦大學) with a bachelor's degree in economics in Shanghai in July 2004. He was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 2011.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. WONG Raymond Fook Lam (黃福霖), aged 61, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Wong joined the Company in April 2015 and has served as our independent non-executive Director since then. Since July 2013, Mr. Wong has been the managing director and chief financial officer of SOCAM Development Ltd. ("**SOCAM**") of the Shui On Group (瑞安集團), which is a company listed on the Hong Kong Stock Exchange (stock code: 983.HK) engaging in property, construction and construction materials businesses, where he is primarily responsible for all financial, treasury and legal and secretarial functions, as well as investment decisions, investor relationship and corporate governance matters. Mr. Wong is one of the trustees of the Shui On Provident and Retirement Scheme. From February 1997 to June 2007, he served as an executive director of SOCAM, where he was primarily responsible for the financial and treasury matters, corporate restructuring, mergers and acquisitions as well as the sourcing of capital and syndicated loans for major contracts of SOCAM. In March 2007, Mr. Wong led the initial public offering of China Central Properties Ltd., an affiliated company of SOCAM, in its listing on the alternative investment market of the London Stock Exchange Group Plc and was appointed as its executive director thereafter. Following the privatization of China Central Properties Ltd. in June 2009, he rejoined SOCAM. From April 1992 and January 1995, he served as the group finance director of the Shui On Group.

In March 2016, Mr. WONG Raymond Fook Lam proposed his resignation as an independent non-executive Director, a member of the Audit Committee, a member of the Nomination Committee and the chairman and a member of the Strategy and Risk Management Committee with effect from the appointment of a new independent non-executive Director in replacement of him having been approved at the AGM to fill the vacancy. Mr. Wong tendered his proposed resignation because his duties as the managing director and chief executive officer of SOCAM Development Ltd. of the Shui On Group have been taking up an increasing amount of his time and he will not be able to devote sufficient time to the affairs of the Company. For details, please refer to the Company's announcement dated March 16, 2016. The Board has proposed the appointment of Mr. GOT Chong Key Clevin as an independent non-executive Director, which shall be submitted to the AGM for consideration. For details, please refer to the Company's circular dated April 29, 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

SUPERVISORS

Mr. SUN Fangjun (孫方俊), aged 65, is the chairman of the Supervisory Committee. He is primarily responsible for supervising our daily operations and management. Mr. Sun joined the Company in May 2011 and served as the vice president of the Company from May 2011 to September 2014. He was appointed as the chairman of the Supervisory Committee in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1996 to October 2010, Mr. Sun worked at the Health Bureau of Lucheng District, Wenzhou (溫州市鹿城區衛生局) where he was primarily responsible for medical administrative management. From April 1992 to April 1996, he was the president of Wenzhou Hongqi Hospital (溫州市紅旗醫院), a local hospital in Wenzhou, where he was primarily responsible for the overall operations of the hospital. From August 1988 to April 1992, he served as the vice president of the Eighth People's Hospital of Wenzhou (溫州市第八人民醫院), a local hospital in Wenzhou, where he was primarily responsible for various medical affairs. Mr. Sun graduated from Jixi Medical School in Heilongjiang Province (黑龍江省雞西衛校) with a secondary vocational diploma in Jixi City, Heilongjiang Province in August 1974, where he majored in medicine. He was accredited as chief physician in internal medicine by Wenzhou Municipal Bureau of Personnel (溫州市人事局) in January 1995.

Ms. HUANG Jingou (黃靖歐), aged 37, is a Supervisor. She is primarily responsible for supervising our daily operations and management. Ms. Huang joined the Company in April 2013 and has served as our Supervisor since then. She was again appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Since November 2011, Ms. Huang has been serving as the vice president of GL Capital Group (德福資本), which is a company engaging in private equity investment, where she is primarily responsible for investment. Prior to joining the Company, from August 2009 to November 2011, she served as the project director of the China Medical Board (美國中華醫學基金會), which is a trust foundation in the U.S. focusing on medical charity affairs, where she was primarily responsible for project implementation. From June 2003 to December 2006, she was an attorney at Woo Kwan Lee & Lo (胡關李羅律師行) where she was primarily responsible for various legal affairs. Ms. Huang graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in law in Guangzhou in July 2001.

Mr. XIE Tiefan (謝鐵凡), aged 36, is a Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie joined the Company in May 2000 and from May 2010 to September 2014, he held a variety of positions in the Company including the deputy director of the information department, the deputy director of the equipment department, and the director of the equipment department, where he was primarily responsible for equipment purchase and management. He was appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Xie graduated from the Open University of China (中央廣播電視大學) with an associate degree in finance in Beijing in December 2004. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

SENIOR MANAGEMENT

Mr. WANG Qian (王謙), aged 51, is our deputy general manager. He is primarily responsible for assisting the general manager in the management of medical service of the Company. Mr. Wang joined the Company in July 2014 and has served as the deputy general manager since then. Prior to joining the Company, from February 1990 to June 2014, Mr. Wang served as various positions at the People's Hospital of Wenzhou (溫州市人民醫院) which is a local hospital in Wenzhou; from December 2005 to June 2014, he served as the vice president where he was primarily responsible for assisting the president in hospital management; from January 2000 to November 2005, he served as the head of the internal medicine department where he was primarily responsible for the management of internal medicine department; from January 1995 to December 1999, he served as the doctor in charge where he was primarily responsible for hematology; from February 1990 to December 1994, he served as a physician where he was primarily responsible for pediatrics. From August 1987 to January 1990, Mr. Wang served as a physician in pediatrics at the People's Hospital of Taishun County (泰順縣人民醫院), which is a local hospital in Wenzhou, where he was primarily responsible for providing medical treatment to children. Mr. Wang obtained a bachelor's degree from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州醫學院)), majoring in medicine, in Wenzhou in July 1987. Mr. Wang was accredited as associate chief physician in internal medicine by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in December 2004.

Mr. ZHOU Chaoyi (周朝毅), aged 53, is our vice general manager. He is primarily responsible for assisting the general manager in managing the infrastructure of our Company. Mr. Zhou joined our Group in February 2005 and has served as our vice general manager since then. He was again appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital (溫州心血管醫院) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief (科長) of human resources and social security section at Wenzhou Traditional Chinese Medicine Hospital (溫州市中醫院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium (溫州市氣功療養院) in Wenzhou, where he was primarily responsible for human resources and youth work organization. Mr. Zhou completed the advanced study class (高級研修班) for modern health management at Zhejiang University in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as radiologist by Wenzhou Municipal Bureau of Health (溫州市衛生局) in December 1989 and was accredited as clinical assistant medical practitioner by Zhejiang Health Bureau (浙江省衛生廳) in April 2000. Mr. Zhou was accredited as senior business operator by Wenzhou Municipal Human Resources and Social Security Bureau in November 2015.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. YE Minjie (葉敏捷), aged 42, is our vice general manager. He is primarily responsible for assisting the general manager in the management of research and teaching of the Company. He joined the Company in October 2013 as the vice president. Mr. Ye was appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from July 1994 to September 2013, he was the section chief (科長) at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, where he was primarily responsible for research and teaching. Mr. Ye graduated from Xinxiang Medical College (新鄉醫學院) with a master's degree in psychiatry and mental health in Xinxiang, Henan Province in July 2007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in January 2014.

Mr. XU Yi (徐誼), aged 41, is our vice general manager. He is primarily responsible for assisting the general manager in facility and logistics management of the Company. Mr. Xu joined the Company in October 2002 and served as the section chief (科長) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of the Company. He was appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1999 to September 2002, he was a teacher at the School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校), where he was primarily responsible for teaching information and technology courses. Mr. Xu graduated from the Beijing Institute of Economics and Management (北京經濟管理職業學院) with a college diploma in art design through long-distance education in July 2005. Mr. Xu is the spouse of Ms. WANG Hongyue and the brother-in-law of Mr. GUAN Weili and Ms. WANG Lianyue.

Ms. ZHANG Feixue (章飛雪), aged 46, is our vice general manager. She is primarily responsible for handling the nursing work of the Company. Ms. Zhang joined the Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang served as the vice president of the Company and was primarily responsible for assisting the president in managing nursing affairs. Ms. Zhang has been serving as the vice general manager of the Company since March 2015. Prior to joining the Company, Ms. Zhang held various positions at the Fifth People's Hospital of Yueqing (樂清市第五人民醫院): from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, and from January 1993 and September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management. Ms. Zhang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a bachelor's degree in nursing through long-distance education in July 2005. Ms. Zhang obtained the certificate of advanced training class of modern health management at Zhejiang University (浙江大學現代衛生管理高級研修班) in Hangzhou, Zhejiang Province in November 2014. Ms. Zhang was admitted as the candidate of master of public administration by Zhejiang Normal University (浙江師範大學) in Jinhua, Zhejiang Province in May 2015. She was accredited as senior nurse by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in November 2013.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. WANG Jian (王健), aged 31, is the secretary to our Board. He is primarily responsible for overseeing public affairs and investment relationship, corporate financing and listing-related matters. Mr. Wang joined our Group in July 2014 and has served as the secretary to our Board since then. Mr. Wang was again appointed as the secretary to our Board in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from June 2009 to July 2014, he served as a staff member (科員) and a senior staff member (副主任科員) in the China Securities Regulatory Commission Xiamen Regulatory Bureau (中國證券監督管理委員會廈門監管局) where he was primarily responsible for the corporate governance and information disclosure supervision of listed companies in the Xiamen area. From February 2008 to March 2009, he was a senior auditor at Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合伙)), where he was primarily responsible for audit work. From August 2005 to February 2008, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for audit work. Mr. Wang obtained a bachelor's degree in management from Guanghua School of Management at Peking University in Beijing in July 2005, where he majored in business administration. Mr. Wang was recognized as a non-practicing certified public accountant (註冊會計師非執業會員) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Save as disclosed in the following table, during the Reporting Period, other Directors, Supervisors or senior management of the Company did not hold any positions in any members of the Group:

