溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

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

Stock code: 2120

2016
ANNUAL REPORT

Contents

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. GOT Chong Key Clevin

Audit Committee

Mr. HUANG Zhi *(Chairman)*
Mr. GOT Chong Key Clevin
Ms. HE Xin

Nomination Committee

Mr. GUAN Weili *(Chairman)*
Mr. CHONG Yat Keung
Mr. GOT Chong Key Clevin

Remuneration Committee

Mr. CHONG Yat Keung *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

Strategy and Risk Management Committee

Mr. GOT Chong Key Clevin *(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
PricewaterhouseCoopers Zhong Tian LLP

Legal Advisors as to Hong Kong Laws

Kirkland & Ellis

Compliance Adviser

REORIENT Financial Markets Limited

Corporate Information

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

Investor Relations

Telephone:	(86) 577 8877 1689
Fax:	(86) 577 8878 9117
Email:	ir@knhosp.cn

Financial Highlights

	For the year ended December 31,				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**415,408**	343,674	296,296	226,363	170,813
Profit before income tax	**92,139**	70,170	68,567	47,576	17,964
Income tax expense	**(26,588)**	(18,548)	(17,369)	(11,383)	(4,733)
Total comprehensive income	**65,551**	51,622	51,198	36,193	13,231
Attributable to:					
Equity holders of the Company	**68,832**	55,709	51,198	36,193	13,231
Non-controlling interests	**(3,281)**	(4,087)	—	—	—

	As of December 31,				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,603,382**	1,224,434	372,339	305,679	226,667
Total liability	**562,012**	262,205	111,249	96,818	202,601
Total equity	**1,041,370**	962,229	261,090	208,861	24,066
Equity attributable to:					
Owners of the Company	**1,008,383**	959,716	261,090	208,861	24,066
Non-controlling interests	**32,987**	2,513	—	—	—

Chairman's Statement

GUAN Weili
Chairman

Dear Shareholders,

The year 2016 was the first full year after the Group's listing. It was also a year full of opportunities and challenges. On the one hand, state policies encouraging social capitals to run medical services and increasing public concern about mental health have provided a good opportunity for the development of private psychiatry specialty hospitals; on the other hand, however, reform measures implemented by the Chinese government to control the fees charged by certain medical insurance funds and the crisis for trust in private hospitals triggered by the "Wei Zexi Incident" have also brought certain challenges to the operation of the Group. Nonetheless, with years of operation experience and our established brand reputation, the Group's business managed to maintain steady and rapid growth: medical institutions under operation and management increased from 9 at the end of 2015 to 14 at the end of 2016; beds of medical facilities under operation and management increased from 2,380 at the end of 2015 to 3,367 at the end of 2016; and the business growth of Yanjiao Furen Hospital, Linhai Kangning Hospital and the Geriatric Hospital which have newly commenced operation exceeded our expectation. As a result, the Group recorded revenue of RMB415.4 million, representing an annual growth of 20.9% in 2016.

Chairman's Statement (Continued)

The "Confucian Analects" says, "If a man takes no thought about what is distant, he will find sorrow near at hand". As a psychiatry specialty hospital group that took the lead in going public, we have positioned 2016 as "the year of medium- and long-term strategic layouts" and have implemented a number of medium- and long-term strategies.

The first was market strategy. We have kicked off the "Entrepreneurial Program for 100 People" through which we have undertaken entrustment management of the Pujiang Hospital and the Chun'an Hospital, and started to build new hospitals in Quzhou, Taizhou and Sihui jointly with entrepreneurs. For projects outside of our planned areas, we have adopted non-controlling investment and injected capital into Chongqing Hechuan Kangning Hospital and Shandong Yining Hospital.

The second was talents strategy. As we all know, psychiatrists are scarce in China, and the competition among hospitals is after all the competition for medical talents. To build a hospital which can last for hundreds of years, Kangning must have a steady stream of talents input. To this end, we have organized colleges of psychiatrists jointly with the Wenzhou Medical University and recruited more than 90 students.

The third was capital strategy. We have always emphasized the use of capital transactions to promote business development, and at this stage Kangning's main business is located within China. We have proposed to issue A shares in the hope to further enhance Kangning's brand recognition through A-share listing to secure more business opportunities. In addition, we have also tried to work with private equity funds hoping to leverage the advantages of the fund teams to speed up the layout of our business networks.

The last was informatization strategy. The development of informatization and the internet have significantly changed our ways of life, and we believe that it will inevitably change the models of psychiatric specialty healthcare services. Therefore, we have invested in Hangzhou Honglan Information which developed the "Didi Psychology", an online psychological advisory platform. The "Didi Psychology" is still of very small size and there are still many areas well that need to be improved, but we believe that the direction towards informatization and the internet is correct.

Chairman's Statement (Continued)

Most of these strategies are long-term and will not have direct contributions to the short-term performance of the Group and may even have lagging impacts, but we still have to do so. Only when we have done these well that Kangning's "moat" can be wide and deep enough to ultimately benefit our investors and the public.

However, it is quite complicated to construct and operate hospitals and we will also face a lot of challenges of uncertainties. Although we have more than 20 years of operating experience, we are still not experienced enough in the face of many new problems and new situations. For example, due to our inexperience in building hospitals outside of Wenzhou, our progress of preparing commencement of operation of Pingyang Kangning Hospital, Quzhou Yining Hospital, Shenzhen Yining Hospital and Hangzhou Yining Hospital have all been behind the original schedules. Take another example, due to our inexperience in operating high-end hospitals, the operation efficiency of Beijing Yining Hospital, which we were minority shareholder and provided management service, was not ideal. Confronted with these challenges, the Kangning people have never been discouraged but instead strived to solve difficulties in the uphill battles.

Looking forward, in 2017, we believe that the Chinese government's measures to carry out reforms of medical and health system will be further deepened and implemented. These measures may be both opportunities and challenges for us. No matter opportunities or challenges, the Kangning people will keep their clear minds and high morale to fight a brave battle to turn challenges into opportunities, striving to turn Kangning into "a professional guardian of mental health".

GUAN Weili
Chairman of the Board

Zhejiang, the PRC
March 24, 2017

Management Discussion and Analysis

Business Review and Outlook

Psychiatric Specialty Healthcare Service Industry in China

China's healthcare services market has great potential, and is rapidly expanding driven by factors such as aging population, urbanization, wealth growth and the basic healthcare protection systems. The "13th Five-Year Plan for Healthcare" (the "**Plan**") issued on December 27, 2016 calls for encouraging private investment in the healthcare industry and joint operation of healthcare services by public-private partnerships. On the basis of not less than 1.5 beds per thousand resident populations, planned spaces are set aside for private investment in operation of hospitals. The Plan also emphasizes development of professional hospital management groups which may participate in the restructuring and reorganization of certain public hospitals in various forms. Meanwhile, one of the major tasks for China to deepen reform of the healthcare system in 2016 is to clarify the scope of medical protection, coupled with budget management of medical insurance funds to promote global budget, and to further control unreasonable growth of medical expenses through reform of payment methods of medical insurance.

In the field of psychiatric specialty, approximately 180 million people in China suffer from psychiatric disorders of varying degrees. However, due to shortages of psychiatric healthcare infrastructure and related resources, this demand remains largely unmet. Improvement of the social psychological services system is imminent and highly regarded by the government. On December 30, 2016, 22 departments including the State Health Commission and the Central Propaganda Department jointly issued the "Guiding Opinions on Strengthening Mental Health Services" which clearly advocates encouraging the nurturing of socialized mental health services institutions, providing all kinds of employers with psychological consultation services through procuring services from social psychological services institutions and so on, supporting mental health professional institutions to enhance mental health services capability, and encouraging and directing general hospitals to set up psychiatric (psychology) specialties.

Management Discussion and Analysis

Business Review for 2016

The year 2016 was the first full year after the Group's listing. It was also our "Year of Strategic Layouts" during which we have implemented a number of medium- and long-term development strategies, laying the foundation for the Group's long-term development. Specific progress has been made as follows:

In 2016, the Group's own hospital business continued to develop. Linhai Kangning Hospital and Geriatric Hospital commenced operation in the first half of 2016 and achieved rapid enhancement in bed utilization rates. Qingtian Kangning Hospital and Yueqing Kangning Hospital recorded relatively fast growth in service volume, while Wenzhou Kangning Hospital, Cangnan Kangning Hospital and Yongjia Kangning Hospital slowed down in bed growth due to limited space for bed expansion, and Quzhou Yining Hospital has also obtained medical practice license at the end of the year 2016 and began operation of 67 beds in phase I. As of December 31, 2016, the number of Group's owned hospitals increased to 8 (December 31, 2015: 5) and number of beds under operation increased to 2,577 (December 31, 2015: 2,010).

In 2016, the Group's business of managing healthcare facilities achieved mixed performance. On the one hand, the Group secured new entrustment management of Pujiang Hospital and Chun'an Hospital through agreement, and entered into the framework agreement with the People Government of Yiwu in relation to the provision of entrustment management services to Yiwu Psychiatric Health Center, while the psychiatric specialty care business in Yanjiao Furen Hospital and Pingyang Changgeng Hospital Co., Ltd. which previously under our management, also achieved stable development. On the other hand, the bed utilization rate of Beijing Yining Hospital under management of the Group was still relatively low, while the psychiatric specialty business of Chengdu Renyi ward was not developed due to the change in equity of the cooperative hospital. As of December 31, 2016, the healthcare facilities managed by the Group increased to 6 (December 31, 2015: 4) and the number of beds under management increased to 790 (December 31, 2015: 370).

While steadily developing existing owned hospitals, the Group is also accelerating network layout through self-construction, investment as a minority shareholder and other methods. As of the date of this results announcement, Pingyang Kangning Hospital and Shenzhen Yining Hospital have obtained the medical practice license; and Hangzhou Yining Hospital, Sihui Kangning Hospital and Langfang Yining Hospital have obtained the license for setting up healthcare facilities and is under renovation. Furthermore, as a minority shareholder, the Group has also invested in Chongqing Hechuan Kangning Hospital and Shandong Yining Hospital and Hangzhou Honglan Information.

The Group continued to increase investment in scientific research and talent forging. In 2016, the Group founded the Psychiatry School of Wenzhou Medical University jointly with Wenzhou Medical University and recruited 90 undergraduates and 6 graduate students, laying the talent foundation for the Group's long-term development. Meanwhile, we have engaged Dr. Daolong Zhang, the famous psychiatrist in the United States, as the chief medical officer of the Group, to provide all the Group's doctors with standardized trainings in biological, psychological and sociological models according to American standards, so as to enhance the healthcare services quality of the Group. Kangning Mental Health Institute has established the Zebrafish Simulation Animal Room Laboratory with international standard, and published 68 articles of various types throughout the year, representing greater enhancement as compared with 2015.

Management Discussion and Analysis

Business Highlights

On December 7, 2016, the Group entered into a framework agreement with the People's Government of Yiwu in relation to the Company's proposed provision of entrustment management services to Yiwu Psychiatric Health Center through Yiwu Kangning Hospital Management Company Limited, a subsidiary of the Company, and charge the Yiwu Psychiatric Health Center brand fees and management service fees in return. For details, please refer to the announcement of the Company dated December 7, 2016. Yiwu Kangning Hospital Management Company Limited was incorporated on January 22, 2017.

To further enhance the Group's brand influence in China so as to secure more business opportunities, the Board has proposed to apply for A share offering. On December 23, 2016, the application materials in respect of the Company's proposed A share offering was accepted by CSRC. On December 27, 2016, a copy of the A share prospectus of the Company has been made available on the CSRC's website for preliminary publication. For details, please refer to the announcements of the Company dated December 23, 2016 and December 27, 2016, respectively.

Business Outlook

The Group's financial position and operating results are mainly subject to the following risks:

(i) Risk relating to high reimbursement amount from public medical insurance. From 2014 to 2016, reimbursement amount from public medical insurance accounted for 50.0%, 56.6% and 52.6% of the total cash received from sales of goods and rendering of service for the respective years, respectively. If the Group's medical institutions are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely.

(ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, it requires medical institutions shall maintain a certain number of medical staff. With the increase in the number of medical institutions of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results.

(iii) Risk relating to failure to renew qualifications and licenses required for our operations. Medical institutions are required to obtain the Medical Practice License before carrying out their businesses, which usually have valid period and requires regular inspection by the regulatory authorities. If the medical institutions of the Group are unable to renew their licenses in the future due to poor management or non-compliance, our operating results will be affected adversely.

Management Discussion and Analysis

Looking into the future, the Group will leverage on the favorable environment in China during the year 2017 which encourage the social capital to establish medical facilities to implement and improve a number of medium- and long-term strategic layouts, accelerate the network layout of healthcare facilities while using distance education system to strengthen the training of talents to enhance the quality of the Group's healthcare services. Meanwhile, our Group will respond to policies that call for seeking opportunities to cooperate with public hospitals, including but not limited to involving in the management of public hospitals in various forms to confront with the uncertainties brought to the Group by control of medical insurance fees, so as to maintain the steady and rapid development of the Group.

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
- continue to devote more efforts to improving the construction of information technology infrastructure.

Financial Review

The Group achieved revenue of RMB415.4 million for 2016, representing an increase of 20.9% as compared with 2015. The revenue from operating the Group's owned hospitals and the management service fees from managing healthcare facilities both increased. Because of lower utilization rate of new facilities, the gross profit margin of our owned hospitals decreased to 33.1%, and the gross profit margin of healthcare facilities management business was 49.6%. As such, the overall gross profit margin of the Group for 2016 decreased to 34.2% (2015: 37.9%). For the year 2016, net profit attributable to shareholders of the Company amounted to RMB68.8 million, representing an increase of 23.6% as compared with 2015.

Management Discussion and Analysis

Revenue and cost of revenue

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

The table below sets forth a breakdown of total revenue for the periods indicated:

	For the year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Revenue from operating the owned hospitals	**391,505**	327,843
Management service fee income	**18,943**	13,561
Other revenue	**4,961**	2,270
Total revenue	**415,409**	343,674

Note: In the 2015 Annual Results Announcement, the revenue of the judicial forensic services was categorized into the revenue of the ancillary hospital services of operating the Group's owned hospitals, which is categorized into other revenue of the Group from 2016.

During the Reporting Period, total revenue of the Group amounted to RMB415.4 million, representing a year-on-year increase of 20.9%, primarily due to (i) the increase of revenue from operating the owned hospitals by 19.4%, (ii) the increase of management service fee income by 39.7% and (iii) the increase of revenue from other business by RMB2.7 million. Revenue from operating the owned hospitals accounted for 94.2% of total revenue (2015: 95.4%) and management service fee income accounted for 4.6% of total revenue (2015: 3.9%).

Revenue and cost of revenue from operating the owned hospitals

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

	For the year endedDecember 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Treatment and general healthcare services		
Revenue	**285,599**	240,103
Cost of revenue	**174,853**	133,627
Gross profit	**110,746**	106,476
Pharmaceutical sales		
Revenue	**105,906**	87,740
Cost of revenue	**86,970**	71,023
Gross profit	**18,936**	16,717
Owned hospitals		
Revenue	**391,505**	327,843
Cost of revenue	**261,823**	204,650
Gross profit	**129,682**	123,193

During the Reporting Period, revenue from the Group's owned hospitals amounted to RMB391.5 million, representing an increase of 19.4% as compared with 2015.

Management Discussion and Analysis

The table below sets forth a breakdown of revenue of the Group's owned hospital by inpatients and outpatients for the periods indicated, with relevant operating data:

	For the year ended December 31, 2016	2015
Inpatients		
Inpatient bed as at period end	**2,577**	2,010
Effective inpatient service bed-day capacity	**943,182**	733,650
Utilization rate (%)	**86.5%**	93.9%
Number of inpatient bed-days	**815,883**	689,244
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	**268,555**	225,244
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	**329**	327
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	**48,262**	39,764
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	**59**	58
Total inpatient revenue (RMB'000)	**316,816**	265,008
Total average inpatient spending per bed-day (RMB)	388	384
Outpatients		
Number of outpatient visits	**145,696**	129,355
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	**17,044**	14,859
Average outpatient spending per visit on treatment and general healthcare services (RMB)	**117**	115
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	**57,644**	47,976
Average outpatient spending per visit on pharmaceutical sales (RMB)	**396**	371
Total outpatient revenue (RMB'000)	**74,688**	62,835
Total average outpatient spending per visit (RMB)	**513**	486
Total treatment and general healthcare services revenue (RMB'000)	**285,599**	240,103
Total pharmaceutical sales revenue (RMB'000)	**105,906**	87,740

During the Reporting Period, inpatient revenue amounted to RMB316.8 million, representing an increase of 19.5% as compared with 2015, primarily due to (i) the increase of inpatient days by 18.4% and (ii) the increase of average inpatient spending per bed-day by 1.0%. Inpatient revenue accounted for 80.9% of our revenue from operating our owned hospitals (2015: 80.8%).

During the Reporting Period, outpatient revenue amounted to RMB74.7 million, representing an increase of 18.9% as compared with 2015, primarily due to (i) the increase of outpatient visits by 12.6% and (ii) the increase of average outpatient spending per visit by 5.5%. Outpatient revenue accounted for 19.1% of our revenue from operating our owned hospitals (2015: 19.2%).

Management Discussion and Analysis

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 18.9% as compared with 2015, accounting for 72.9% of our revenue from operating our owned hospitals (2015: 73.2%); and revenue from pharmaceutical sales increased by 20.7% as compared with that of 2015, accounting for 27.1% of our revenue from operating our owned hospitals (2015: 26.8%).

Cost of revenue of the Group's owned hospitals primarily consisted of pharmaceuticals and consumables used, employee benefits expenses, leasing expenses, depreciation and amortization, canteen expenses, testing fees and outsourcing fee. The table below sets forth a breakdown of cost of revenue for operating the Group's owned hospitals for the periods indicated:

	For the year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Pharmaceuticals and consumables used	**103,972**	85,496
Employee benefits expenses	**87,060**	73,317
Leasing expenses	**12,830**	8,006
Depreciation and amortization	**17,697**	12,068
Canteen expenses	**14,018**	11,280
Testing fees	**6,062**	3,388
Outsourcing fee	**5,900**	—
Others	**14,284**	11,095
Cost of revenue	**261,823**	204,650

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB261.8 million, representing an increase of 27.9% as compared with that of the same period of 2015, which was higher than the increase of revenue. It was mainly due to: (i) the increase of 21.6% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 26.8% in employee benefits and expenses and outsourcing fee arising from the increase in beds in operation of our owned hospitals; (iii) newly added leasing expenses and depreciation and amortization of RMB4.3 million of Linhai Kangning Hospital and Geriatric Hospital which were newly put into operation in 2016.

From the cost structure perspective, pharmaceutical and consumables used is still the main part of cost of revenue of the owned hospitals, accounting for 39.7% (2015: 41.8%). The second part is employee benefits and expenses and outsourcing fee, which accounted for 35.5% of cost of revenue of the owned hospitals (2015: 35.8%). Leasing expenses, together with depreciation and amortization, accounted for 11.7% of cost of revenue of owned hospitals (2015: 9.8%).

Management Discussion and Analysis

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, cost of revenue and gross profit for the periods indicated:

	For the year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Revenue	**18,943**	13,561
Cost of revenue	**9,554**	7,006
Gross profit	**9,389**	6,555

In 2016, management service fee income of the Group amounted to RMB18.9 million, representing an increase of 39.7% as compared with that of 2015 and accounting for 4.6% of the total revenue of the Group in 2016 (2015: 3.9%), due to the contribution of the management service fee in relation to the newly-entrusted Pujiang Hospital and Chun'an Hospital starting from April 1, 2016.

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

During the Reporting Period, cost of revenue of management services of the Group increased to RMB9.6 million, representing an increase of 36.4% as compared with that of 2015, which is lower than the increase of revenue, mainly because in April 2016, the Group has acquired the operation rights of Pujiang Hospital and Chun'an Hospital for 30 years, where both hospitals achieved higher efficiency under the Group's management. Accordingly, gross profit margin of the management service business increased to 49.6% (2015: 48.3%).

Other Revenue

Other revenue of the Group includes judicial forensic service income, property leasing income and others. In 2016, revenue from other businesses increased to RMB5.0 million, representing an increase of RMB2.7 million as compared to that of 2015, mainly because the Group had acquired Wenzhou Guoda in August 2016. Part of the properties held by Wenzhou Guoda were leased out and rental income of RMB2.0 million was obtained during the period from August to December of 2016.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB142.2 million, representing an increase of 9.0% as compared with that of 2015. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the year ended December 31	
	2016	2015
Treatment and general healthcare services	**38.8%**	44.3%
Pharmaceutical sales	**17.9%**	19.1%
Management services	**49.6%**	48.3%
Other businesses	**62.5%**	28.1%
Consolidated gross profit margin	**34.2%**	37.9%

Consolidated gross profit margin decreased to 34.2% (2015: 37.9%), mainly due to the decrease in gross profit margin of the Group's owned hospitals as a result of low utilization rate of beds of Linhai Kangning Hospital and Geriatric Hospital which were newly opened in April and May 2016 respectively; while the increasing utilisation ratio of imported drugs with lower gross profit margin resulted in a slight decrease in the gross profit margin of pharmaceutical sales.

Other Income

During the Reporting Period, other income of the Group consists of government grants and investment income. In 2016, other income amounted to RMB13.3 million (2015: RMB3.1 million), representing an increase of 332.8% as compared with that of 2015, primarily due to the increase of government grants and interest income from term deposits.

Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB3.1 million (2015: RMB2.0 million), representing an increase of 59.6% as compared with that of 2015 and accounting for 0.8% of the total revenue of 2016 (2015: 0.6%), mainly due to the sales commission paid for the sales of Phase II of Business Center of Wenzhou Higher Education Mega Center by Wenzhou Guoda.

Management Discussion and Analysis

Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, leasing expenses of the hospitals prior to their commencement of operation, depreciation and amortization, consultancy fees, donation and other expense. The table below sets forth a breakdown of administrative expenses of the Group for the periods indicated:

	For the year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Employee benefits expenses	**29,443**	21,932
Leasing expenses of the hospitals under development	**12,887**	7,388
Depreciation and amortization	**6,933**	5,947
Travelling expenses	**3,155**	1,775
Consultancy expenses	**4,800**	1,877
Donation	**4,479**	1,814
Listing fee of H shares	**—**	5,177
Provision for impairment of receivables	**3,902**	5,985
Others	**12,932**	10,625
Total administrative expenses	**78,531**	62,520

In 2016, administrative expenses of the Group amounted to RMB78.5 million (2015: RMB62.5 million), representing an increase of 25.6% as compared to 2015, primarily due to: (i) an increase of RMB7.5 million in our employee benefits and expenses as a result of the increase in (1) our management, research and information technology staff and (2) our staff reserved for the opening of Linhai Kangning Hospital and Geriatric Hospital; (ii) an increase of RMB5.5 million in the rental paid for hospitals in construction; (iii) an increase of RMB2.9 million in the consultancy expenses for meeting the listing requirements after the listing of the Company; and (iv) an increase in donation expenses as compared to that of 2015 as a result of a donation of RMB1.5 million by the Group to the Wenzhou Medical University in relation to the co-establishment the Psychiatry School of Wenzhou Medical University. In 2016 the proportion of administrative expenses to total revenue of the Group increased to 18.9% (2015: 18.2%).

Management Discussion and Analysis

Finance Income - Net

Our finance income includes interest income from bank deposits and the gains on foreign exchange, and the finance expenses include the interest expenses on bank loans and the financial expense in relation to long-term payables. The table below sets forth a breakdown of our financial income and expense for the periods indicated:

	For the year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Interest income	**929**	1,140
Exchange gain	**25,139**	10,485
Finance income	**26,068**	11,625
Finance expenses	**(5,745)**	(4,002)
Finance income — net	**20,323**	7,623

During the Reporting Period, the net finance income of the Group increased to RMB20.3 million, primarily attributable to the increase in the exchange gains of RMB14.7 million arising from the higher exchange rate of HKD against RMB due to the fact that the proceeds from the initial public offering were deposited in Hong Kong dollars. Finance expenses mainly comprised the finance expenses of RMB5.7 million measured at the effective interest rate from the long-term payables in relation to the entrusted management of Yanjiao Furen Hospital, representing an increase of 43.6% as compared with the same period of 2015, primarily because we started to undertake the entrustment of Yanjiao Furen Hospital in April 2015 and the same period of 2015 only includes nine months of interest calculation accordingly.

Share of Loss of Investments Accounted for Using the Equity Method

During the Reporting Period, share of losses of investment accounted for using the equity method amounted to RMB6.2 million (2015: RMB6.3 million), mainly representing our 49% equity interests losses in Beijing Yining Hospital and 35% equity interests losses in Hangzhou Honglan Information. Beijing Yining Hospital commenced operation in September 2015 and recorded losses after tax of RMB9.2 million in 2016.

Income Tax Expense

During the Reporting Period, income tax expense increased to RMB26.6 million, representing an increase of 43.3% as compared with 2015. In 2016 and 2015, our actual tax rates were 28.9% and 26.4%, respectively. The increase in actual tax rates for 2016 was mainly due to the increase in tax losses for which no deferred tax assets were recognised.

Management Discussion and Analysis

Total Comprehensive Income

In 2016, total comprehensive income attributable to owners of the Company amounted to RMB68.8 million, representing an increase of 23.6% as compared with 2015, primarily due to the following reasons:

(i) exchange gain of RMB14.7 million generated by the appreciation of HKD;

(ii) a decrease of RMB5.2 million in listing fee; and

(iii) offset the decrease in gross profit margin due to the commencement of operation of the new facilities.