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of office
Guan Weili	Qingtian Kangning	Executive director, General manager	From April 2011 to present
	Cangnan Kangning	Executive director, General manager	From June 2012 to present
	Yongjia Kangning	Executive director, General manager	From December 2012 to present
	Yueqing Kangning	Executive director, General manager	From September 2013 to present
	Shenzhen Yining	Executive director	From September 2014 to present
	Linhai Kangning	Executive director, General manager	From February 2015 to present
	Geriatric Hospital	Executive director, General manager	From November 2015 to present
	Pingyang Kangning	Executive director, General manager	From November 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Executive director, General manager	From September 2015 to present
Wang Hongyue	Quzhou Yining	Chairman, Manager	From November 2015 to present
	Cangnan Kangning	Supervisor	From June 2012 to present
	Quzhou Yining	Director	From November 2015 to present
	Pingyang Kangning	Supervisor	From November 2015 to present

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of office
Wang Qian	Langfang Yining Hospital Management Co., Ltd.	Executive director, General manager	From December 2015 to present
Xu Yi	Qingtian Kangning	Supervisor	From April 2011 to present
	Yueqing Kangning	Supervisor	From September 2013 to present
	Shenzhen Yining Geriatric Hospital	Supervisor	From September 2014 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Supervisor	From November 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Supervisor	From September 2015 to present
	Quzhou Yining	Supervisor	From November 2015 to present
	Hangzhou Honglan Information Technology Co., Ltd.	Executive director, General manager	From November 2015 to present
	Langfang Yining Hospital Management Co., Ltd.	Supervisor	From December 2015 to present
Wang Jian	Quzhou Yining	Director	From November 2015 to present

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Wenzhou Kangning Hospital Co., Ltd.

(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Wenzhou Kangning Hospital Co., Ltd. (“**the Company**”) and its subsidiaries set out on pages 62 to 151, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2016

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	233,200	160,799
Land use rights	6	20,738	21,210
Intangible assets	7	90,581	1,229
Investment in an associate	8	8,422	–
Deferred income tax assets	9	10,071	4,641
Deposits and prepayments	12	48,324	13,904
Total non-current assets		411,336	201,783
Current assets			
Inventories	10	7,506	7,911
Trade receivables	11	123,067	84,532
Other receivables, deposits and prepayments	12	42,690	27,340
Amounts due from related parties	23	20,044	13,502
Term deposits	13	251,334	–
Cash and cash equivalents	14	368,457	37,271
Total current assets		813,098	170,556
Total assets		1,224,434	372,339
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	73,040	50,000
Capital reserve	18	797,510	159,153
Surplus reserve	18	11,342	5,708
Retained earnings	19	77,824	46,229
		959,716	261,090
Non-controlling interests		2,513	–
Total equity		962,229	261,090

CONSOLIDATED BALANCE SHEET (Continued)

		As at 31 December	
	<i>Note</i>	2015	2014
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Deferred government grants	24	14,284	14,156
Long-term payables	22	98,821	12,688
Total non-current liabilities		113,105	26,844
Current liabilities			
Trade payables	21	19,976	23,829
Accruals and other payables	22	63,209	47,340
Current income tax liabilities		11,559	13,236
Bank borrowings	20	50,000	–
Current portion of long-term payables	22	4,356	–
Total current liabilities		149,100	84,405
Total liabilities		262,205	111,249
Total equity and liabilities		1,224,434	372,339

The notes on pages 70 to 151 are an integral part of these consolidated financial statements.

The financial statements on pages 62 to 151 were approved by the Board of Directors on 24 March 2016 and were signed on its behalf.

GUAN Weili

Director

WANG Hongyue

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2015 RMB'000	2014 RMB'000
Revenue	25	343,674	296,296
Cost of revenue	26	<u>(213,289)</u>	<u>(181,313)</u>
Gross profit		<u>130,385</u>	<u>114,983</u>
Other income	28	3,074	689
Other losses	29	(144)	(151)
Selling expenses	26	(1,970)	(2,092)
Administrative expenses	26	<u>(62,520)</u>	<u>(45,611)</u>
Operating profit		<u>68,825</u>	<u>67,818</u>
Finance income	30	11,625	749
Finance expenses	30	<u>(4,002)</u>	<u>–</u>
Finance income – net		<u>7,623</u>	<u>749</u>
Share of loss of investments accounted for using the equity method	8	<u>(6,278)</u>	<u>–</u>
Profit before income tax		<u>70,170</u>	<u>68,567</u>
Income tax expense	31	<u>(18,548)</u>	<u>(17,369)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

	<i>Note</i>	Year ended 31 December	
		2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Net profit		51,622	51,198
Other comprehensive income		—	—
Total comprehensive income		51,622	51,198
Attributable to:			
Equity holders of the Company		55,709	51,198
Non-controlling interests		(4,087)	—
Earnings per share			
Basic and diluted (<i>in RMB</i>)	32	1.03	1.02

The notes on pages 70 to 151 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share Capital	Capital reserve	Surplus reserve	Retained Earnings	Non- controlling interests	Total Equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014		28,024	146,157	2,864	31,816	–	208,861
Comprehensive income							
– Profit for the year		–	–	–	51,198	–	51,198
Issue of ordinary shares upon conversion into a joint stock company with limited liability	16	21,976	11,965	(1,259)	(32,682)	–	–
Employees restricted share scheme:							
– Value of employee services	17	–	1,031	–	–	–	1,031
Transfer to reserves	19	–	–	4,103	(4,103)	–	–
Balance at 31 December 2014		<u>50,000</u>	<u>159,153</u>	<u>5,708</u>	<u>46,229</u>	<u>–</u>	<u>261,090</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Share Capital	Capital reserve	Surplus reserve	Retained Earnings	Non- controlling interests	Total Equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	50,000	159,153	5,708	46,229	–	261,090
Comprehensive income						
– Profit for the year	–	–	–	55,709	(4,087)	51,622
Dividend Paid	–	–	–	(18,480)	–	(18,480)
Capital contribution by shareholders before Initial Public Offering (“IPO”)	16	2,800	75,600	–	–	78,400
Proceeds from IPO, net of transaction costs	16	20,240	560,508	–	–	580,748
Capital contribution by non-controlling shareholders		–	–	–	6,600	6,600
Employees restricted share scheme:						
– Value of employee services	17	–	2,249	–	–	2,249
Transfer to reserves	19	–	–	5,634	(5,634)	–
Balance at 31 December 2015		73,040	797,510	11,342	77,824	2,513
		962,229				

The notes on pages 70 to 151 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2015	2014
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	34	20,593	51,401
Income tax paid		<u>(25,656)</u>	<u>(18,073)</u>
Net cash (used in)/generated from operating activities		<u>(5,063)</u>	<u>33,328</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(113,570)	(60,871)
Purchase of intangible assets	7	(170)	(541)
Proceeds from transfer of construction in progress		8,267	–
Amount due by a third party	12(c)	(12,000)	–
Investment in an associate	8	(14,700)	–
Placement of term deposits with initial terms over three months	13	(251,334)	–
Interest received	30	<u>1,140</u>	<u>749</u>
Net cash used in investing activities		<u>(382,367)</u>	<u>(60,663)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

	<i>Note</i>	Year ended 31 December	
		2015	2014
		RMB'000	<i>RMB'000</i>
Cash flows from financing activities			
Prepayment for IPO expenses	12	–	(3,477)
Proceeds from capital contribution by shareholders before IPO	16(b)	78,400	–
Proceeds of borrowings	20	80,000	–
Repayment of borrowings	20	(30,000)	–
Dividend paid		(18,480)	–
Advance received from a non-controlling shareholder	22	1,610	500
Capital contribution from a non-controlling shareholder		6,600	–
Proceeds from IPO, net of transaction costs		590,655	–
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		708,785	(2,977)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		321,355	(30,312)
Cash and cash equivalents at beginning of the year		37,271	67,583
Exchange gains on cash and cash equivalents		9,831	–
		<hr/>	<hr/>
Cash and cash equivalents at end of the year		368,457	37,271
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 70 to 151 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital (溫州市康寧精神康復醫院) in the PRC on 7 February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

On 15 October 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The Company and its subsidiaries (the "Group") are engaged in operating of psychiatric hospitals in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on 20 November 2015.

The consolidated financial statements are presented in Renminbi ("RMB") and rounded to the nearest thousand yuan, unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements which are in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and are set out below. The consolidated financial statements has been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting and disclosures

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to IFRSs-2010-2012 Cycle, on IFRS 8, 'Operating segments', IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' and IAS 24, 'Related party disclosures'.

Amendments from annual improvements to IFRSs-2011-2013 Cycle, on IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement'.

Amendment to IAS 27 'Equity method in separate financial statements'. The amendment allows to use equity method to account for investment in subsidiaries, joint ventures and associates in the separate financial statement. Amendment to IAS 27 is effective for an entity's annual IFRS financial statements for a period beginning on or after 1 January 2016, and the directors of the Company decided to early adopt the Amendment to IAS 27 and use equity method to account for the Company's investment in associates.