Financial Position

Inventory

As of December 31, 2016, inventory balances amounted to RMB9.3 million (as of December 31, 2015: RMB7.5 million), mainly due to the increase of the medicine inventory resulting from the development of our medical business.

Properties Under Development

As of December 31, 2016, the balance of the properties under development was RMB153.5 million (as of December 31, 2015: Nil), primarily representing the properties under development held by Wenzhou Guoda as of December 31, 2016, a company acquired by the Group during the year. The table below sets forth the details of properties under development held by us during the Reporting Period:

Properties under development	Phase II Works of Business Center of Wenzhou Higher Education Mega Center
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Guo Yong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	30,557.34
Usage	Commercial, office, hotel
Stage	Application for completion acceptance
Expected completion date	June 30, 2017

Trade Receivables

As of December 31, 2016, the balance of trade receivables increased to RMB142.9 million (as of December 31, 2015: RMB123.1 million), primarily due to the increase in our revenue over the same period in line with the business growth of our healthcare institutions. In 2016, the trade receivables turnover days are 117 days (2015: 116 days).

Management Discussion and Analysis

Other Receivables, Deposits and Prepayments

As of December 31, 2016, other receivables, deposits and prepayments increased to RMB109.2 million (as of December 31, 2015: RMB91.0 million), primarily due to the deposit of RMB5.0 million paid for the judicial auction for the property of Cangnan Kangning Hospital relocation project.

Investment Properties

As of December 31, 2016, the balance of investment properties increased by RMB72.2 million, mainly due to part of the properties held by Wenzhou Guoda which we have acquired were leased out. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290617, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290595, Wen Guoyong (2012) No. 3-290606, Wen Guoyong (2012) No. 3-290593 and Wen Guoyong (2012) No. 3-290607
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (Sq. m.)	12,854.06
Usage	Commercial, office, hotel
Whether a freehold property	Nature of the land is grant for use rights of state-owned land for 50 years (termination date is January 29, 2053), and the properties are freehold properties.

Available-for-Sale Financial Assets

As of December 31, 2016, available-for-sale financial assets balance increased to RMB50.0 million, primarily due to our contribution to the investment fund. For details, please refer to the Company's announcement dated February 23, 2016.

Trade Payables

As of December 31, 2016, trade payables increased to RMB43.3 million (as of December 31, 2015: RMB20.0 million), mainly due to the new property development project payables of RMB13.5 million as a result of the acquisition of Wenzhou Guoda.

Management Discussion and Analysis

Advanced proceeds received from the customers

As of December 31, 2016, advanced proceeds received from the customers increased to RMB67.4 million (as of December 31, 2015: Nil), mainly due to a number of properties of Wenzhou Guoda, Phase II of business center of Wenzhou Higher Education Mega Center, have been sold, and the receipts in advance from the customers is RMB67.4 million. Because the properties have not been delivered, the receipts in advance have not been settled yet.

Accruals and Other Payables

As of December 31, 2016, accruals and other payables increased to RMB172.9 million (as of December 31, 2015: RMB166.4 million).

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:

	For the year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Net cash generated from/(used in) operating activities	**49,867**	(5,063)
Net cash (used in) investing activities	**(92,788)**	(382,367)
Net cash generated from financing activities	**69,080**	708,785
Net increase in cash and cash equivalents	**26,159**	321,355

Net Cash from Operating Activities

In 2016, net cash from operating activities amounted to RMB49.9 million. We had net cash of RMB106.7 million generated from operating activities before changes in working capital, primarily consisting of profit before tax of RMB92.1 million and adjustments for depreciation of property, plant and equipment of RMB24.8 million. Changes in working capital resulted in cash outflow of RMB40.2 million. We had cash outflow of RMB16.7 million attributable to our income tax paid.

Net Cash Used in Investing Activities

In 2016, net cash used in investing activities amounted to RMB92.8 million, primarily due to purchase of property, plant and equipment of RMB175.7 million, consisting of (i) amounts paid and prepaid to renovate and upgrade Wenzhou Kangning Hospital; (ii) amounts paid to renovate Geriatric Hospital; (iii) amounts for purchasing properties by Pingyang Kangning Hospital; and (iv) RMB50.0 million for contribution to the investment fund.

Management Discussion and Analysis

Net Cash from Financing Activities

In 2016, net cash generated from financing activities amounted to RMB69.1 million, primarily due to a loan of RMB160.0 million from a bank, which offset repayment of the loan of RMB67.5 million from a bank and cash dividend of RMB18.3 million.

Significant Investment, Acquisition and Disposal

On February 22, 2016, the Company entered into a strategic cooperation agreement to contribute RMB50.0 million to an investment fund, which shall invest in healthcare and other modern services industries. In principle, the investment in the hospital and healthcare service industry shall be no less than 80% of its total amount available for investment of the investment fund. Please refer to the announcement of the Company dated February 23, 2016 for details. As of December 31, 2016, the investment fund had completed several investment projects.

On June 2, 2016, the Company entered into an agreement with Wenzhou Medical University Asset Management Company Limited (the "Vendor") and Wenzhou Medical University in relation to (i) the acquisition of 51% of the equity interests in Wenzhou Guoda by the Company from the Vendor and (ii) the acquisition by the Company of Wenzhou Medical University's creditor's rights in relation to certain sums owed to it by Wenzhou Guoda. The Company shall pay the equity consideration of approximately RMB17.5 million and pay the consideration for the acquisition of creditor's rights of approximately RMB20.1 million. Please refer to the announcement of the Company dated June 2, 2016 for details.

Save as disclosed above, the Group had no other significant investment, acquisition or disposal in 2016. The Group had no plan of significant investment or purchase of assets in the next one year.

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 2016 was RMB183.9 million, representing an increase of 60.3% from 2015, primarily due to the expansion project of Wenzhou Kangning Hospital, the decoration of Geriatric Hospital and investments in funds.

Management Discussion and Analysis

Indebtedness

Bank Borrowings

As of December 31, 2016, the balance of bank borrowings of the Group amounted to RMB216.7 million (as of December 31, 2015: RMB50.0 million), primarily attributable to the additional borrowings of RMB130.0 million designated for construction purposes and borrowings of RMB56.7 million for development of Phase II properties by Wenzhou Guoda in 2016. Bank borrowings due within one year amounted to RMB66.7 million, whilst bank borrowings due over one year amounted to RMB150.0 million, of which borrowings made at fixed interests rates amounted to RMB180.0 million (as of December 31, 2015: RMB50.0 million).

Other Borrowings

As of December 31, 2016, the balance of other borrowings of the Group amounted to RMB7.0 million (as of December 31, 2015: Nil).

Contingent Liabilities

As of December 31, 2016, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Asset Pledge

Wenzhou Guoda, a subsidiary of our Group, had pledged its properties under development, Phase II of Business Center of Wenzhou Higher Education Mega Center, in favor of the Wenzhou Branch of China Minsheng Bank for bank loan and as of December 31, 2016, the balance of the borrowing amounted to RMB20 million. Wenzhou Guoda had pledged its properties, Phase I of Business Center of Wenzhou Higher Education Mega Center, in favour of China Zheshang Bank for bank loan and as of December 31, 2016, the balance of the borrowing amounted to RMB36.7 million.

Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of December 31, 2016, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB189.4 million.

Financial Instruments

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

Management Discussion and Analysis

Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currencies, which mainly involve risks of fluctuations in the exchange rate of HKD against RMB. The Group is exposed to foreign exchange risks accordingly.

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

Gearing Ratio

As of December 31, 2016, the Group's gearing ratio (total interest-bearing liabilities divided by total assets) was 19.7% (as of December 31, 2015: 11.8%).

Employees and Remuneration Policy

As of December 31, 2016, the Group had a total of 1,348 full-time employees (as of December 31, 2015: 1,134 employees). For the year 2016, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB122.9 million (for the year 2015: RMB101.3 million).The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee. Apart from the salary, other employee benefits include state-managed pension schemes, housing grant schemes and discretionary bonuses.

The Group had no share option schemes.

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, 2016.

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 43 to the consolidated financial statements of this annual report.

Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in "Management Discussion and Analysis - Employees and Remuneration Policy" of this annual report and "Report of the Board – Major Customers and Suppliers" of this annual report, respectively.

Business Review

The business review on the Group is set out in the "Management Discussion and Analysis" of this annual report. The future development of the Group and the major risks and uncertainties that the Group may be exposed to are set out in the "Management Discussion and Analysis - Business Outlook" of this annual report.

Financial Hightlights and Results

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2016 are set out in the "Financial Hightlights" of this annual report.

The Group's financial results for the year December 31, 2016 are set out in the consolidated statement of comprehensive income of this annual report.

Investor Relations

Please refer to section "Corporate Governance Report – Communication with Shareholders and Investor Relations" 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. Those applicable laws and regulations have no material impact on our business operation. Details of the environmental policies of the Company are set out in the Environmental, Social and Governance Report independently published by the Company, which can be accessed or downloaded at the websites of the Company and the Hong Kong Stock Exchange.

Report of the Board

Compliance with Relevant Laws and Regulations

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.

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

Permitted Indemnity Provision

For the year ended December 31, 2016, the Group has no permitted indemnity provision.

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, 2016, the Company's net proceeds from the initial public offering amounted to approximately HK$693.2 million (equivalent to RMB 580.7 million) after deducting underwriting commissions and all related expenses.

As of December 31, 2016, the Group applied the net proceeds in the followings:

- RMB254.3 million for expanding and ramping up our healthcare facilities network and operating capacity;
- RMB36.8 million for renovation and upgrades for Wenzhou Kangning Hospital;
- RMB17.5 million for research, teaching and personnel training purposes;
- RMB5.0 million to develop online platform for medical consultation and upgrade IT infrastructure; and
- RMB8.6 million for working capital and other general corporate purposes.

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, 2017, the Proposed Final Dividend will be distributed on or about July 14, 2017 to the Shareholders whose names appear on the register of members of the Company on June 25, 2017 (the "**Record Date**").

Report of the Board

The amount of final dividend distribution shall be calculated based on the total number of Shares in issue as of December 31, 2016 and the final cash dividend distribution shall be based on RMB0.25 per Share (inclusive of applicable tax). In order to qualify for the Proposed 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, Wanchai, Hong Kong) before 4:30 p.m. on June 19, 2017. For the purpose of ascertaining Shareholders who qualify for the Proposed Final Dividend, the register of members for H Shares will be closed from June 20, 2017 to June 25, 2017 (both days inclusive).

The Proposed 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 Proposed 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 Proposed 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%.

For the year ended December 31, 2016, none of the Shareholder has waived or agreed to waive any dividends.

Report of the Board

Share Capital

Details of the movements in the share capital of the Company during the Reporting Period are set out in note 19 to the consolidated financial statements of this annual report.

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 21 to the consolidated financial statements of this annual report.

Distributable Reserves

As of December 31, 2016, details of the Company's reserves available for distribution are calculated in accordance with the PRC regulations, and the distributable reserves was RMB108.9 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 6 to the consolidated financial statements of this annual report.

Major Customers and Suppliers

For the year ended December 31, 2016, the Group's largest customer and five largest customers combined contributed to 2.9% and 4.5%, respectively, of the Group's total revenue. For the year ended December 31, 2016, the Group's five largest customers contributed to less than 30% of the Group's total revenue for the year. The major customers of the Group are hospital which are entrusted by us and patients of our owned hospitals. Due to the uniqueness of the business and high liquidity of patients of psychiatric specialty hospitals, our Company has no material reliance on large customers.

For the year ended December 31, 2016, the Group's largest supplier and five largest suppliers combined accounted for 44.6% and 84.8%, 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, 2016.

Report of the Board

Relocation of Cangnan Kangning Hospital

On July 7, 2016, the Company entered into a letter of intent with Wenzhou Dongjing Packaging Company Limited* (as the vendor), pursuant to which the Company intends to acquire the vendor's land and property located in Lingxi Village, Cangnan County. However, the government does not approve the land and property to be used for hospital operation. In September 2016, the letter of intent was terminated by both parties without any further liability.

On February 28, 2017, Cangnan Kangning Hospital successfully bidded for land and plants located in Cangnan County at the online judicial auction held by the People's Court of Cangnan County. As of the date of this annual report, we are in the process of completing the registraion of the transfer of such land and property.

Donations

For the year ended December 31, 2016, the charitable contributions and other donations made by the Group amounted to approximately RMB4.5 million in aggregate.

Subsidiaries

Details of the Company's principal subsidiaries as of December 31, 2016 are set out in note 43 to the consolidated financial statements of this annual report.

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. YANG Yang
Ms. HE Xin

Independent Non-executive Directors

Mr. CHONG Yat Keung
Mr. HUANG Zhi
Mr. WONG Raymond Fook Lam [Note 1]
Mr. GOT Chong Key Clevin [Note 2]

Note 1: Mr. WONG Raymond Fook Lam resigned on June 14, 2016.
Note 2: Mr. GOT Chong Key Clevin was appointed on June 14, 2016.

Report of the Board

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

Directors' and Supervisors' Interests in Transaction, Arrangement or Contracts of Significance

Save as disclosed in note 39 to the consolidated financial statements of this annual report, 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, 2016 or at any time during the Reporting Period.

Controlling Shareholders' Interests in Contracts of Significance

Save as disclosed in note 39 to the consolidated financial statements of this annual report, 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.

Management Contracts

During the Reporting Period, the Company did not enter into any management contracts with respect to the entire business or the core business of the Company.

Report of the Board

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, 2016, 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, 2016 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, 2016.

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, 2016 are set out in notes 44 and 30 to the consolidated financial statements of this annual report. The remuneration policy of the Company is set out in the section headed "Corporate Governance Report" of this annual report.

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

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.

Report of the Board

Directors', Supervisors' and Chief Executives' Interests in Securities

As of December 31, 2016, 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 in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Mr. GUAN Weili	Domestic Shares	Beneficial owner	18,350,250(L)	22,144,750 (L)	41.94%	30.32%
		Interest of spouse	3,794,500(L)[2]			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750 (L)	41.94%	30.32%
		Interest of spouse	18,350,250(L)[2]			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	3,984,350(L)	5,527,350 (L)	10.46%	7.57%
		Interest in a controlled corporation	1,543,000(L)[3]			

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 73,040,000 Shares) issued by the Company as of December 31, 2016.

(2) 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.

(3) 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 17.75% 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.

Report of the Board

Save as disclosed above, as of December 31, 2016, 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, 2016, 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

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%
Mr. XU Yi[4]	Domestic Shares	Interest of spouse	5,527,350 (L)	10.46%	7.57%
上海檀英投資合夥企業(有限合夥)	Domestic Shares	Beneficial owner	3,253,180 (L)	6.16%	4.45%
上海乾剛投資管理合夥企業(有限合夥)	Domestic Shares	Beneficial owner	3,253,179 (L)	6.16%	4.45%
上海盛歌投資管理有限公司[5]	Domestic Shares	Interest in a controlled corporation	6,506,359 (L)	12.32%	8.90%
Qindao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司)	Domestic Shares	Beneficial owner	2,780,000 (L)	5.27%	3.81%
Jinshi Investment Co., Ltd. (金石投資有限公司) [6]	Domestic Shares	Interest in a controlled corporation	2,780,000 (L)	5.27%	3.81%
Citigroup Inc.	H Shares	Interest in a controlled corporation/Person having a security interest	2,822,966 (L) 58,266 (S)	13.95% 0.29%	3.86% 0.08%
Baring Asset Management Limited	H Shares	Investment manager	3,052,400 (L)	15.08%	4.18%
Barings LLC (formerly known as Babson Capital Management LLC)	H Shares	Investment manager	3,034,200 (L)	14.99%	4.15%
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%
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%
Morgan Stanley	H Shares	Interest in a controlled corporation	1,208,534 (L) 1,143,634 (S)	5.97% 5.65%	1.65% 1.57%

Report of the Board

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 (an aggregate of 73,040,000 Shares) issued by the Company as of December 31, 2016.

(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) 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.

(5) 上海盛歌投資管理有限公司 is the general partner of 上海乾剛投資管理合夥企業(有限合夥) and 上海檀英投資合夥企業(有限合夥), which are a limited partnership. Therefore, by virtue of Part XV of the SFO, 上海盛歌投資管理有限公司 is deemed to be interested in all the Domestic Shares held by 上海乾剛投資管理合夥企業(有限合夥) and 上海檀英投資合夥企業(有限合夥) in the Company.

(6) Qindao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司) is wholly held by Jinshi Investment Co., Ltd. (金石投資有限公司). Therefore, Jinshi Investment Co., Ltd. (金石投資有限公司) is deemed to be interested in the Domestic Shares held by Qindao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司) by virtue of Part XV of the SFO.

Save as disclosed above, as of December 31, 2016, 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 39 to the consolidated financial statements of this annual report 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 annual report pursuant to the Hong Kong Listing Rules.

Report of the Board

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, 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, 2016 are set out in note 23 to the consolidated financial statements of this annual report.

Charge on Assets

Details of the charge on assets of the Group as of December 31, 2016 are set out in note 23 to the consolidated financial statements of this annual report.

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 Reporting Period. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" 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.

Report of the Board

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, 2017 to June 14, 2017, 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 12, 2017.

For determining the entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from June 20, 2017 to June 25, 2017, both days inclusive, during which period no transfer of Shares will be affected. 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 19, 2017.

Important Events after the Reporting Period

The important events after the Reporting Period are set out in note 45 to the consolidated financial statements of this annual report.

Auditor

The Company has appointed PricewaterhouseCoopers as its auditor for the year ended December 31, 2016. There was no change in the auditors of the Company for the past three years.

For and on behalf of the Board
GUAN Weili
Chairman

Zhejiang, the PRC
March 24, 2017

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee in compliance with the relevant laws, regulations and the Articles, and based on the attitude of being responsible to all Shareholders of the Company, has conducted its work in accordance with the fiduciary principle, played an active role to work seriously and with diligence, duly performed its supervisory functions, and demonstrated strong commitment as being the Supervisory Committee.

During the Reporting Period, the Supervisory Committee reviewed cautiously the operation and development plans of the Company, carried out critical supervision and inspection of the lawful operation, financial condition, connected transactions and internal control etc. 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 have complied with the laws and regulations of the PRC and the Articles and in the interests of the Shareholders.

We have attended Board meetings and general meetings of the Company, carried out stringent supervision over the decision-making procedures and performance of duties by Directors and senior management of the Company. We consider that the Directors, 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.

As of 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 and employees of the Company. None of them was found to be in breach of any laws and regulations or the Articles. The Supervisory Committee considers that the Company has now established a more improved internal control system which has played a better role of risk prevention and control in all segments of operation and management of the Company, ensured the orderly and effective conduction of all business activities of the Company, and protected the interests of the Company and the shareholders. 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 prospect of the Company.

For and on behalf of the Supervisory Committee
SUN Fangjun
Chairman

Zhejiang, the PRC
March 24, 2017

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. 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" 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

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.

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.

Corporate Governance Report

Role and Function of the Senior Management

The senior management is the execution body of the Company and is accountable to the Board. As of the Latest Practicable Date, the senior management of the Company comprises 6 members. For details of its composition and the biography of members, please see "Directors, Supervisors and Senior Management" of this annual report. There is a strict separation of powers between the senior management and the Board. The senior management determines the operation management and decisions within its terms of reference as authorized by the Board. The Company regularly refines such authorization in accordance with its needs. The Board, in turn, conducts performance appraisal on senior management and its members in accordance with the Company's evaluation requirements, the results of which form the basis of their remuneration and performance arrangements.

Changes in Information of Directors, Supervisors and Chief Executives

On June 14, 2016, the Company appointed Mr. GOT Chong Key Clevin as an independent non-executive Director. Since June 14, 2016, Mr. WONG Raymond Fook Lam ceased to be an independent non-executive Director because he will not be able to devote sufficient time to the affairs of the Company. Please refer to the announcement of the Company dated June 14, 2016 regarding the appointment and resignation of independent non-executive Directors for details.

Induction of and Continuous Professional Development for Directors

During the Reporting Period, the Board focused on the continuing professional development of the Directors by encouraging them to take part in and organizing training programs for them. All members of the Board continued to familiarize themselves with various regulatory information and the latest regulatory requirements, including relevant laws and regulations and regulatory documents in relation to corporate governance and the Hong Kong Listing Rules. They also updated their knowledge and skills, and improved their abilities to perform their duties through various methods, such as participating in relevant trainings organized by industry associations, professional bodies and the Company, and personally visiting domestic and foreign financial institutions and the Company, in order to ensure they can contribute to the Board in a well-informed manner based on its actual needs. The major trainings attended by the Directors are as follows:

On October 17, 2016, all Directors of our Company, namely Mr. GUAN Weili, Ms. WANG Lianyue, Ms. WANG Hongyue, Mr. YANG Yang, Ms. HE Xin, Mr. CHONG Yat Keung, Mr. HUANG Zhi, Mr. GOT Chong Key Clevin, attended a number of training sessions. The first two training sessions are Financial and Accounting Knowledge Training and Internal Control System Establishment and Optimization held by PricewaterhouseCoopers, main content of which includes: the introduction of financial and accounting knowledge and advices on corporate internal control. The third session is Public Companies' Governance and Operation in Compliance presented by Beijing Tianyuan Law Firm (Shanghai Branch), and the fourth session is Initial Public Offering held by CSC Financial Co., Ltd., main content of which include: the introduction of first initial public offering process and other background information.

Corporate Governance Report

Compliance with the Model Code

The Company has adopted the Model Code as a code of conduct of the Company for its 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 Reporting Period. The Company minimizes the scope of insiders before publication of such inside information. 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. The Company will file relevant information of such employees, including but not limited to the inside information, personal identity, securities account, the department such employees serve and their responsibilities, for Company's internal check and relevant regulatory authorities' inquiries. If such employees violate relevant laws and regulations, the Company will make the punishment decisions or transfer them to the judicial organs for handling, in accordance with the seriousness of the case.

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 Reporting Period.

Directors' Service Contracts

Each of the Directors, except Mr. GOT Chong Key Clevin, 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. Mr. GOT Chong Key Clevin entered into a service contract with the Company on June 14, 2016. According to this service contract, his term of office is (a) commencing from the date of his appointment and ending on the expiry of the term of the first session of the Board; and (b) subject to termination in accordance with his 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.

Corporate Governance Report

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. Notices 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, six 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 *(Chairman)*	6/6
Ms. WANG Lianyue	6/6
Ms. WANG Hongyue	6/6
Non-executive Directors	
Mr. YANG Yang	6/6
Ms. HE Xin	6/6
Independent non-executive Directors	
Mr. CHONG Yat Keung	6/6
Mr. HUANG Zhi	6/6
Mr. GOT Chong Key Clevin *Note 1*	4/4
Resigned Director during the Reporting Period	
Mr. WONG Raymond Fook Lam *Note 2*	2/1

Note 1: Mr. GOT Chong Key Clevin was appointed as an independent non-executive Director on June 14, 2016 and therefore did not attend two Board meetings held before his appointment.

Note 2: Mr. WONG Raymond Fook Lam resigned as an independent non-executive Director on June 14, 2016 and therefore did not attend four Board meetings held since his resignation.

Corporate Governance Report

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.

During the Reporting Period, two 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 *(Chairman)*	2/2
Ms. WANG Lianyue	2/2
Ms. WANG Hongyue	2/2
Non-executive Directors	
Mr. YANG Yang	2/2
Ms. HE Xin	2/1
Independent non-executive Directors	
Mr. CHONG Yat Keung	2/1
Mr. HUANG Zhi	2/1
Mr. GOT Chong Key Clevin [Note 1]	1/1
Resigned Director during the Reporting Period	
Mr. WONG Raymond Fook Lam [Note 2]	1/0

Note 1: Mr. GOT Chong Key Clevin was appointed as an independent non-executive Director on June 14, 2016 and therefore did not attend one general meeting held before his appointment.

Note 2: Mr. WONG Raymond Fook Lam resigned as an independent non-executive Director on June 14, 2016 and therefore did not attend one general meeting held since his resignation.

Corporate Governance Report

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.

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.

As at the date of this report, the Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director, Ms. HE Xin. Two Audit Committee meetings were held during the Reporting Period to review annual results for the year 2015 and interim results for half year of 2016.

The attendance of the Directors at the Audit Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/ attended
Mr. HUANG Zhi *(Chairman)*	2/2
Mr. GOT Chong Key Clevin *Note 1*	1/1
Ms. HE Xin	2/2
Resigned Director during the Reporting Period	
Mr. WONG Raymond Fook Lam *Note 2*	1/1

Note 1: Mr. GOT Chong Key Clevin was appointed as an independent non-executive Director on June 14, 2016 and therefore did not attend one committee meeting held before his appointment.

Note 2: Mr. WONG Raymond Fook Lam resigned as an independent non-executive Director on June 14, 2016 and therefore did not attend one committee meeting held since his resignation.

Corporate Governance Report

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.

As of the date of this report, 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. GOT Chong Key Clevin. One Nomination Committee meeting was held during the Reporting Period 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.

The attendance of the Directors at the Nomination Committee meeting held during the Reporting Period was as follows:

Directors	**Number of meetings convened/ attended**
Mr. GUAN Weili *(Chairman)*	1/1
Mr. CHONG Yat Keung	1/1
Mr. GOT Chong Key Clevin [Note 1]	0/0
Resigned Director during the Reporting Period	
Mr. WONG Raymond Fook Lam [Note 2]	1/1

Note 1: Mr. GOT Chong Key Clevin was appointed as an independent non-executive Director on June 14, 2016 and therefore did not attend one committee meeting held before his appointment.