The directors of the Company noted that the adoption of the new and revised IFRSs had no material impact on the Group's operating results and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting and disclosures (Continued)

(b) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting and disclosures (Continued)

(c) *New standards and interpretations not yet adopted (Continued)*

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of IFRS 15.

IFRS 16, 'Leases' will require almost all leases to be on the balance sheet of lessees and introduces a single income statement model which basically treats all leases as finance leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(i) *Business combinations (Continued)*

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period of the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who are responsible for allocating resources and assessing performance of the operating segment and making strategic decisions. The chief operating decision-maker has been identified as the executive directors.

The Group has only one operating segment during the year, so no segment information was presented. The Group's non-current assets other than financial instruments and deferred tax assets were located in the PRC.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial periods in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Leasehold improvements	Shorter of remaining lease term or 8 years
Medical equipment	3 - 10 years
Motor vehicles	4 - 10 years
Furniture and office equipment	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within "other losses" in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Land use right

Land use right is up-front payments to acquire long-term interests in the usage of land and it is accounted for as an operating lease. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.8 Intangible assets

(a) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of five years. Cost associated with maintaining computer software programmes are recognized as an expense as incurred.

(b) Contractual rights to provide management services

Contractual rights to provide management services is the right to manage a hospital and with finite useful lives that are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over the contractual terms of 19.75 years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. The Group's loans and receivables comprise "trade receivables", "other receivables and deposits", "amounts due from related parties" and "cash and cash equivalents".

(b) Recognition and measurement

Regular way purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss as gains or losses from available-for-sale financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from patients, governments' social insurance schemes and others for pharmaceutical sales and services rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade and other receivable are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over their period using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to income statement on a straight-line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (Continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant authorities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (Continued)

(c) Share-based payments

Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (restricted shares) of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted shares granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to stay).

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition

The Group's revenue is primarily derived from rendering medical services to mentally disordered people, rendering treatment and other services and general healthcare services, sales of pharmaceuticals and management service fee income from services provided to other hospitals.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold and services rendered in the normal course of business, stated net of discounts and sales related taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Service income – Treatments and general healthcare services and ancillary hospital services

Revenue from service income including medical treatments income, general healthcare services and ancillary hospital services income are recognized when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured. Transactions are settled by payment of social security card, bank card or cash.

Pharmaceutical sales

Revenue from pharmaceutical sales is recognized at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by payment of social security card, bank card or cash.

Management service fee

Management service fee is recognized when services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Interest income

Interest income is recognized using the effective interest method.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.25 Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Financial Information in the periods in which the dividends are approved by Company's Board of Directors.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risk factors: market risk (including foreign exchange risk, cash flow interest rate risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) *Foreign exchange risk*

The Group companies operate in the PRC and the transactions are denominated in RMB which is the Company and the other Group companies' presentation and functional currency. The Group has certain portion of cash and cash equivalents and term deposits which are exposed to foreign currency translation risk.

At 31 December 2015, if Hong Kong dollar had weakened/strengthened by 3% against the RMB with all other variables held constant, post-tax profit for the year would have been RMB13,032,000 (31 December 2014: Nil) lower/higher, mainly as a result of foreign exchange losses/gains on translation of cash and cash equivalents and term deposits.

(ii) *Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from interest-bearing short-term deposits and bank borrowings. Bank borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by short-term deposits and cash held at bank at variable rates. Bank borrowings at fixed rates expose the Group to fair value interest rate risk.

Other than interest-bearing short-term deposits, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of short-term deposit are not expected to change significantly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2014 and 2015, the Group's interest-bearing borrowings at fixed rates was as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Borrowings at fixed rate	50,000	–

(iii) Price risk

The Group is not exposed to significant commodity price risk nor hold any financial investments.

(b) Credit risk

Credit risk mainly arises from short-term deposits, bank balance, amounts due from related parties and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

The credit risk of short-term deposits and bank balances is limited because the counterparties are state-owned or reputable commercial banks which are high-credit-quality financial institutions in the PRC and HK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors portfolio, as majority patients will claim their medical bills from governments' social insurance schemes. Certain patients' costs will be reimbursed by other government bodies. The reimbursement from these organisations may take one to six months or not fully reimbursed. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billings and claim status to minimum the credit risk.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
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At 31 December 2014

Trade and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities)	49,173	–	12,688	–	61,861
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	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
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At 31 December 2015

Long-term payables for contractual rights to provide management services	4,356	4,792	17,446	63,895	90,489
Trade and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities)	59,675	13,955	–	–	73,630
Bank borrowings (including interest payables)	51,745	–	–	–	51,745
	115,776	18,747	17,446	63,895	215,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at 31 December 2014 and 2015 was as follows:

	As at 31 December	
	2015	2014
The liability-to-asset ratio	21.41%	29.88%

3.3 Fair value estimation

The Group did not hold any financial assets or liabilities that carried at fair value during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

(a) Provision for impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management's judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables and the amount of doubtful debt expenses or write-back of provision for impairment of receivables in the period in which such estimate has been changed.

The Group has certain receivables overdue but considered not impaired. These balances were due from local social insurance bureau and other government departments who are responsible for the reimbursement of medical expenses of patients who are covered by government medical insurance schemes. The management consider that based on past payment history those amount can be recovered in reasonable time.

For remaining balance not covered by social insurance scheme, the management assessed the collectability based on historical patterns and data. Based on the Group's assessment on the collectability of trade receivables, impairment provision of approximately RMB5,005,000 and RMB7,671,000 was provided as at 31 December 2014 and 2015, respectively.

Also based on the Group's assessment on the collectability of other receivables, deposits and prepayments, impairment provision of approximately RMB1,078,000 was provided as at 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Recognition of share-based payment expenses

As explained in more details in Note 17, the founding shareholders granted restricted shares to its employees and consultants under the Restrictive Shares Scheme during the year ended 31 December 2014. The directors have used the discounted cash flow model to determine the total fair value of the restricted shares granted, which is to be expensed over the vesting period. Significant judgment on parameters, such as gross margin, discount rate and growth rate, is required to be made by the directors in applying the discounted cash flow model.

(c) Useful lives of property, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as when the actual useful life is different with the one previously estimated.

If the estimated useful lives of property, plant and equipment had been lengthened by 10% from management's estimates, the depreciation charge would have decreased by RMB716,000 and RMB440,814 for the years ended 31 December 2014 and 2015, respectively. If the estimated useful lives of property, plant and equipment had been reduced by 10% from management's estimates, the depreciation charge would have increased by RMB214,000 and RMB629,299 for the years ended 31 December 2014 and 2015, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(d) Estimated impairment of contractual rights to provide management services

At 31 December 2015, the carrying amounts of contractual rights to provide management services was RMB89,609,000 (as at 31 December 2014: nil). Management performs review for impairment of such assets whenever events or changes in circumstances indicate that the carrying amounts of contractual rights to provide management services may not be recoverable. In such case, the recoverable amounts of contractual rights to provide management services have been determined based on value-in-use method. The value-in-use calculations require the use of significant estimates and assumptions on the projections of cash flows from the continuous use of contractual rights to provide management services. The key assumptions used in determining the value-in-use of contractual rights to provide management services mainly include:

Average beds in operation*	340
Average in patient spending per day per bed*	208
Average bed-days per year*	124,100

* It represents the average amount of the upcoming five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Critical judgments in applying the Company's accounting policies

(a) Consolidation

Not-for-profit organizations established by the Group

The Group has exercised significant judgments in determining whether the Group has control over such entities. In exercising such judgment, the Group considers the purpose and design of the investee, what the relevant activities are and how decisions about those activities are made, whether the rights of the Group gives the current ability to direct the relevant activities, whether the investor is exposed, or has rights, to variable returns from its involvement with the investee, and whether the Group has the ability to use its power over the investee to affect the amount of the Group's returns.

Hospitals when the group has contractual rights to provide management services

The Group entered into agreements with hospitals which Group obtain contractual rights to provide management services of relevant hospitals for certain periods. The Group is entitled to receive performance-based management fees during the periods.

In making their judgment, the management considered the composition of the internal governance bodies and also certain committees which oversee the operations of those hospitals and power attained by those committee and granted to the Group respectively. After assessment, the management concluded that the Group does not obtain the decision making power over these bodies and committees to direct the relevant activities of the hospitals, so the Group does not control and thus does not consolidate those hospitals. Instead, agreements are considered as management contracts to generate management service income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Critical judgments in applying the Company's accounting policies (Continued)

(b) Estimation of the lease term in lease contract

The Group leased several properties from third parties as operating premises. The lease contracts usually contain break clause, where the Group is allowed to terminate the lease agreement by paying certain amount of penalties to the lessor, usually ranging from one to three months rentals.

The Group determine the non-cancellable terms of lease by considering following factors:

- the amount of penalties to be paid;
- the balance of leasehold improvements to be written off;
- the availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts.