Note 2: Mr. WONG Raymond Fook Lam resigned as an independent non-executive Director on June 14, 2016 and therefore no committee meetings were held since his resignation.

Corporate Governance Report

The Board has adopted a board diversity policy and discussed all measurable objectives set for implementing the policy. Please refer to "Board Diversity Policy" 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.

As at the date of this report, 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). One Remuneration Committee meeting was held during the Reporting Period to, among other matters, review the proposed plan for adjusting the remuneration of certain Directors and certain senior management members of the Company.

The attendance of the Directors at the Remuneration Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/ attended
Mr. CHONG Yat Keung *(Chairman)*	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 discretional 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, 2016 are set out in note 44 to the consolidated financial statements of this annual report.

Corporate Governance Report

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.

As of the date of this report, the Strategy and Risk Management Committee consists of two independent non-executive Directors, Mr. GOT Chong Key Clevin (chairman of the Strategy and Risk Management Committee) and Mr. HUANG Zhi, and one non-executive Director, Mr. YANG Yang. Two Strategy and Risk Management Committee meetings were held during the Reporting Period to, among other things, review and recommend to the Board the report on internal control and risk management for the year 2015 and prospposed issuance of A Shares. The Strategy and Risk Management Committee has conducted annual review on the internal controls and considered the internal control and risk management report was satisfied as to the effectiveness of the Group's internal control system.

The attendance of the Directors at the Strategy and Risk Management Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/ attended
Mr. GOT Chong Key Clevin [Note 1] *(Chairman)*	1/1
Mr. HUANG Zhi	2/2
Mr. YANG Yang	2/2
Resigned Director during the Reporting Period	
Mr. WONG Raymond Fook Lam [Note 2]	1/1

Note 1: Mr. GOT Chong Key Clevin was appointed as an independent non-executive Director on June 14, 2016 and therefore did not attend one committee meeting held before his appointment.

Note 2: Mr. WONG Raymond Fook Lam resigned as an independent non-executive Director on June 14, 2016 and therefore did not attend one committee meetings held since his resignation.

Corporate Governance Report

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 develop and review the Company's policies and practices on corporate governance;

(c) to develop, review and monitor the code of conduct applicable to employees and Directors;

(d) to review and monitor the training and continuous professional development of Directors, Supervisors and senior management; and

(e) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

During the Reporting Period, the Board, and through its special committees, performed the following corporate governance functions: (1) modified the Articles in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; (3) reviewed the code of conduct for Directors, Supervisors and employees; (4) constantly assessed and optimized corporate governance and performed their duties in strict compliance with all requirements on corporate governance.

Corporate Governance Report

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, 2016 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 of this annual report.

Risk Management and Internal Control

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

A defined management structure and process 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 by the Company 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. When the Group encounters any potential significant risk of the Group, the designated department will identify the risk, the management will assess the risks and consider the impact on the business and the likelihood of the occurrence. After the assessment, the management will determine the strategies and internal control process to mitigate the risk and to prevent similar risks in the future.

The Board conducts review of the effectiveness of the Group's risk management and internal control system one time per year and are satisfied with the adequacy of the system of risk management and internal control of the Group for the year ended December 31, 2016. There were no matters of material concerns relating to financial, operational or compliance controls.

Corporate Governance Report

In order to protect the interests and assets of Shareholders, the Group has developed risk management and internal control system of compreshenssiveness, clear hierarchies and reasonable job allocation to meet their needs and alleviate the risks. The Audit Committee is responsible for the supervison of internal audit, evaluation and improvement of the internal control system, and risk evaluation of material investment projects operated by the Company. The Strategy and Risk Management Committee of the Board is responsible for studying and provding advice on the long term development plan and material investment decision of the Company and it also performs the evaluation and control of the general risk of the Company. In addition, the Company has established administrative measures on related party transaction and the Audit Committee monitors the compliance of these measures, in order to regulate the related party transaction and control the risk. The Company has also established administrative measures on inside information disclosure. Different operations inform any potential inside information to designated persons and the designated persons will determine further escalation and disclosure as required. The Supervisory Committee monitors the impletation of internal control by the Board and senior management. All levels of organs complement and reinforce each other, providing support for business development and risk control.

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, 2016 by band is set out below:

Remuneration band (RMB)	**Number of individuals**
0-250,000	9
250,000-500,000	9

Corporate Governance Report

Auditor's Remuneration

For the year ended December 31, 2016, the Group's statutory auditor, PricewaterhouseCoopers, provided annual audit services, and PricewaterhouseCoopers Zhong Tian LLP was also the reporting accountant of the company in relation to its A share listing application. During the year ended December 31, 2016, the total fee paid/payable in respect of audit and non-audit services provided by the Group's auditors is set out below:

Audit services *Note*	RMB3,800,000
Non-Audit service	—

Note: Including fees for statutory audit of annual financial statements of the Group and the audit service in relation to its A share listing application by the reporting accountant.

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 has also undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. 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, 2017.

Corporate Governance Report

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.

During the Reporting Period, two general meetings were 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.

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.

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

When a general meeting is convened by the Company, the Board, Supervisory Committee or Shareholders who individually or collectively hold more than 3% of the Shares shall be entitled to propose resolutions to the Company.

Corporate Governance Report

Shareholders who individually or collectively hold more than 3% of the Shares may submit ad hoc proposals in writing to the convener of the general meeting 10 days before the convening of the general meeting. The convener shall issue a supplemental notice of the general meeting within 2 days upon receipt of the proposals and announce the contents of the ad hoc proposals. The contact details to put forward proposals are as follows:

Address:
No.1 Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC
Fax: (86)577 8878 9117
Email: ir@knhosp.cn

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 Reporting Period, the Articles was amended twice: the first amendment was at the annual general meeting of the Company for the year 2015 in 2016, which convened on June 14, 2016. The resolution on amending the Articles was reviewed and passed. The major amendments to the Articles include (i) provisions related to the business scope; (ii) provisions related to the right of over-allotment otpion; and (iii) provisions related to increasing the registered capital of the company. Please refer to Appendix VI to the Company's circular dated April 29, 2016 for the details of the amendments to the Articles. The second amendment was at the first extraordinary general meeting of the Company in 2016, which convened on October 17, 2016. The resolution on amending the Articles was reviewed and passed. The major amendments to the Articles include (i) provisions related to the additional number of Shares to be issued; and (ii) add provisions mandatory for A Share listed issuers. Please refer to Appendix VI to the Company's circular dated September 1, 2016 for the details of the amendments to the Articles. This amended Articles would take effect on the completion date of the issuance of A Shares.

Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. GUAN Weili (管偉立), aged 47, 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 48, 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

Ms. WANG Hongyue (王紅月), aged 44, 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 61, 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 45, 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

Independent Non-executive Directors

Mr. CHONG Yat Keung (**莊一強**), aged 53, 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 34, 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 June 2014, Mr. Huang has also been serving as an independent director of Anhui Kairun Co.,Ltd. (安徽開潤股份有限公司), a company listed on the Sehnzhen Stock Exchange (stock code: 300577.SZ) engaging in developing, designing, production and sales of the functional bags, where his primarily responsible for supervising its internal audit system and its implementation. 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. From March 2016 to December 2016, he served as an independent director of Zigong Huaqi Techology Co. Ltd (自貢華氣科技股份有限公司), a private company which has not been listed yet. 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

Mr. GOT Chong Key Clevin (葛創基), aged 58, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Got joined the Company in June 2016 and has served as our independent non-executive Director since then. From March 2016 to October 2016, He acted as the chief executive director of Hong Kong Breast Cancer Foundation (香港乳癌基金會). From September 1980 to June 1984, he was the assistant secretary of the Community Service Division of the Tung Wah Group of Hospitals (東華三院) in Hong Kong, where he was responsible for the management and promotion of the youth and children center. From July 1984 to June 1985, he was the director of the social service center of the Chinese Neighborhood of Montreal, overseeing all service operations. From July 1987 to December 1998, he assumed various roles in administration, strategic planning, marketing, and sales division of, and later became the managing director of, the Sime Darby Hong Kong's Wallace Harper & Company Ltd. (夏巴有限公司), a distributor of vehicles. From January 1999 to December 2015, he was the general manager and senior corporate director of Dah Chong Hong Holdings Ltd. (大昌行集團有限公司) (Stock Code: 1828), whose shares are listed on the Main Board of Hong Kong Stock Exchange. Mr. Got was the chairman for the Hong Kong Motor Traders Association from January 2011 to December 2013. Mr. Got obtained a bachelor's degree in social work from McGill University (麥基爾大學) in Montreal in June 1980. He became a member of the Ontario Association of Professional Social Workers in February 1987.

Directors, Supervisors and Senior Management

SUPERVISORS

Mr. SUN Fangjun (孫方俊), aged 66, is the chairman of the Supervisory Commitee. 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 Commitee 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 38, 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 37, 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

SENIOR MANAGEMENT

Mr. WANG Qian (王謙), aged 52, 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 54, 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 manger 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

Mr. YE Minjie (葉敏捷), aged 43, 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 manger 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 42, 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 manger 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 47, 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

Mr. WANG Jian (王健), aged 32, 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. Mr. Wang serves as independent director in Zhejiang Liyuan Communication Technologies Co., Ltd. (浙江立元通信技術股份有限公司), a company listed on National Equities Exchange and Quotations (stock code: 831499), since March 4, 2017. 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 (特殊普通合夥)), 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.

Directors, Supervisors and Senior Management

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
	Quzhou Yining	Chairman, Manager	From November 2015 to present
WANG Lianyue	Nanchang Kangning	Director	From April 2016 to present
WANG Hongyue	Cangnan Kangning	Supervisor	From June 2012 to present
	Quzhou Yining	Director	From November 2015 to present
	Pingyang Kangning	Supervisor	From November 2015 to present
	Zhejiang Huangfeng Hosptial Management Co., Ltd	Director	Form February 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Sihui Kangning	Director	From August 2016 to present

Directors, Supervisors and Senior Management

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of office
WANG Qian	Langfang Yining	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	Supervisor	From September 2014 to present
	Geriatric Hospital	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
	Langfang Yining	Supervisor	From December 2015 to present
	Zhejiang Huangfeng Hosptial Management Co., Ltd.	Chairman	Form February 2016 to present
	Nanchang Kangning	Chairman	From April 2016 to present
	Taizhou Kangning Hospital Co., Ltd.	Executive Director	From June 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Zhejiang Kangning Hospital Management Co., Ltd.	Executive director, General manager	From July 2016 to present
	Hangzhou Yining	Executive director, General manager	From August 2016 to present
	Taizhou Luqiao Yining Hosptial Co., Ltd.	Executive director, General manager	From December 2016 to present
ZHOU Chaoyi	Wenzhou Guoda	Chairman	From July 2016 to present
WANG Jian	Quzhou Yining	Director	From November 2015 to present
	Sihui Kangning	Chairman	From August 2016 to present

Independent Auditor's Report

To the Shareholders of Wenzhou Kangning Hospital Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Wenzhou Kangning Hospital Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 160, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Determination of control over the hospitals with which the Group has management contracts
- Impairment assessment of contractual rights to provide management services to Yanjiao Furen

Key Audit Matter	How our audit addressed the Key Audit Matter
Determination of control over the hospitals with which the Group has management contracts	
Refer to note 4.2 and note 9 to the consolidated financial statements The Group entered into agreements with three hospitals to provide management services for certain periods. These three hospitals are private and not-for-profit hospitals owned by third parties. The Group is entitled to receive either performance-based management fees or the portion of profit over the annual minimum performance target undertaken by the Group during the periods. In determining whether the Group has control over these hospitals, management exercised significant judgements in relation to (i) whether the Group has power to direct the relevant activities of those hospitals under the management contracts; and (ii) whether the magnitude and variability of returns from those hospitals would indicate that the Group has substantive power and thus has control over these hospitals. Management concluded that the Group does not have control over these three hospitals. We focused on this matter because the control assessment involved significant judgement.	We discussed with management the basis of assessment, including analysis of the governing power and variable returns they considered when assessing the control over these hospitals. We conducted interview with the owners of the hospitals and members of the governing committees regarding their duties and governing power to corroborate with the views of the management, including how these committees exercised their power in directing the hospitals' relevant activities. We obtained and reviewed the agreements entered into by the Group and the hospitals, and Articles of Association and other equivalent constitutional documents of the hospitals. We focused on the composition of the governing committees which oversee the operations of those hospitals, and the power attained by those committees and granted to the Group. We also analysed monetary and non-monetary variable returns received and receivable by different parties resulting from their involvement in the hospitals. Based on the work performed, the management's assessment is supported by available evidence.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of contractual rights to provide management services to Yanjiao Furen	
Refer to note 4.1 and note 9 to the consolidated financial statements At 31 December 2016, the carrying amounts of contractual rights to provide management services to Yanjiao Furen was RMB84,893,000. For the year ended 31 December 2016, Yanjiao Furen was loss making and, consequently, the Group was not entitled to receive any performance-based management fee. This indicated that the contractual rights related to Yanjiao Furen may impair, management was therefore required to perform an impairment review. As the Group's management fee income is linked to the hospital's performance, management used value-in-use method to assess the recoverable amount of the contractual rights, which is determined based on the cash flow projections of Yanjiao Furen. The value-in-use calculations require significant estimation on the assumptions, including average beds in operation, average in patient spending per day per bed, gross margin and discount rate. Based on the management's assessment, no impairment provision is required. We paid special attention to this matter because management involved significant estimates in the assessment.	We evaluated the appropriateness of the value-in-use method adopted by the Group. We evaluated the reasonableness of the forecast prepared by the management of Yanjiao Furen and endorsed by directors' of the Group. We examined the key assumptions including average beds in operation, average in-patient spending per day per bed and gross margin by referencing to similar hospitals within the Group. We involved our internal valuation expert to assess the reasonableness of the discount rates used, taking into account the cost of capital of the Group and the comparable organisations. We compared prior year budgets and actual results to assess the quality of management's cash flow projections. We performed sensitivity analysis on the above key assumptions to ascertain the extent to which adverse changes, either individually or in aggregate, would result in the contractual right being impaired. Based on the work performed, the management's assessment is supported by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

Independent Auditor's Report

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

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

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Tong Yu Keung.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 March 2017

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**384,597**	233,200
Investment properties	7	**72,192**	—
Land use rights	8	**20,266**	20,738
Intangible assets	9	**114,132**	90,581
Investment in associates	10	**22,429**	8,422
Deferred income tax assets	11	**20,300**	10,071
Available-for-sale financial assets	12	**50,000**	—
Deposits and prepayments	15	**27,437**	48,324
Total non-current assets		**711,353**	411,336
Current assets			
Properties under development	38(a)	**153,523**	—
Inventories	13	**9,305**	7,506
Trade receivables	14	**142,938**	123,067
Other receivables, deposits and prepayments	15	**81,805**	42,690
Amounts due from related parties	26	**7,843**	20,044
Term deposits	16	**89,451**	251,334
Cash and cash equivalents	17	**407,164**	368,457
Total current assets		**892,029**	813,098
Total assets		**1,603,382**	1,224,434
EQUITY			
Equity attributable to owners of the Company			
Share capital	19	**73,040**	73,040
Capital reserve	21	**795,605**	797,510
Surplus reserve	21	**18,548**	11,342
Retained earnings	22	**121,190**	77,824
		1,008,383	959,716
Non-controlling interests		**32,987**	2,513
Total equity		**1,041,370**	962,229

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	23	**149,950**	—
Deferred government grants	27	**10,633**	14,284
Long-term payables	26	**86,739**	98,821
Deferred tax liabilities	11	**16,420**	—
Total non-current liabilities		**263,742**	113,105
Current liabilities			
Advanced proceeds received from customers	37	**67,376**	—
Trade payables	24	**43,271**	19,976
Accruals and other payables	25	**68,708**	63,209
Current income tax liabilities		**27,735**	11,559
Borrowings	23	**73,700**	50,000
Current portion of long-term payables	25	**17,480**	4,356
Total current liabilities		**298,270**	149,100
Total liabilities		**562,012**	262,205
Total equity and liabilities		**1,603,382**	1,224,434

The notes on pages 77 to 160 are an integral part of these consolidated financial statements.

The financial statements on pages 70 to 160 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

GUAN Weili
Director

WANG Hongyue
Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	28	**415,408**	343,674
Cost of revenue	29	**(273,240)**	(213,289)
Gross profit		**142,168**	130,385
Other income	31	**13,304**	3,074
Other gain/(losses) - net	32	**4,220**	(144)
Selling expenses	29	**(3,144)**	(1,970)
Administrative expenses	29	**(78,531)**	(62,520)
Operating profit		**78,017**	68,825
Finance income	33	**26,068**	11,625
Finance expenses	33	**(5,745)**	(4,002)
Finance income – net		**20,323**	7,623
Share of losses of investments accounted for using the equity method	10	**(6,201)**	(6,278)
Profit before income tax		**92,139**	70,170
Income tax expense	34	**(26,588)**	(18,548)
Net profit		**65,551**	51,622
Profit attributable to:			
– Equity holders of the Company		**68,832**	55,709
– Non-controlling interests		**(3,281)**	(4,087)
		65,551	51,622
Earnings per share			
Basic and diluted (in RMB)	35	**0.94**	1.03

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net profit and Total comprehensive income	**65,551**	51,622
Attributable to:		
– Equity holders of the Company	**68,832**	55,709
– Non-controlling interests	**(3,281)**	(4,087)
Total comprehensive income for the year	**65,551**	51,622

The notes on pages 77 to 160 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share Capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained Earnings RMB'000	Non-controlling interests RMB'000	Total Equity 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")		2,800	75,600	—	—	—	78,400
Proceeds from IPO, net of transaction costs		20,240	560,508	—	—	—	580,748
Capital contribution by non-controlling shareholders		—	—	—	—	6,600	6,600
Employees restricted share scheme:							
– Value of employee services		—	2,249	—	—	—	2,249
Transfer		—	—	5,634	(5,634)	—	—
Balance at 31 December 2015		73,040	797,510	11,342	77,824	2,513	962,229
Balance at 1 January 2016		**73,040**	**797,510**	**11,342**	**77,824**	**2,513**	**962,229**
Comprehensive income							
– Profit for the year		—	—	—	**68,832**	**(3,281)**	**65,551**
Dividend Paid		—	—	—	**(18,260)**	—	**(18,260)**
Capital contribution by non-controlling shareholders		—	—	—	—	**9,200**	**9,200**
Employees restricted share scheme:							
– Value of employee services	20	—	**2,311**	—	—	—	**2,311**
Transaction with non-controlling shareholders	9, 21	—	**(4,216)**	—	—	**15,947**	**11,731**
Acquisition of a subsidiary	38	—	—	—	—	**8,608**	**8,608**
Transfer	21	—	—	**7,206**	**(7,206)**	—	—
Balance at 31 December 2016		**73,040**	**795,605**	**18,548**	**121,190**	**32,987**	**1,041,370**

The notes on pages 77 to 160 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	37	**66,558**	20,593
Income tax paid		**(16,691)**	(25,656)
Net cash generated/(used in) from operating activities		**49,867**	(5,063)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(175,672)**	(113,570)
Purchase of intangible assets	9	**(8,180)**	(170)
Invest in available-for-sale financial assets	12	**(50,000)**	—
Proceeds from disposal of construction in progress		**2,040**	8,267
Disposal of a subsidiary	10	**1,500**	—
Acquisition of a subsidiary, net of cash acquired	38	**(281)**	—
Amount due by third parties		**(9,110)**	(12,000)
Proceeds received from a third party		**1,075**	—
Investments in associates	10	**(21,708)**	(14,700)
Placement of term deposits with initial terms over three months		**(89,451)**	(251,334)
Withdrawal of term deposits with initial terms over three months		**251,334**	—
Interest received	31, 33	**5,665**	1,140
Net cash used in investing activities		**(92,788)**	(382,367)

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from financing activities			
Payment for IPO expenses		**(14,363)**	—
Proceeds from capital contribution by shareholders before IPO		**—**	78,400
Proceeds of borrowings		**160,000**	80,000
Repayment of borrowings		**(67,497)**	(30,000)
Dividend paid		**(18,260)**	(18,480)
Advance received from a non-controlling shareholder		**—**	1,610
Capital contribution from a non-controlling shareholder		**9,200**	6,600
Proceeds from IPO, net of IPO expenses		**—**	590,655
Net cash generated from financing activities		**69,080**	708,785
Net increase in cash and cash equivalents		**26,159**	321,355
Cash and cash equivalents at beginning of the year		**368,457**	37,271
Exchange gains on cash and cash equivalents		**12,548**	9,831
Cash and cash equivalents at end of the year		**407,164**	368,457

The notes on pages 77 to 160 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 as modified by the revaluation of available-for-sale financial assets and investment properties, which are carried at fair value.

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

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 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) 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 2016 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*'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the financial assets currently held by the Group rather than receivables mainly include equity instruments currently classified as available-for-sale (AFS) for which a fair value through other comprehensive income("FVOCI") election is available, accordingly the Group does not expect the new guidance to have a significant impact on its financial statements.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting and disclosures (continued)

(b) New standards and interpretations not yet adopted (continued)

The new hedge accounting rules will align the accounting for hedging instruments more closely with the management's risk management practices. The Group had no hedging instrustments as of 31 December 2016 nor anticipate any such transaction in foreseeable future. Accordingly, the Group does not expect a significant impact from this new rule.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It would apply mainly to the Group's financial assets classified at amortised cost, such as trade receivable and other receivable. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, the Group expects that it will adopt the simplified approach granted by IFRS 9 and currently do not believe there would be any material impact to the Group.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, 'Revenue from contracts with customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and not yet able to estimate the detailed impact of the new rules on the Group's financial statements. However the Group currently does not expect any material changes in revenue recognition model for its healthcare segment. The property investment and development segment is more likely to be affected. The Group will make more detailed assessment during the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting and disclosures (continued)

(b) New standards and interpretations not yet adopted (continued)

IFRS 16, 'Leases'

IFRS 16, 'Leases', which will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for Group's operating leases as a lessee. The accounting for lessors will not significantly change. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB189,430,000 (Note 40). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

2. Summary of significant accounting policies (continued)

2.2 Subsidiaries

2.2.1 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.

(a) 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 recognises 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 recognised 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.

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 recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised 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 recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation

(a) Business combinations (continued)

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 recognised 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 recognised directly in the statement of profit or loss.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

Transactions with non-controlling interests that do not result in a 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.

(c) 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 recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised 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. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.2 **Subsidiaries** (continued)

2.2.2 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 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.

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 in both consolidated and respect financial statement. 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.3 **Associates** (continued)

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, 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 statement of profit or loss.

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 statement of profit or loss.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chairman of the Company.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

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.

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

2. Summary of significant accounting policies (continued)

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the statement of profit or loss as part of a valuation gain or loss in 'Other gain/(losses)'.

2.8 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.

2.9 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.9 Intangible assets (continued)

(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 as below:

	Contractual terms
Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital (燕郊輔仁中西醫結合醫院) ("Yanjiao Furen Hospital")	19.75 years
Pujiang Huangfeng Psychiatric Hospital (浦江黃鋒精神專科醫院) ("Pujiang Hospital")	30 years
Chun'an Huangfeng Kangen Hospital (淳安黃鋒康恩醫院) ("Chun'an Hospital")	30 years

(c) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.10 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

2. Summary of significant accounting policies (continued)

2.11 Financial assets

2.11.1 Classification

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) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.11 Financial assets (continued)

2.11.2 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.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

2.12 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets

(a) 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.

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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(b) Assets classified as available for sale

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.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.14 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.15 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.

2.16 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.

2.17 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 borrowings in current liabilities.

2.18 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.

2.19 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.20 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.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs are expensed as incurred.

2.21 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.22 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.

(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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

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.

(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.

2.23 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.23 Employee benefits (continued)

(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.

(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

2. Summary of significant accounting policies (continued)

2.24 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.

Rental income

Rental income from properties leasing under operating leases is recognised on a straight-line basis over the lease terms.

Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position as advanced proceeds received from customers under current liabilities.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies (continued)

2.25 Interest income

Interest income is recognized using the effective interest method.

2.26 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.

2.27 Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the financial statements 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.

(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 2016, 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 RMB 6,193,000(31 December 2015: 13,032,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of cash and cash equivalents and term deposits.

Notes to the Consolidated Financial Statements

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest-bearing short-term deposits and long-term 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.

As at 31 December 2015 and 2016, the Group's interest-bearing borrowings was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Borrowings at fixed rate	**186,950**	50,000
Borrowings at floating rate	**36,700**	—
	223,650	50,000

(iii) Price risk

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

Notes to the Consolidated Financial Statements

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(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.

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.

Notes to the Consolidated Financial Statements

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
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

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2016					
Long-term payables for contractual rights to provide management services	4,792	5,271	19,191	62,276	91,530
Trade and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities)	87,415	—	—	—	87,415
Bank borrowings (including interest payables)	75,513	27,256	142,452	—	245,221
	167,720	32,527	161,643	62,276	424,166

Notes to the Consolidated Financial Statements

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 2015 and 2016 was as follows:

	As at 31 December	
	2016	2015
The liability-to-asset ratio	**35.05%**	21.41%

Notes to the Consolidated Financial Statements

3. Financial risk management (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	—	—	50,000	50,000
Total assets	—	—	50,000	50,000

The Group has no related financial instruments measured at fair value at 31 December 2015.

Contingent consideration payable

At 31 March 2016, the Group acquired a newly set up Company whose major assets are contractual rights to manage two hospitals (Note 9). Management considered this as an asset deal. The assets acquired are initially measured at the fair value of consideration paid or payable taking into the contingent consideration.

Details regarding the valuation of the contingent consideration are disclosed in Note 9.