If any of these factors change in the futures, the non-cancellable lease term will be revised and accordingly impact the Group's accounting for these operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Motor vehicles RMB'000	Furniture & office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2014							
Cost	47,019	46,942	20,708	2,157	14,022	10,462	141,310
Accumulated depreciation	<u>(11,886)</u>	<u>(8,864)</u>	<u>(10,806)</u>	<u>(1,072)</u>	<u>(6,510)</u>	<u>–</u>	<u>(39,138)</u>
Net book amount	<u>35,133</u>	<u>38,078</u>	<u>9,902</u>	<u>1,085</u>	<u>7,512</u>	<u>10,462</u>	<u>102,172</u>
Year ended 31 December 2014							
Opening net book amount	35,133	38,078	9,902	1,085	7,512	10,462	102,172
Additions	738	5,449	3,303	114	2,976	60,388	72,968
Depreciation	(1,509)	(6,686)	(2,898)	(320)	(2,807)	–	(14,220)
Disposals	<u>–</u>	<u>–</u>	<u>(37)</u>	<u>(12)</u>	<u>(72)</u>	<u>–</u>	<u>(121)</u>
Closing net book amount	<u>34,362</u>	<u>36,841</u>	<u>10,270</u>	<u>867</u>	<u>7,609</u>	<u>70,850</u>	<u>160,799</u>
At 31 December 2014							
Cost	47,757	52,391	23,733	2,023	16,214	70,850	212,968
Accumulated depreciation	<u>(13,395)</u>	<u>(15,550)</u>	<u>(13,463)</u>	<u>(1,156)</u>	<u>(8,605)</u>	<u>–</u>	<u>(52,169)</u>
Net book amount	<u>34,362</u>	<u>36,841</u>	<u>10,270</u>	<u>867</u>	<u>7,609</u>	<u>70,850</u>	<u>160,799</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings	Leasehold improvements	Medical equipment	Motor vehicles	Furniture & office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015							
Opening net book amount	34,362	36,841	10,270	867	7,609	70,850	160,799
Additions	12,701	5,199	3,664	384	1,307	76,858	100,113
Transfer from construction-in-progress	-	11,387	1,260	-	1,064	(13,711)	-
Depreciation	(1,727)	(8,992)	(3,489)	(359)	(2,703)	-	(17,270)
Transfer to an associate (Note 8)	-	-	-	-	-	(10,307)	(10,307)
Disposals	-	-	(97)	-	(38)	-	(135)
Closing net book amount	45,336	44,435	11,608	892	7,239	123,690	233,200
At 31 December 2015							
Cost	60,458	68,977	28,560	2,407	18,547	123,690	302,639
Accumulated depreciation	(15,122)	(24,542)	(16,952)	(1,515)	(11,308)	-	(69,439)
Net book amount	45,336	44,435	11,608	892	7,239	123,690	233,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	11,977	10,795
Administrative expenses	5,293	3,425
	17,270	14,220

6. LAND USE RIGHTS

The land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	21,210	21,682
Amortisation of land use rights	(472)	(472)
Closing balance	20,738	21,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE ASSETS

	Computer software RMB'000	Contractual rights to provide management services RMB'000 (Note (a))	Total RMB'000
At 1 January 2014			
Cost	1,501	–	1,501
Accumulated amortisation	(438)	–	(438)
Net book amount	<u>1,063</u>	<u>–</u>	<u>1,063</u>
Year ended 31 December 2014			
Opening net book amount	1,063	–	1,063
Additions	541	–	541
Amortisation	(375)	–	(375)
Closing net book amount	<u>1,229</u>	<u>–</u>	<u>1,229</u>
At 31 December 2014			
Cost	2,042	–	2,042
Accumulated amortisation	(813)	–	(813)
Net book amount	<u>1,229</u>	<u>–</u>	<u>1,229</u>
Year ended 31 December 2015			
Opening net book amount	1,229	–	1,229
Additions	170	93,146	93,316
Amortisation	(427)	(3,537)	(3,964)
Closing net book amount	<u>972</u>	<u>89,609</u>	<u>90,581</u>
At 31 December 2015			
Cost	2,212	93,146	95,358
Accumulated amortisation	(1,240)	(3,537)	(4,777)
Net book amount	<u>972</u>	<u>89,609</u>	<u>90,581</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE ASSETS (CONTINUED)

- (a) The Group entered into an entrustment management agreement with Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital (燕郊輔仁中西醫結合醫院) (“Yanjiao Furen”) in March 2015 and a supplemental agreement in April 2015.

The term of the entrustment management agreement is from April 2015 to December 2034, extendable if both parties agree three months prior to expiry. During the term of the agreement, the Group undertakes to provide management services to Yanjiao Furen and meet a predetermined schedule of annual minimum performance targets. The minimum performance target begins with RMB2.7 million for the period from 1 April 2015 to 31 December 2015, increases to RMB4.0 million for the year 2016, and subsequently increases by a predetermined fixed rate within the range of 4% to 10% until the year of 2034, for which the minimum performance target is RMB14.1 million.

If Yanjiao Furen fails to meet such target, the Group is required to contribute the shortfall. On the other hand, the Group is entitled to receive any portion of profit (based on statutory accounts of Yanjiao Furen with certain adjustments agreed by two parties upfront in the entrustment management agreement) exceeding the performance target as its management income from Yanjiao Furen. As a result, the Group is effectively obligated to pay to Yanjiao Furen a predetermined amount over the term of the agreement in exchange for the contractual rights to provide management services to the hospital over the same period. The Group recognizes such contractual right to manage Yanjiao Furen and receive management service fees as intangible assets on the balance sheet, measured initially at the amount calculated by discounting the future annual minimum performance target using the prevailing market interest rate, and subsequently amortize the assets over the term of the contract on a straight line basis. At the same time, the Group recognizes corresponding long-term payables for contractual rights to provide management services (Note 22) on the balance sheet for its obligation to pay future annual minimum performance targets, measured subsequently at amortized cost.

In addition, pursuant to the agreement Yanjiao Furen is responsible for capital expenditure on construction of the hospital and purchase of certain equipment while the Group is responsible for funding certain leasehold improvements work since the commencement of the management service. As of 31 December 2015, the Group had an advance payment amounting to RMB9,210,000 to Yanjiao Furen. Such advances will be repaid to the Group by Yanjiao Furen when and as its cash flow allows as agreed by both parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE ASSETS (CONTINUED)

Amortisation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Cost of revenue	3,783	283
Administrative expenses	181	92
	<u>3,964</u>	<u>375</u>

8. INVESTMENT IN AN ASSOCIATE

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
At beginning of the year	–	–
Investment in an associate (a)	14,700	–
Share of losses	(6,278)	–
At the end of the year	<u>8,422</u>	<u>–</u>

- (a) Beijing Yining Hospital Co., Ltd was set up in August 2015 as an associate of the Company. The capital contribution of RMB14,700,000 by the Company was satisfied in cash. According to the agreement between the Group and the investee, the investee should pay the Group RMB10,307,000 for the plant, property and equipment and RMB14,466,000 for compensation incurred by the Group to set up the facility to be run by the investee before its incorporation. As its operation results are not material to the Group during 2015, no summarised financial information of the associate is provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. DEFERRED INCOME TAX ASSETS

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
To be recovered after 12 months	7,884	3,390
To be recovered within 12 months	2,187	1,251
	10,071	4,641

Movement on deferred income tax account is as follow:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	4,641	2,956
Credited to income statement	5,430	1,685
Closing balance	10,071	4,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. DEFERRED INCOME TAX ASSETS (CONTINUED)

	Accruals <i>RMB'000</i>	Provision for receivables <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Amortization of intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2014	1,279	925	752	–	2,956
Credited to income statement	<u>258</u>	<u>326</u>	<u>1,101</u>	<u>–</u>	<u>1,685</u>
Balance at 31 December 2014	<u>1,537</u>	<u>1,251</u>	<u>1,853</u>	<u>–</u>	<u>4,641</u>
Balance at 1 January 2015	1,537	1,251	1,853	–	4,641
Credited to income statement	<u>650</u>	<u>936</u>	<u>3,616</u>	<u>228</u>	<u>5,430</u>
Balance at 31 December 2015	<u>2,187</u>	<u>2,187</u>	<u>5,469</u>	<u>228</u>	<u>10,071</u>

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. There is no material tax losses of the Group carried forward in respect of which deferred tax assets have not been accounted for.

As at 31 December 2014 and 2015, certain subsidiaries of the Group had unused tax losses of approximately RMB6,965,000 and RMB21,878,000 available to offset against future profit, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. DEFERRED INCOME TAX ASSETS (CONTINUED)

The expiry dates of the unused tax losses are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Year		
2018	2,613	2,845
2019	4,120	4,120
2020	15,145	–
	21,878	6,965

10. INVENTORIES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Pharmaceuticals	6,224	6,477
Medical consumables	1,282	1,434
	7,506	7,911

The cost of inventories recognized as expense and included in cost of revenue amounted to RMB75,419,000 and RMB86,483,000 for the years ended 31 December 2014 and 2015, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. TRADE RECEIVABLES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade receivables	130,738	89,537
Less: provision for impairment of trade receivables	(7,671)	(5,005)
Trade receivables – net	<u>123,067</u>	<u>84,532</u>

The carrying amounts of the Group's trade receivables are denominated in RMB and approximate to their fair values.