The Group had no contingent consideration financial liabilities at either 1 January 2015 or 31 December 2015 and there were no transactions in contingent consideration during the year ended 31 December 2015. Therefore comparative information is not applicable.

Notes to the Consolidated Financial Statements

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) Estimated impairment of contractual rights to provide management services

At 31 December 2016, the carrying amounts of contractual right to provide management services to Yanjiao Furen Hospital was RMB84,893,000 (as at 31 December 2015: RMB89,609,000). 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:

	2016	2015
Average beds in operation*	**395**	340
Average in patient spending per day per bed*	**228**	208
Average bed-days per year*	**144,175**	124,100

* It represents the average number in upcoming five years.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgments

(b) 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 RMB7,671,000 and RMB8,105,000 was provided as at 31 December 2015 and 2016, respectively.

Also based on the Group's assessment on the collectability of other receivables, deposits and prepayments, impairment provision of approximately RMB1,210,000 was provided as at 31 December 2016. (2015: RMB1,078,000).

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgments (continued)

4.1 Critical accounting estimates and assumptions (continued)

(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 RMB440,814 and RMB716,564 for the years ended 31 December 2015 and 2016, 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 RMB629,299 and RMB831,592 for the years ended 31 December 2015 and 2016, respectively.

(d) Recognition of investment property and properties under development at fair value

As explained in more details in Note 21, the Group acquired 51% of the equity interest in Wenzhou Guoda Investment Company(溫州國大投資有限公司) ("Guoda Investment"). The net identifiable assets acquired through business combination are measured at fair vaule. For investment property, the fair value was determined by using income approach. For the properties under development, the fair value was determined by using hypothetical development approach. The valuation include significant estimation on future return on rental income and selling price.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgments (continued)

4.2 Critical judgments in applying the Company's accounting policies

(a) Consolidation

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.

(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 determined the non-cancellable terms of lease by considering the 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 changes 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

5. Segment information

The Group's principal activities had been providing healthcare and related services. However following the acquisition of a subsidiary in property investment and development business in 2016, the senior management of the Group reviewed the performance separately for healthcare and property segment. Thus from 2016, the Group has two operating segments:

– Healthcare service, specialised in providing healthcare and related service; and

– Property investment and development, specialised in providing the property development, leasing and rental service.

There are no sales between segments during the year.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Indirect costs attribute to each segment are allocated based on the revenue ratio of the segment.

Notes to the Consolidated Financial Statements

5. Segment information (continued)

The segment information for the year ended 31 Dec 2016 is as bellow:

	Healthcare and related service RMB'000	Property investment and development RMB'000	Total RMB'000
Revenue from external customers	413,402	2,006	415,408
Inter-segment revenue	—	—	—
Cost of revenue	(272,785)	(455)	(273,240)
Interest income	5,650	15	5,665
Interest expenses	(83)	(26)	(109)
Share of loss of associates	(6,201)	—	(6,201)
Impairment of assets	(3,902)	—	(3,902)
Depreciation and amortisation	(31,053)	(32)	(31,085)
Profit before income tax	92,289	(150)	92,139
Income tax expense	(26,465)	(123)	(26,588)
Net profit	65,824	(273)	65,551
Total assets	1,358,463	244,919	1,603,382
Total liabilities	(367,228)	(194,784)	(562,012)
Other non-cash charges except Depreciation and amortisation	(5,563)	—	(5,563)
Investment in associates	22,429	—	22,429
Additions of non-current assets	149,515	76,266	225,781

All the assets of the Group are located in the PRC. The Group has a highly diversified patient portfolio. Apart from Pingyang Changgeng Hospital Co., Limited and Zhejiang Huangfeng Hospital Management Co., Ltd, from which the Group earns management fee, no single patient or customer contributed 1% or more of the Group's revenue during the year.

Notes to the Consolidated Financial Statements

6. 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
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
Transfers	—	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 10)	—	—	—	—	—	(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

6. Property, Plant and Equipment (Continued)

	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
Year ended 31 December 2016							
Opening net book amount	45,336	44,435	11,608	892	7,239	123,690	233,200
Acquisition of a subsidiary (Note 38)	—	—	—	192	47	—	239
Additions	21,376	19,817	14,661	1,335	6,420	113,198	176,807
Transfers	—	38,821	—	—	—	(38,821)	—
Depreciation	(2,160)	(13,960)	(4,918)	(407)	(3,370)	—	(24,815)
Disposals	—	(309)	(54)	(18)	(44)	—	(425)
Disposals of a subsidiary	—	—	—	—	(409)	—	(409)
Closing net book amount	64,552	88,804	21,297	1,994	9,883	198,067	384,597
At 31 December 2016							
Cost	81,834	127,437	41,309	5,800	23,724	198,067	478,171
Accumulated depreciation	(17,282)	(38,633)	(20,012)	(3,806)	(13,841)	—	(93,574)
Net book amount	64,552	88,804	21,297	1,994	9,883	198,067	384,597

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

	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cost of revenue	**18,602**	11,977
Administrative expenses	**6,213**	5,293
	24,815	17,270

Notes to the Consolidated Financial Statements

7. Investment Properties

	2016 **RMB'000**	2015 RMB'000
At Fair Value - level 3 hierarchy		
Opening balance at 1 January	—	—
Acquisition of a subsidiary (Note 38)	**72,192**	—
Closing balance at 31 December	**72,192**	—

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2016 **RMB'000**	2015 RMB'000
Rental income	**2,006**	—

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (2015: Nil).

The investment properties are two floors in a building complex for shopping spaces, offices and hotel, held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties through sales and rental.

Deferred tax was measured at 25%, which is the applicate rate for either form of profit, through sales or rental income derived from the properties.

Notes to the Consolidated Financial Statements

7. Investment Properties (Continued)

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2016 by Wenzhou Huaxin Property Surveyors Limited(溫州華欣資產評估有限公司), an independent professionally qualified valuer who holds a professional qualification and have recent experience in the locations and segments of the investment properties valued.

The management had reviewed the valuation method used and major inputs used by the valuer. The valuation used significant unobservable inputs which was level 3 in fair value hierarchy

Valuation techniques

Valuations were based on income approach, which had taken into account the current rents of the property interests and the reversionary potentials of the tenancies, term yields and reversionary yield were then applied respectively to derive the market value of the property. For all investment properties, their current use equated to the highest and best use.

There were no changes to the valuation techniques during the year. The major unobservable inputs and the range are:

Unobservable inputs	**Range of unobservable inputs**
The rate of return/capitalisation rate	4.81% per annum
Monthly rental(RMB/square meter/month)	32-40.84
Vacancy rate	2.74%

Relationships of unobservable inputs to fair value are as follows:

- The higher rate of return/capitalisation rate, the lower fair value;
- The higher expected vacancy rate, the lower fair value;
- The higher monthly rental, the higher fair value;

Notes to the Consolidated Financial Statements

8. Land Use Rights

The land use rights represent prepaid operating lease payments in the PRC and their net book values are analysed as follows:

	2016	2015
	RMB'000	RMB'000
Opening balance	**20,738**	21,210
Amortisation	**(472)**	(472)
Closing balance	**20,266**	20,738

Notes to the Consolidated Financial Statements

9. Intangible Assets

	Computer software RMB'000	Contractual rights to provide management services RMB'000 (Note (a), (b))	Goodwill RMB'000	Total RMB'000
At 1 January 2015				
Cost	2,042	—	—	2,042
Accumulated amortisation	(813)	—	—	(813)
Net book amount	1,229	—	—	1,229
Year ended 31 December 2015				
Opening net book amount	1,229	—	—	1,229
Additions (Note a)	170	93,146	—	93,316
Amortisation	(427)	(3,537)	—	(3,964)
Closing net book amount	972	89,609	—	90,581
At 31 December 2015				
Cost	2,212	93,146	—	95,358
Accumulated amortisation	(1,240)	(3,537)	—	(4,777)
Net book amount	972	89,609	—	90,581
Year ended 31 December 2016				
Opening net book amount	972	89,609	—	90,581
Additions	1,099	19,717	—	20,816
Acquisition of a subsidiary (Note 38)	—	—	8,533	8,533
Amortisation	(590)	(5,208)	—	(5,798)
Closing net book amount	1,481	104,118	8,533	114,132
At 31 December 2016				
Cost	3,312	112,863	8,533	124,708
Accumulated amortisation and impairment	(1,830)	(8,746)	—	(10,576)
Net book amount	1,482	104,117	8,533	114,132

Notes to the Consolidated Financial Statements

9. Intangible Assets (Continued)

(a) The Group entered into an entrustment management agreement with 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 25) 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 improvement works since the commencement of the management service. As of 31 December 2016, the Group had an advance payment amounting to RMB2,960,000(2015: RMB9,210,000) to Yanjiao Furen. Such advance will be repaid to the Group by Yanjiao Furen when and as its cash flow allows as agreed by both parties.

(b) The Group entered into an agreement with Mr. Huang Feng and Mr. Huang Chen ("the Founders") in January 2016 and a tripartite agreement with the Founders and Zhejiang Huangfeng Hospital Management Co., Ltd. (浙江黃鋒醫院管理有限公司) ("the Management Company") in March 2016. Pursuant to the agreements, the Group obtained 51.22% shares of the Management Company at the consideration of RMB24.7 million. The non-controlling interests arose from the transaction was RMB11,731,000.

Notes to the Consolidated Financial Statements

9. Intangible Assets (Continued)

At the same time, the Management Company entered into entrustment agreements with Chunan Hospital and Pujiang Hospital in March 2016 respectively. The term of the entrustment management agreements is from March 2016 to February 2046 extendable if both parties agree three months prior to expiration. During the term of the agreement, the Management Company undertakes to provide management services to Chunan Hospital and Pujiang Hospital and is entitled to receive certain percentage of the earnings before interest, taxes, depreciation and amortization (based on the statutory accounts of Chunan Hospital and Pujiang Hospital with certain adjustments agreed by two parties upfront in the entrustment management agreements).

The Group considered the transaction as an asset deal, i.e. acquiring the intangible assets of contractual right to manage the hospitals. The intangible assets are measured initially at the attributed fair value of consideration, and subsequently amortized over the term of the entrustment agreements on a straight line basis. The consideration is determined after taking into consideration of contingent consideration, which is dependent on certain future events and hospitals' performance. Management estimated the possibility of each scenario and determined the fair value. In addition, the management has appointed an independent valuer to assess fair value of the intangible assets based on discounted future cash flow. The fair value thus determined is close to the value of the consideration. Subsequent changes in the contingent consideration fair value will be accounted for in profit and loss in the period when the final outcome of the events occurs.

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	**5,551**	3,783
Administrative expenses	**247**	181
	5,798	3,964

Notes to the Consolidated Financial Statements

10. Investment in associates

	2016 RMB'000	2015 RMB'000
At beginning of the year	**8,422**	—
Investment in associates (a)	**16,708**	14,700
Transfer from investment in a subsidiary as a result of deemed disposal (b)	**3,500**	—
Share of losses	**(6,201)**	(6,278)
At end of the year	**22,429**	8,422

The particulars of the Group's associates are set out below.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Measurement method
Beijing Yining Hospital Co., Ltd	China	49	Equity
Shandong Yining Hospital Co., Ltd	China	49	Equity
Hangzhou Honglan Information Technology Co., Ltd	China	35	Equity
Chongqing Hechuan Kangning Hospital Co., Ltd	China	40	Equity

The directors are of view that none of these associates is individually material to the Group.

(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 to compensate the expenditure incurred by the Group for setting up the facility to be run by the investee before its incorporation.

Shandong Yining Hospital Co., Ltd was set up in August 2016 as an associate of the Group. The capital contribution of RMB14,700,000 by the Group was satisfied in cash.

The Group acquired 40% equity interest of Chongqing Hechuan Kangning Hospital Co., Ltd at a consideration of RMB2,008,000 in 2016.

(b) Hangzhou Honglan Information Technology Co., Ltd (杭州宏瀾信息科技有限公司) ("Hangzhou Honglan") was set up as a wholly owned subsidiary of the Company on 20 November 2015 with a registered capital of RMB5,000,000. On 14 September 2016 the Company sold 30% equity to Ningbo Meishan Bonded Port Area Honglan Investment Management Partnership (Limited Liability Partnership) (寧波梅山保稅港區弘瀾投資管理合夥企業(有限合夥)) ("Ningbo Meishan") at a cash consideration of RMB1,500,000. On 20 September 2016, Ningbo Meishan injected additional investment of RMB5,000,000 in cash. As a result, the Group's remaining equity interest in Hangzhou Honglan was diluted to 35%. The gain on this deemed disposal of RMB4,540,000 was recognised in profit and loss (Note 32).