As at 31 December 2014 and 2015, the aging analysis of the trade receivables was as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Aging analysis based on the billing date:		
Bills not presented	9,580	9,927
1 – 3 months	74,718	45,694
4 – 6 months	19,635	13,082
7 – 12 months	19,937	14,635
1 – 2 years	5,075	4,574
2 – 3 years	1,426	1,544
Over 3 years	367	81
	<u>130,738</u>	<u>89,537</u>

According to the Group's terms of business, all bills are payable upon presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2014 and 2015, the Group's trade receivables past due but not impaired were RMB73,442,000 and RMB113,297,000, respectively. These are mainly related to the amounts to be claimed from local social insurance bureau and similar government departments who are responsible for the reimbursement of medical expenses for patients who are covered by government medical insurance schemes. The management considers that based on past payment history those amounts can be recovered in reasonable time. The aging analysis of these trade receivables was as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Less than 1 year	110,355	71,136
1 – 2 years	2,800	2,269
2 – 3 years	142	3
Over 3 years	–	34
	<u>113,297</u>	<u>73,442</u>

As at 31 December 2014 and 2015, trade receivables of RMB6,168,000 and RMB7,861,000 were impaired. The amounts of the provision were RMB5,005,000 and RMB7,671,000 as of 31 December 2014 and 2015, respectively. The aging of these trade receivables is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Less than 1 year	3,935	2,275
1 – 2 years	2,275	2,305
2 – 3 years	1,284	1,541
Over 3 years	367	47
	<u>7,861</u>	<u>6,168</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. TRADE RECEIVABLES (CONTINUED)

Movements of the Group's provision for impairment of trade receivables are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
At 1 January	5,005	3,699
Provision for receivables	4,907	2,957
Receivables written off as uncollectible	(2,241)	(1,304)
Write-back upon recovered	—	(347)
At 31 December	<u>7,671</u>	<u>5,005</u>

The provision for receivables impairment have been included in "administrative expenses" in the consolidated statements of comprehensive income. Amounts are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk as of the year end is the carrying amount of trade receivables. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Other receivables (a)	14,337	1,408
Deposits (b)	17,268	16,823
Amount due by a third party (c)	12,304	–
Prepayments for rental	30,007	16,686
Prepayments for purchase of property (d)	13,000	–
Prepayments for construction in progress	2,594	1,216
Prepayments for goods and services	2,539	1,511
Prepayments for IPO expenses	–	3,477
Others	43	123
Less: provision for impairment of other receivables	(1,078)	–
Total	91,014	41,244
Current	42,690	27,340
Non-Current	48,324	13,904
Total	91,014	41,244

The carrying amounts of the Group's other receivables, deposits and prepayments are denominated in RMB and approximate to their fair values.

- (a) Included in other receivables as of 31 December 2015 was an advance payment amounting to RMB9,210,000 to Yanjiao Furen. Such advances will be repaid to the Group by Yanjiao Furen when and as its cash flow allows as agreed by both parties.
- (b) Included in deposits as of 31 December 2014 and 2015 was a deposit of RMB12,688,000 to the contractor of the new hospital construction work as the guarantee for fulfillment of obligation of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group's obligation has been discharged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

- (c) The Company entered into an agreement with Sichuan Hongji Pharmaceutical Company Limited (“Sichuan Hongji”), an independent third party in March 2015 and planned to develop certain business with Sichuan Hongji. The Company placed a deposit of RMB12,000,000 to Sichuan Hongji as future capital contribution. Subsequently, the agreement was cancelled and a supplemental agreement was entered into by Sichuan Hongji, Chengdu Jihong Hospital Company Limited (“Chengdu Jihong”, a wholly owned subsidiary of Sichuan Hongji) and the Company on 29 June 2015. Pursuant to the supplemental agreement, the three parties agreed to abandon the business plan and the deposit should be repaid by Chengdu Jihong to the Group within 12 months commencing from 29 June 2015, bearing an interest rate of 5% per annum. The amount is guaranteed by the shareholders of Sichuan Hongji.

On 28 July 2015, Chengdu Jihong changed its name to Chengdu Renyi Hospital Company Limited.

- (d) The Company entered into an agreement with Pingyang Mintian Specialized Food Cooperatives (“Pingyang Mintian”), an independent third party in October 2015 to purchase a property from Pingyang Mintian. The total consideration of the property is RMB18,000,000. As of 31 December 2015, RMB13,000,000 was paid to Pingyang Mintian.

13. TERM DEPOSITS

An analysis of the Group’s term deposits denominated in HKD with initial terms over three months as at 31 December 2015 are listed in below.

	As at 31 December	
	2015	2014
	RMB’000	RMB’000
Term deposits	<u>251,334</u>	<u>–</u>

The effective interest rate for the term deposits of the Group with initial terms over three months for the year ended 31 December, 2015 was 1.45% (2014: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	368,308	37,151
Cash on hand	149	120
Total	<u>368,457</u>	<u>37,271</u>

The carrying amounts of the group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
HKD	327,862	–
RMB	40,377	37,271
USD	218	–
Total	<u>368,457</u>	<u>37,271</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Loan and receivables		
Trade receivables (Note 11)	123,067	84,532
Other receivables (Note 12)	42,831	18,231
Amounts due from related parties (Note 23)	20,044	13,502
Term deposits (Note 13)	251,334	–
Cash and cash equivalents (Note 14)	368,457	37,271
	805,733	153,536
Financial liabilities at amortised costs		
Bank borrowings (Note 20)	50,000	–
Trade payables (Note 21)	19,976	23,829
Accruals and other payables (excluding accrued employee benefits, receipts in advance and other tax liabilities) (Note 22)	53,654	38,032
Long-term payables for contractual rights to provide management services (Note 22)	90,489	–
	214,119	61,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. SHARE CAPITAL

The reconciliations between the opening and closing balances of each component of the Group's consolidated equity during the year are set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity during the year are set out in below.

	Share capital RMB'000
Balance at 1 January 2014	28,024
Issue of ordinary shares upon conversion into a joint stock company with limited liability (<i>Note (a)</i>)	<u>21,976</u>
Balance at 31 December 2014	<u>50,000</u>
Balance at 1 January 2015	50,000
Capital contribution by shareholders before IPO (<i>Note (b)</i>)	2,800
Issue of ordinary shares upon IPO (<i>Note (c)</i>)	<u>20,240</u>
Balance at 31 December 2015	<u>73,040</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. SHARE CAPITAL (CONTINUED)

(a) Conversion into a joint stock company with limited liability

As stated in Note 1, the Company was converted into a joint stock company with limited liability on 15 October 2014. Pursuant to the approval of shareholders and the board of directors, the Company's equity was converted into 50,000,000 ordinary shares with par value of RMB1.00 each issued proportionately to its existing equity owners, after capitalisation of RMB1,259,000 and RMB32,682,000 from surplus reserves and retained earnings, respectively. As a result, the share capital and capital reserve increased by RMB21,976,000 and RMB11,965,000, respectively. The share capital had been verified by a PRC CPA firm and registered with the Wenzhou Administration for Industry and Commerce on 15 October 2014.

Registered and issued share capital

	2014
	Number of shares
	<i>(thousands)</i>
<hr/>	
Ordinary shares, issued and fully paid:	
At 1 January 2014	–
Issue of ordinary shares upon the conversion to a joint stock company with limited liability	<u>50,000</u>
At 31 December 2014	<u><u>50,000</u></u>
<hr/>	

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Company. According to the articles of the association of the Company, ordinary shares rank pari passu with regard to the Company's residual assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. SHARE CAPITAL (CONTINUED)

(b) Capital contribution before IPO

On 16 March 2015, Guangzhou GL Capital Investment Fund L.P. (廣州德福股權投資基金合夥企業(有限合夥)) injected RMB55,098,000 to the Company to obtain 1,968,000 shares in the Company, of which an amount of RMB1,968,000 was credited to share capital and RMB53,130,000 was recorded as capital reserve. Beijing CDH Weixin Venture Capital L.P. (北京鼎暉維鑫創業投資中心(有限合夥)) and Beijing CDH Weisen Venture Capital L.P. (北京鼎暉維森創業投資中心(有限合夥)) injected RMB23,302,000 to the Company to obtain 832,000 shares in the Company, of which an amount of RMB832,000 was credited to share capital and RMB22,470,000 was recorded as capital reserve.

(c) On 20 November 2015 and 9 December 2015, upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited and upon the exercise of over-allotment option, the Company issued 20,240,000 new ordinary shares at HKD38.7 per share, and raised gross proceeds of approximately HKD783,288,000 (equivalent to RMB645,086,709). The net proceeds was approximately HKD693,199,191 (equivalent to RMB580,748,418) after deducting listing expenses directly relating to the share issuance.

17. SHARE-BASED PAYMENT

Following the shareholders' approval on 21 July 2014, the Company has adopted an employee share incentive plan (the "Restricted Shares Scheme"). To furnish the Restricted Shares Scheme, three limited liability partnerships were established, namely Ningbo Renai Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波仁愛康寧投資管理合夥企業(有限合夥))("Renai Kangning"), Ningbo Enci Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波恩慈康寧投資管理合夥企業(有限合夥))("Enci Kangning") and Ningbo Xinshi Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波信實康寧投資管理合夥企業(有限合夥))("Xinshi Kangning").

Each partnership has one general partner and the qualified employees under the Restricted Shares Scheme as limited partners.

On 15 July 2014, Mr. Guan Weili and Ms. Wang Hongyue transferred 4% of the equity investments in the Company to the above three partnerships for a consideration of RMB20,943,998.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. SHARE-BASED PAYMENT (CONTINUED)

The Restricted Shares can be sold or transferred by the employee upon the completion of certain years of services starting from the successful listing of the Company shares in a stock exchange. The Group has no legal or constructive obligation to repurchase or transfer the shares in cash. The above transaction was considered as equity-settled share-based payment to employees. The fair value of the Company's shares granted to employees on grant date, 21 July 2014, as determined by a professional valuation firm was RMB5,905,000 (RMB5.2678 per share), after deduction of consideration paid by the employees of RMB20,943,998 to purchase 4% of the equity investments in the Company.

The vesting period which is the service period commenced from the grant date and ends at 12 or 36 months after the IPO of the Company.

Share based payment expense of RMB2,249,000 was recognized for the year ended 31 December 2015 (2014: RMB1,031,000), of which RMB827,000 and RMB1,422,000 were recognized as "cost of revenue" and "administrative expenses", respectively.

No new shares were granted nor any granted shares were forfeited during the year.

18. RESERVES

Movement of capital reserve and surplus reserve are set out in below.

	Capital reserve <i>RMB'000</i>	Surplus reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2014	146,157	2,864	149,021
Issue of ordinary shares upon conversion into a joint stock company with limited liability (<i>Note 16(a)</i>)	11,965	(1,259)	10,706
Share based payment			
– value of employee services	1,031	–	1,031
Transfer from retained earnings	–	4,103	4,103
Balance at 31 December 2014	159,153	5,708	164,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. RESERVES (CONTINUED)

	Capital reserve <i>RMB'000</i>	Surplus reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2015	159,153	5,708	164,861
Capital contribution by shareholders <i>(Note 16(b))</i>	75,600	–	75,600
Issue of ordinary shares upon IPO, net of transaction costs <i>(Note 16(c))</i>	560,508	–	560,508
Share based payment – value of employee services <i>(Note 17)</i>	2,249	–	2,249
Transfer from retained earnings	–	5,634	5,634
Balance at 31 December 2015	<u>797,510</u>	<u>11,342</u>	<u>808,852</u>

(a) Capital reserve

The capital reserve represents the share premium contributed by the shareholders.

(b) Surplus reserve

The Company and subsidiaries are required by Company Law of the PRC to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to equity shareholders. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the Company and is non-distributable other than in liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. RETAINED EARNINGS

	<i>RMB'000</i>
Balance at 1 January 2014	31,816
Profit for the year	51,198
Capitalisation upon conversion into a joint stock company	(32,682)
Transfer to surplus reserve	<u>(4,103)</u>
Balance at 31 December 2014	<u>46,229</u>
Balance at 1 January 2015	46,229
Profit for the year	55,709
Dividend paid	(18,480)
Transfer to surplus reserve	<u>(5,634)</u>
Balance at 31 December 2015	<u>77,824</u>

Under the Company Law of the PRC and the Company's Articles of Association, net profit after tax as reported in the statutory financial statements prepared in accordance with the accounting rules and regulations of the PRC can only be distributed as dividends after allowances have been made for the following:

- (a) Making up prior years' cumulative losses, if any;
- (b) Allocations to the surplus reserve as set out in Note 18(b) above; and
- (c) Allocations to the discretionary common reserve if approved by the Shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. BANK BORROWINGS

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
– unsecured	50,000	–

As at 31 December 2014 and 2015, the Group's borrowings were repayable as follows:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	50,000	–

The weighted average effective interest rates (per annum) were as follows:

	As at 31 December	
	2015	2014
	4.49%	Nil

The carrying amount of the Group's borrowings are denominated in RMB and approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. TRADE PAYABLES

The ageing analysis, based on invoice date, of trade payables as at the consolidated balance sheet dates are as follows:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
1 – 3 months	16,874	17,458
4 – 6 months	1,030	3,190
7 – 12 months	805	1,823
1 – 2 years	1,267	713
2 – 3 years	–	342
Over 3 years	–	303
	19,976	23,829

The carrying amounts of trade payables are denominated in RMB. The carrying amounts approximate to their fair values due to their short maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Accrued employee benefits	18,637	17,939
Receipts in advance	3,194	3,416
Rental payables	3,004	3,362
Guarantee deposit received from construction contractor (a)	12,688	12,688
Other payables for property, plant and equipment	20,831	19,916
Other taxes payable	412	641
Advance received from a non-controlling shareholder (b)	3,110	1,500
Long-term payables for contractual rights to provide management services (Note 7)	90,489	–
Accrued listing expenses	11,606	–
Others	2,415	566
Total	166,386	60,028
Current	63,209	47,340
Current portion of long-term payables for contractual rights to provide management services (Note 7)	4,356	–
Non-current	98,821	12,688
Total	166,386	60,028

The carrying amounts of accruals and other payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

- (a) The amount was provided by the contractor of the new hospital construction work to the Group. The amount will be repaid to the contractor after it discharges all its obligations under the contract, including but not limited to full settlement of construction workers' wages and salaries.
- (b) It represented advance received from a non-controlling shareholder of one of the Group's subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. BALANCES WITH RELATED PARTIES

	As at 31 December	
	2015	2014
	RMB'000	<i>RMB'000</i>
Amounts due from related parties		
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司) (Note 8)	17,658	–
Not-for-profit organisations established by the Group	2,386	1,928
Pingyang Changgeng Hospital Company Limited (平陽縣長庚醫院有限責任公司)	–	11,574
	20,044	13,502

The amounts due from related parties are unsecured, receivable on demand and are denominated in RMB. Their carrying amounts as at 31 December 2014 and 2015 approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. DEFERRED GOVERNMENT GRANTS

	1 January 2014 <i>RMB'000</i>	Receipt of grants <i>RMB'000</i>	Credited to income statement during the year <i>RMB'000</i>	At 31 December 2014 <i>RMB'000</i>
Government grant related to assets	10,633	–	–	10,633
Government grant related to costs	<u>3,725</u>	<u>–</u>	<u>(202)</u>	<u>3,523</u>
	<u>14,358</u>	<u>–</u>	<u>(202)</u>	<u>14,156</u>

	1 January 2015 <i>RMB'000</i>	Receipt of grants <i>RMB'000</i>	Credited to income statement during the year <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Government grant related to assets	10,633	–	–	10,633
Government grant related to costs	<u>3,523</u>	<u>450</u>	<u>(322)</u>	<u>3,651</u>
	<u>14,156</u>	<u>450</u>	<u>(322)</u>	<u>14,284</u>

The amounts represented various subsidies granted by and received from local government authorities in the PRC. Government grant related to assets are subsidies for funding construction of a hospital building. Government grant related to costs are subsidies for funding the Group's healthcare related research expenditures.

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to income statement on a straight-line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. REVENUE

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Treatments and general healthcare services	240,103	206,790
Pharmaceutical sales	87,740	77,384
Ancillary hospital services	2,270	1,828
Management service fee (Note 35)	13,561	10,294
	<u>343,674</u>	<u>296,296</u>

All revenue are generated in the PRC where all assets of the Group are located. The Group has a highly diversified patient portfolio, aside from Pingyang Changgeng Hospital Co., Limited, from which the Group earns management fee, no single patient or client contributed 1% or more of the Group's revenue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. EXPENSES BY NATURE

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Employee benefit expenses <i>(Note 27)</i>	99,988	82,750
Pharmaceutical and consumables used <i>(Note 10)</i>	86,483	75,419
Depreciation and amortisation <i>(Note 5, 6 and 7)</i>	21,706	15,067
Operating lease rental expenses	8,563	10,055
Operating lease rental expenses prepaid for pipeline healthcare facilities	7,388	6,612
Canteen expenses	11,280	8,404
Utilities expenses	5,820	5,381
Examination and testing fees	3,388	3,900
Provision for impairment of trade receivables <i>(Note 11)</i>	4,907	2,610
Provision for impairment of other receivables <i>(Note 12)</i>	1,078	–
Travelling expenses	2,481	3,086
Promotion and marketing	1,970	2,092
Donation to charities	1,814	1,834
Compensation paid to patients	345	1,147
Listing expenses	5,177	–
Auditor's remuneration		
–Audit services	1,532	315
–Non-audit services	–	–
Others	13,859	10,344
	277,779	229,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Wages and salaries	83,248	71,016
Social security contribution	11,143	7,601
Share-based payment expenses (Note 17)	2,249	1,031
Other staff welfare expenses	3,348	3,102
	<u>99,988</u>	<u>82,750</u>

Employee benefit expenses were charged in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Cost of revenue	77,229	66,142
Administrative expenses	22,759	16,608
	<u>99,988</u>	<u>82,750</u>

Employees of the Group in the PRC are required to participate in a defined social security contribution scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on fixed percentage ranging from 22% to 26% of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2014: two) director whose emoluments are reflected in the analysis show in Note 41. The emoluments payable to the remaining four (2014: three) individuals during the year are as follows:

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries, social security contribution and share-based payments	<u>1,621</u>	<u>1,170</u>

The emoluments fell within the following bands:

	Year ended 31 December	
	2015	2014
Emoluments band		
Nil to HKD1,000,000	<u>4</u>	<u>3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. OTHER INCOME

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants and subsidies	2,975	454
Scrap sales	31	36
Others	68	199
	3,074	689

29. OTHER LOSSES

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Losses on disposals of property, plant and equipment	135	121
Others	9	30
	144	151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. FINANCE INCOME – NET

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income from bank deposits	1,140	749
Exchange gain – net	<u>10,485</u>	<u>–</u>
	<u>11,625</u>	<u>749</u>
Finance expenses		
Finance expenses relating to long-term payables (a)	(4,002)	–
Interest expense from bank borrowings	(1,065)	–
Less: amounts capitalized on qualifying assets	<u>1,065</u>	<u>–</u>
	<u>(4,002)</u>	<u>–</u>
Finance income – net	<u>7,623</u>	<u>749</u>

- (a) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2014 and 2015 is analysed as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	23,978	19,054
Deferred income tax	(5,430)	(1,685)
	<u>18,548</u>	<u>17,369</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of the PRC, the principal place of the Group's operations, as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit before income tax	70,170	68,567
Calculated at the tax rate of 25%	17,543	17,142
Expenses not tax deductible	2,507	227
Income not subject to tax	(167)	–
Over-provision in prior years	(1,335)	–
	<u>18,548</u>	<u>17,369</u>

(a) PRC Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof, unless preferential tax rates were applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to ordinary equity shareholders of the Company of RMB51,198,000 and RMB55,709,000 for the years ended 31 December 2014 and 2015 respectively and the weighted average number of ordinary shares in issue as at the end of each reporting period, is calculated as follows:

Weighted average number of ordinary shares

	Year ended 31 December	
	2015	2014
	No. of shares	No. of shares
Ordinary shares issued at beginning of the period	50,000,000	50,000,000
Effect of issuance of shares	4,253,370	–
Weighted average number of ordinary shares at the end of year	<u>54,253,370</u>	<u>50,000,000</u>

The Company was converted into a joint stock limited company on 15 October 2014. The calculation of earnings per share for the year ended 31 December 2014 is based on 50,000,000 ordinary shares of the Company in issue upon the conversion as if those shares were outstanding from the beginning of the year. The calculation of earnings per share for the year ended 31 December 2015 is based on 54,253,370 ordinary shares.

(b) Diluted earnings per share

The Company did not have any potential dilutive shares throughout the year. Accordingly, diluted earnings per share are the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. DIVIDENDS

On 11 May 2015, the Board declared a final dividend of RMB18,480,000 for the year ended 31 December 2014. The proposed dividend was approved by the shareholder's meeting on 1 June 2015 and the Company paid out the dividend on 23 July 2015.

On 24 March 2016, the Board declared a final dividend of RMB18,260,000 for the year ended 31 December 2015 which is calculated based on 73,040,000 issued shares as at 31 December 2015. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2015, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend of RMB0.25 (2014: RMB0.35) per ordinary share	<u>18,260</u>	<u>18,480</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	70,170	68,567
Adjustments for:		
– Interest income (Note 30)	(1,140)	(749)
– Unrealized exchange gain	(9,831)	–
– Share of losses of associate (Note 8)	6,278	–
– Losses on disposals of property, plant and equipment (Note 29)	135	121
– Depreciation of property, plant and equipment (Note 5)	17,270	14,220
– Amortisation of intangible assets (Note 7)	3,964	375
– Amortisation of land use rights (Note 6)	472	472
– Receipt of government grant (Note 24)	450	–
– Deferred government grants income (Note 24)	(322)	(202)
– Share-based payment expense (Note 17)	2,249	1,031
– Finance expenses relating to long-term payables (Note 30)	4,002	–
– Payment for contractual rights to provide management services (Note 7)	(6,660)	–
	87,037	83,835
Changes in working capital		
– Inventories	405	(609)
– Amounts due from related parties	(6,542)	(4,070)
– Amounts due to related parties	–	(423)
– Trade and other receivables	(58,188)	(28,164)
– Trade and other payables	(2,119)	832
	20,593	51,401
Cash generated from operations	20,593	51,401

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. CASH GENERATED FROM OPERATIONS (CONTINUED)

In the consolidated statements of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Net book amount	135	121
Losses on disposals of property, plant and equipment (Note 29)	(135)	(121)
Proceeds from disposals of property, plant and equipment	—	—

35. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the year. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships

Names and relationships with related parties are as follows:

Name	Relationship
Wenzhou Kangning Investment Co., Limited (溫州市康寧投資有限公司)	Entity controlled by the original shareholders of the Company until 29 April 2015
Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	Entity significantly influenced by the original shareholders of the Company until 29 April 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Names and relationships (Continued)

Name	Relationship
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	Associate established by the Company on 17 August 2015
Wenzhou Sunshine Shelter Center (溫州市龍灣區康寧殘疾人小康•陽光庇護中心)	Not-for-profit organisation established by the Company
Pingyang Sunshine Shelter Center (平陽縣康寧殘疾人小康•陽光庇護中心)	Not-for-profit organisation established by the Company
Kangning Mental Health Institution (溫州市康寧精神衛生研究所)	Not-for-profit organisation established by the Company
Qingtian Sunshine Shelter Center (青田康寧殘疾人小康陽光庇護中心)	Not-for-profit organisation established by the Company
Cangnan Sunshine Shelter Center (蒼南縣康寧殘疾人小康•陽光庇護中心)	Not-for-profit organisation established by the Company
Yongjia Sunshine Shelter Center (永嘉縣康寧殘疾人庇護中心)	Not-for-profit organisation established by the Company

According to the articles of association of the above not-for-profit organisations, the Company cannot exercise control over or obtain return from the not-for-profit organisations, thus they are not considered as subsidiaries of the Group.

Original shareholders, Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue disposed all their equity interests in Wenzhou Kangning Investment Company Limited (溫州市康寧投資有限公司), one of the shareholders of the Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司) on 29 April 2015, since then Wenzhou Kangning Investment Company Limited and Pingyang Changgeng Hospital Co., Limited ceased to be the related party of the Company. The amount of the related party transaction disclosed in 2015 only covers the period from 1 January 2015 to 29 April 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions

		Year ended 31 December	
		2015	2014
		<i>RMB'000</i>	<i>RMB'000</i>
(i)	Management service fee		
	Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	2,817	10,294
(ii)	Rental expenses		
	Mr. Guan Weili and Ms. Wang Lianyue	31	108
(iii)	Payment of expenses on behalf of related party		
	Not-for-profit organisations established by the Group	1,030	1,261
	Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	16,778	–
		17,808	1,261
(iv)	Contribution to not-for-profit organisations		
	Not-for-profit organisations established by the Group	–	30

The contributions made by the Group to the not-for-profit organisations were expensed to income statement upon paid. The balances due from them which are not contributions are disclosed in Note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions (Continued)

Except for the above contributions, the Company has no further obligations to these entities.

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
(v) Purchase of properties from shareholders		
Mr. Guan Weili	5,000	–
Ms. Wang Lianyue	4,510	–
	<u>9,510</u>	<u>–</u>

The purchase prices were agreed between the Group and the related parties, with reference to a valuation performed by a third party valuer.

(c) Related party balances

Balances with related parties as at 31 December 2014 and 2015 were disclosed in Note 23.

(d) Key management compensation

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries and bonus	2,748	2,462
Contributions to pension plans	126	92
Share-based payment expense	854	427
Other staff welfare expenses	223	197
	<u>3,951</u>	<u>3,178</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for		
– construction building	36,635	86,130
– leasehold improvements	60,529	1,784
– property, plant and equipment	10,935	794
	108,099	88,708

(b) Operating lease commitments

The Group leases certain office buildings and hospitals under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than 1 year	28,593	26,654
Later than 1 year and not later than 5 years	74,546	80,867
Later than 5 years	105,831	129,116
	208,970	236,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. COMMITMENTS (CONTINUED)

(c) Investment in subsidiaries

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Not later than 1 year	43,000	8,600
Later than 1 year and not later than 5 years	15,600	2,400
	58,600	11,000

37. CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2014 and 2015.

38. EVENTS AFTER THE BALANCE SHEET DATE

On 22 February 2016, the Company entered into a partnership agreement with Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd, Shanghai Yincheng Assets Management Center L.P., Chongqing Industry Guidance and Equity Investment Fund Co., Ltd, Shinva Medical Instrument Co., Ltd, Jiangsu Shagang Group Co., Ltd and USUM Investment Group Co., Ltd in relation to the establishment of an investment fund. The Company's contribution shall be RMB50 million for the subscription to the investment fund. On the same date, the Company and Jinpu Jianfu, the managing partner, entered into a strategic cooperation agreement in relation to, among others, certain rights of the Company as a limited partner of the investment fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December	
		2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		173,991	108,038
Land use rights		20,738	21,210
Intangible assets		90,489	1,142
Investments in an associate		8,422	–
Investments in subsidiaries		32,500	4,500
Deferred income tax assets		4,340	2,712
Deposits and prepayments		33,771	13,904
Total non-current assets		364,251	151,506
Current assets			
Inventories		5,150	5,427
Trade receivables		78,147	52,255
Other receivables, deposits and prepayments		37,173	50,181
Amounts due from subsidiaries		92,808	41,410
Amounts due from other related parties		18,143	12,647
Term deposits		251,334	–
Cash and cash equivalents		339,907	30,521
Total current assets		822,662	192,441
Total assets		1,186,913	343,947
EQUITY			
Equity attributable to owners of the Company			
Share capital		73,040	50,000
Capital reserve	(a)	797,510	159,153
Surplus reserve	(a)	11,342	5,708
Retained earnings	(a)	62,306	30,075
Total equity		944,198	244,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (Continued)

	As at 31 December	
Note	2015	2014
	RMB'000	RMB'000
Liabilities		
Non-current liabilities		
Deferred government grants	14,284	14,156
Long-term payables	98,821	12,688
Total non-current liabilities	113,105	26,844
Current liabilities		
Trade payables	16,607	19,279
Accruals and other payables	54,179	43,708
Amounts due to subsidiaries	–	1,620
Current income tax liabilities	4,468	7,560
Bank borrowings	50,000	–
Current portion of long-term payables	4,356	–
Total current liabilities	129,610	72,167
Total liabilities	242,715	99,011
Total equity and liabilities	1,186,913	343,947

The balance sheet of the Company was approved by the Board of Directors on 24 March 2016 and was signed on its behalf.

GUAN Weili

Director

WANG Hongyue

Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000
At 1 January 2014	146,157	2,864	25,826
Profit for the year	–	–	41,034
Capitalisation upon conversion into a joint stock company	11,965	(1,259)	(32,682)
Dividends paid relating to 2013	–	–	–
Transfer to surplus reserve	–	4,103	(4,103)
Value of employee service	1,031	–	–
At 31 December 2014	159,153	5,708	30,075
At 1 January 2015	159,153	5,708	30,075
Profit for the year	–	–	56,345
Dividends paid relating to 2014	–	–	(18,480)
Capital contribution by shareholders before IPO	75,600	–	–
Proceeds from IPO, net of transaction costs	560,508	–	–
Transfer to surplus reserve	–	5,634	(5,634)
Value of employee services	2,249	–	–
Balance at 31 December 2015	797,510	11,342	62,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2015:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Cangnan Kangning Hospital Co., Ltd (蒼南康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	–
Qingtian Kangning Hospital Co., Ltd (青田康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	–
Yongjia Kangning Hospital Co., Ltd (永嘉康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	–
Yueqing Kangning Hospital Co., Ltd (樂清康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	–
Shenzhen Yining Hospital Co., Ltd (深圳怡寧醫院有限公司)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB16,600,000	–	52%	48%
Wenzhou Kangning Judicial Forensic Center (溫州康寧司法鑒定所)	The PRC, Sole proprietorship enterprise	Forensic psychiatric identification in PRC	Paid-in capital of RMB500,000	100%	100%	–
Lin Hai Kangning Hospital Co., Ltd (臨海康寧醫院有限公司)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB2,000,000	80%	80%	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of the principal subsidiaries at 31 December 2015:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Wenzhou Yining Geriatric Hospital Co., Ltd (温州怡寧老年醫院有限公司) (a)	The PRC, Limited liability company	Geriatric hospital in PRC	Paid-in capital of RMB10,000,000	100%	100%	–
Pingyang Kangning Hospital Co., Ltd (平陽康寧醫院有限公司) (b)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB6,000,000	100%	100%	–
Shenzhen Yining Medical Investment Co., Ltd (深圳怡寧醫療投資有限公司) (c)	The PRC, limited liability company	Investment holdings in PRC	Nil	100%	100%	–
Quzhou Yining Hospital Co., Ltd (衢州怡寧醫院有限公司) (d)	The PRC, Limited liability company	Psychiatric hospital in PRC	Nil	60%	60%	40%
Hangzhou Honglan Information Technology Co., Ltd (杭州宏瀾信息科技(有限)公司) (e)	The PRC, Limited liability company	Information service business in PRC	Nil	100%	100%	–
Langfang Yining Hospital Management Co., Ltd (廊坊市怡寧醫院管理(有限)公司) (f)	The PRC, Limited liability company	Hospital management consulting in PRC	Nil	100%	100%	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. PRINCIPAL SUBSIDIARIES (CONTINUED)

All the subsidiaries are established in the PRC as limited liability company except Wenzhou Kangning Judicial Forensic Center, which is a sole proprietorship enterprise.

- (a) Wenzhou Yining Geriatric Hospital Co.,Ltd was set up on 2 November 2015 with a registered capital of RMB10,000,000. Its paid in capital was RMB10,000,000 of 31 December 2015.
- (b) Pingyang Kangning Hospital Co.,Ltd was set up on 2 November 2015 with a registered capital of RMB6,000,000. Its paid in capital was RMB6,000,000 of 31 December 2015.
- (c) Shenzhen Yining Medical Investment Co., Ltd. was set up on 23 September 2015 with a registered capital of RMB10,000,000. Its paid in capital was nil of 31 December 2015.
- (d) Quzhou Yining Hospital Co., Ltd. was set up on 20 November 2015 with a registered capital of RMB30,000,000. Its paid in capital was nil of 31 December 2015.
- (e) Hangzhou Honglan Information Technology Co., Ltd was set up on 20 November 2015 with a registered capital of RMB5,000,000. Its paid in capital was nil of 31 December 2015.
- (f) Langfang Yining Hospital Management Co., Ltd was set up on 2 December 2015 with a registered capital of RMB10,000,000. Its paid in capital was nil of 31 December 2015.

As the operation results of the subsidiaries with non controlling interest are not material to the Group, no financial information is provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2015:

	Fees	Salaries	Discretionary bonus	Employer's contribution to pension scheme	Share-based payment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors						
Mr. Guan Weili	–	300	62	46	–	408
Ms. Wang Lianyue (i)	–	240	62	47	–	349
Ms. Wang Hongyue	–	121	62	39	–	222
Non-executive directors (ii)						
Mr. Hu Changtao	–	–	–	–	–	–
Ms. He Xin	–	–	–	–	–	–
Mr. Yang Yang	–	–	–	–	–	–
Independent directors (iii)						
Mr. Chong Yat Keung	70	–	–	–	–	70
Mr. Wong Raymond Fook Lam	70	–	–	–	–	70
Mr. Huang Zhi	70	–	–	–	–	70
	<u>210</u>	<u>661</u>	<u>186</u>	<u>132</u>	<u>–</u>	<u>1,189</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2014:

	Salaries <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Employer's contribution to pension scheme <i>RMB'000</i>	Share-based payment <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr. Guan Weili	301	64	47	–	412
Ms. Wang Lianyue	241	64	47	–	352
Ms. Wang Hongyue	122	58	39	–	219
Non-executive directors (ii)					
Mr. Li Zhenfu	–	–	–	–	–
Mr. Hu Changtao	–	–	–	–	–
Mr. Wang Hui	–	–	–	–	–
Ms. He Xin	–	–	–	–	–
	664	186	133	–	983

(i) Ms. Wang Lianyue is also the Chief Executive Officer ("CEO") of the Group.

(ii) Mr. Hu Changtao was appointed as non-executive director and Mr. Li Zhenfu resigned on 22 September 2014. Ms. He Xin was appointed as non-executive director and Mr. Wang Hui resigned on 9 June 2014. Mr. Yang Yang was appointed as non-executive director and Mr. Hu Changtao resigned on 8 April 2015.

(iii) Mr. Chong Yat Keung, Mr. Wong Raymond Fook Lam and Mr. Huang Zhi were appointed as independent directors on 8 April 2015.

DEFINITIONS

“AGM”	the annual general meeting of the Company for the year 2015 to be convened and held on June 14, 2016
“Articles”	the articles of association of the Company, as amended, modified or supplemented from time to time
“Audit Committee”	the audit committee of the Board
“Beijing Yining Hospital”	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), an associate company established in the PRC with limited liability on August 17, 2015 and is held as to 49% by the Company
“Board of Directors” or “Board”	the board of directors of the Company
“Cangnan Kangning” or “Cangnan Kangning Hospital”	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly-owned subsidiaries
“Chengdu Renyi” or “Chengdu Renyi Ward”	the psychiatric healthcare department of Chengdu Renyi Hospital Company Limited (成都仁一醫院有限公司), an independent third party established in the PRC on June 29, 2010 as Chengdu Jihong Hospital Company Limited (成都濟宏醫院有限公司) and changed to its current name on July 28, 2015
“Company”	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Hong Kong Listing Rules and in this context, refers to Mr. GUAN Weili and Ms. WANG Lianyue

DEFINITIONS (Continued)

“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
“Geriatric Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly-owned subsidiary of the Company which was referred to as the “Louqiao Medical Area” in the Prospectus and whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
“Group” or “we” or “our”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Latest Practicable Date”	April 22, 2016, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
“Linhai Kangning” or “Linhai Kangning Hospital”	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, the Company’s non-wholly owned subsidiary
“Listing Date”	November 20, 2015, the date on which the H Shares were listed on the Main Board of the Hong Kong Stock Exchange

DEFINITIONS (Continued)

“Macau”	the Macau Special Administrative Region of the PRC
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Nomination Committee”	the nomination committee of the Board
“Non-Competition Agreement”	the non-competition agreement dated May 11, 2015 entered into by the Company and the Controlling Shareholders
“Pingyang Kangning” or “Pingyang Kangning Hospital”	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company’s wholly-owned subsidiaries
“PRC” or “China”	the People’s Republic of China which, for the purpose of this annual report, excludes Hong Kong, Macau and Taiwan
“PRC Company Law”	the Company Law of the People’s Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Twelfth National People’s Congress on December 28, 2013 and effective on March 1, 2014 (as amended, supplemented or otherwise modified from time to time)
“Proposed Final Dividend”	the proposed final dividend distribution plan of RMB0.25 per Share (inclusive of applicable tax) subject to the approval by the Shareholders at the AGM as described under the section headed “Dividend” on pages 21 to 22 of this annual report
“Prospectus”	the prospectus of the Company dated November 10, 2015
“Qingtian Kangning” or “Qingtian Kangning Hospital”	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, the company’s non-wholly owned subsidiary

DEFINITIONS (Continued)

“Quzhou Yining” or “Quzhou Yining Hospital”	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, the Company’s non-wholly owned subsidiary
“Reporting Period”	the year ended December 31, 2015
“Remuneration Committee”	the remuneration committee of the Board
“RMB”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Yining” or “Shenzhen Yining Hospital”	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院有限公司, previously known as 深圳市怡寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2014, the Company’s non-wholly owned subsidiary
“Strategy and Risk Management Committee”	the strategy and risk management committee of the Board
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“substantial shareholder(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Supervisor(s)”	the members of the Supervisory Committee

DEFINITIONS (Continued)

“Supervisory Committee”	the Company’s supervisory committee established pursuant to the PRC Company Law
“US\$”	the lawful currency of the United States
“Yanjiao Furen Hospital”	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company’s operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company
“Yongjia Kangning” or “Yongjia Kangning Hospital”	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company’s wholly-owned subsidiaries
“Yueqing Kangning” or “Yueqing Kangning Hospital”	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company’s wholly-owned subsidiaries
“%”	percentage ratio