Notes to the Consolidated Financial Statements

11. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**11,876**	7,884
– Deferred tax asset to be recovered within 12 months	**8,424**	2,187
	20,300	10,071
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**14,069**	—
– Deferred tax liability to be recovered within 12 months	**2,351**	—
	16,420	—

The movement on deferred tax liabilities and deferred tax assets during the year are set out below:

Deferred tax liabilities	**Fair value gains on business combination**
	RMB'000
1 January 2016	
Acquisition of a subsidiary (Note 38)	16,420
31 December 2016	16,420

Notes to the Consolidated Financial Statements

11. Deferred Income Tax (Continued)

Deferred tax assets	Accruals RMB'000	Provision for receivables RMB'000	Tax losses RMB'000	Amortization of intangible assets RMB'000	Total RMB'000
Balance at 1 January 2015	1,537	1,251	1,853	—	4,641
Credited to income statement	650	936	3,616	228	5,430
Balance at 31 December 2015	2,187	2,187	5,469	228	10,071
Balance at 1 January 2016	2,187	2,187	5,469	228	10,071
Acquisition of a subsidiary	—	—	3,942	—	3,942
Credited to income statement	490	361	5,116	320	6,287
Balance at 31 December 2016	2,677	2,548	14,527	548	20,300

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.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets as at 31 December 2016 of RMB1,479,000 (2015: Nil) in respect of accumulated tax losses amounting to RMB5,916,000 as at 31 December 2016 (2015: Nil), of which RMB5,916,000 as at 31 December 2016 will expire in 2021.

Notes to the Consolidated Financial Statements

12. Available-for-sale Financial Assets

	2016 RMB'000	2015 RMB'000
At 1 January	—	—
Additions(a)	50,000	—
At 31 December	50,000	—

(a) On 22 February 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") in relation to the establishment of a limited liability partnership("LLP") to run an investment fund which focuses on the healthcare industry investments in PRC. The Company injected RMB50,000,000 as the subscription to the investment fund. On the same date, the Company and Jinpu Jianfu, the general partner and the managing partner of the LLP, entered into a strategic cooperation agreement in relation to, among others, certain rights of the Company as a limited partner of the LLP. As at 31 December 2016, the carrying amount of the investment approximated its fair value.

13. Inventories

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Pharmaceuticals	7,565	6,224
Medical consumables	1,740	1,282
	9,305	7,506

The cost of inventories recognized as expense and included in cost of revenue amounted to RMB86,483,000 and RMB106,617,000 for the years ended 31 December 2015 and 2016, respectively.

Notes to the Consolidated Financial Statements

14. Trade Receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**151,043**	130,738
Less: provision for impairment of trade receivables	**(8,105)**	(7,671)
Trade receivables - net	**142,938**	123,067

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

As at 31 December 2015 and 2016, the aging analysis of the trade receivables was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Aging analysis based on the billing date:		
Bills not presented	**13,165**	9,580
1 - 3 months	**80,159**	74,718
4 - 6 months	**19,481**	19,635
7 - 12 months	**24,748**	19,937
1 - 2 years	**10,836**	5,075
2 - 3 years	**2,211**	1,426
Over 3 years	**443**	367
	151,043	130,738

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

Notes to the Consolidated Financial Statements

14. Trade Receivables (Continued)

As at 31 December 2015 and 2016, the Group's trade receivables past due but not impaired were RMB113,297,000 and RMB 128,826,000, respectively. These were mainly related to the amounts to be claimed from local social insurance bureau and similar government departments who were responsible for the reimbursement of medical expenses for patients who were covered by government medical insurance schemes. Management considered that based on past payment history those amounts could be recovered in reasonable time. The aging analysis of these trade receivables was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Less than 1 year	**119,860**	110,355
1 - 2 years	**6,901**	2,800
2 - 3 years	**2,065**	142
	128,826	113,297

As at 31 December 2015 and 2016, trade receivables of RMB7,861,000 and RMB9,052,000 were impaired. The amounts of the provision were RMB7,671,000 and RMB8,105,000 as of 31 December 2015 and 2016, respectively. The aging of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Less than 1 year	**4,528**	3,935
1 - 2 years	**3,935**	2,275
2 - 3 years	**589**	1,284
Over 3 years	**—**	367
	9,052	7,861

Notes to the Consolidated Financial Statements

14. Trade Receivables (Continued)

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

	2016 RMB'000	2015 RMB'000
At 1 January	**7,671**	5,005
Provision for receivables	**3,770**	4,907
Receivables written off as uncollectible	**(3,336)**	(2,241)
At 31 December	**8,105**	7,671

The charge of provision for receivables impairment has 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

15. Other Receivables, Deposits and Prepayments

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Other receivables (a)	**14,940**	14,337
Deposits (b)	**24,854**	17,268
Amount due by third parties (c)	**20,935**	12,304
Prepayments for rental	**32,873**	30,007
Prepayments for purchase of property	**—**	13,000
Prepayments for construction in progress	**8,610**	2,594
Prepayments for goods and services	**217**	2,539
Prepayments for A share IPO expenses	**3,796**	—
Prepayments for land appreciation tax	**3,864**	—
Others	**363**	43
Less: provision for impairment of other receivables	**(1,210)**	(1,078)
Total	**109,242**	91,014
Current	**81,805**	42,690
Non-Current	**27,437**	48,324
Total	**109,242**	91,014

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, 2016 was an advance payment amounting to RMB2,960,000(As of 31 December 2015: 9,210,000) to Yanjiao Furen Hospital. Such advances will be repaid to the Group by Yanjiao Furen Hospital when and as its cash flow allows as agreed by both parties.

(b) Included in deposits as of 31 December 2015 and 2016 was a deposit of RMB 12,688,000 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

15. 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, which changed its name to Chengdu Renyi Hospital Company Limited. ("Chengdu Renyi")) 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.

The Company entered into an instalment payment agreement with Chengdu Renyi on 10 December 2016. Pursuant to the agreement, both parties agreed to expand the repayments period of the principal and interest to 25 November 2017, and the repayments are to be made by 12 instalments, starting from 25 December 2016. The amount was guaranteed by the spouse of the shareholder of Sichuan Hongji. As at 31 December 2016, the Group has received RMB1,075,000 as scheduled. As at 24 March 2017, the Group had received RMB3,225,000 as scheduled.

16. Term Deposits

An analysis of the Group's term deposits denominated in HKD with initial terms over three months as at 31 December 2016 are listed in below.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Term deposits	**89,451**	251,334

The term deposits' principal as at 31 December 2015 and 31 December 2016 was HKD 300,000,000 and HKD 100,000,000, respectively.

The effective interest rate for the term deposits of the Group with initial terms over three months for the year ended 31 December 2016 was 1.78% (2015: 1.45%).

Notes to the Consolidated Financial Statements

17. Cash and Cash Equivalents

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash at banks	**407,057**	368,308
Cash on hand	**107**	149
	407,164	368,457

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**204,159**	40,377
HKD	**185,782**	327,862
USD	**17,223**	218
	407,164	368,457

18. Financial Instruments by Category

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Loan and receivables		
Availavle-for-sale financial assets (Note 12)	**50,000**	—
Trade receivables (Note 14)	**142,938**	123,067
Other receivables (excluding perpayment and others) (Note 15)	**59,519**	42,831
Amounts due from related parties (Note 26)	**7,843**	20,044
Term deposits (Note 16)	**89,451**	251,334
Cash and cash equivalents (Note 17)	**407,164**	368,457
	756,915	805,733
Financial liabilities at amortised costs		
Bank borrowings (Note 23)	**223,650**	50,000
Trade payables (Note 24)	**43,271**	19,976
Accruals and other payables (excluding accrued employee benefits, receipts in advance and other tax liabilities) (Note 25)	**44,144**	53,654
Long-term payables for contractual rights to provide management services (Note 25)	**91,530**	90,489
	402,595	214,119

Notes to the Consolidated Financial Statements

19. Share Capital

	Share capital RMB'000
At 1 January 2015	50,000
Capital contribution by shareholders before IPO (Note (a))	2,800
Issue of ordinary shares upon IPO (Note (b))	20,240
At 31 December 2015 and 2016	73,040

(a) 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.

(b) Issue of ordinary shares upon IPO

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.

Notes to the Consolidated Financial Statements

20. 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 RMB 20,943,998.

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 RMB2,311,000 was recognized for the year ended 31 December 2016 (2015: RMB2,249,000), of which RMB1,462,000 and RMB849,000 were recognized as "cost of revenue" and "administrative expenses", respectively.

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

Notes to the Consolidated Financial Statements

21. Reserves

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

	Capital reserve RMB'000	Surplus reserve RMB'000	Total RMB'000
Balance at 1 January 2015	159,153	5,708	164,861
Capital contribution by shareholders (Note 19(a))	75,600	—	75,600
Issue of ordinary shares upon IPO, net of transaction costs (Note 19(b))	560,508	—	560,508
Share based payment – value of employee services (Note 20)	2,249	—	2,249
Transfer from retained earnings	—	5,634	5,634
Balance at 31 December 2015	797,510	11,342	808,852

	Capital reserve RMB'000	**Surplus reserve RMB'000**	**Total RMB'000**
Balance at 1 January 2016	**797,510**	**11,342**	**808,852**
Share based payment – value of employee services (Note 20)	**2,311**	**—**	**2,311**
Transfer from retained earnings	**—**	**7,206**	**7,206**
Equity transactions with non-controlling interests (c)	**(4,216)**	**—**	**(4,216)**
Balance at 31 December 2016	**795,605**	**18,548**	**814,153**

(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 statutory surplus 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

21. Reserves (Continued)

(c) On 19 August 2016, the Group entered into a capital increment agreement with a 51% subsidiary Guoda Investment (Note 38) and its minority shareholder (vendor third party) to obtain a further 24% by injection of RMB32,841,600. By the completion of the capital increment above, the registered captial of Guoda Investment changed to RMB21,560,000, and the Group's equity interest in it increased from 51% to 75%. The difference between the consideration paid for this 24% of Guoda's equity interest and the share of carrying amount of net asset acquired was debited to reserve.

22. Retained Earnings

	RMB'000
Balance at 1 January 2015	46,229
Profit for the year	55,709
Dividend paid	(18,480)
Transfer to surplus reserve	(5,634)
Balance at 31 December 2015	77,824
Balance at 1 January 2016	**77,824**
Profit for the year	**68,832**
Dividend paid	**(18,260)**
Transfer to surplus reserve	**(7,206)**
Balance at 31 December 2016	**121,190**

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 appropriation have been made for the following:

(a) Making up prior years' cumulative losses, if any;

(b) Appropriation to the statutory surplus reserve as set out in Note 21 (b) above; and

(c) Appropriation to the discretionary surplus reserve if approved by the shareholders.

Notes to the Consolidated Financial Statements

23. Borrowings

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank borrowings	**216,650**	50,000
Other borrowings	**7,000**	—
	223,650	50,000

Details of the bank borrowings are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current liabilities:		
– secured	**186,650**	—
Less: current portion	**(36,700)**	—
	149,950	—
Included in current liabilities:		
– secured	**30,000**	—
– unsecured	**—**	50,000
Current portion of non-current liabilities	**36,700**	
	66,700	50,000

Notes to the Consolidated Financial Statements

23. Borrowings (Continued)

As at 31 December 2015 and 2016, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 1 year	**66,700**	50,000
1-2 years	**19,950**	—
2-5 years	**130,000**	—
	216,650	50,000

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

	As at 31 December	
	2016	2015
	5.02%	4.49%

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

The Group's borrowings as at 31 December 2016 are secured by the investment properties and property under development with total carrying value of the Group of RMB72,192,000 and RMB153,523,000 (2015: Nil) (Notes 7 and 38).

24. 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	
	2016	2015
	RMB'000	RMB'000
1 - 3 months	**39,666**	16,874
4 - 6 months	**2,934**	1,030
7 - 12 months	**224**	805
1 - 2 years	**103**	1,267
2 - 3 years	**344**	—
	43,271	19,976

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

Notes to the Consolidated Financial Statements

25. Accruals and other payables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Accrued employee benefits	**19,422**	18,637
Receipts in advance	**4,370**	3,194
Rental payables	**2,113**	3,004
Guarantee deposit received from construction contractor (a)	**12,688**	12,688
Other payables for property, plant and equipment	**14,573**	20,831
Other taxes payable	**13,461**	412
Advance received from a non-controlling shareholder (b)	**3,110**	3,110
Long-term payables for contractual rights to provide management services (Note 9)	**91,530**	90,489
Deposits	**5,476**	—
Accrued listing expenses	**1,040**	11,606
Others	**5,144**	2,415
Total	**172,927**	166,386
Current	**68,708**	63,209
Current portion of long-term payables for contractual rights to provide management services	**17,480**	4,356
Non-current	**86,739**	98,821
Total	**172,927**	166,386

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

26. Amount due from related parties

	As at 31 December 2016 RMB'000	2015 RMB'000
Beijing Yining Hospital Co., Ltd(北京怡寧醫院有限公司)	**6,307**	17,658
Not-for-profit organisations established by the Group	**1,536**	2,386
	7,843	20,044

The amounts due from related parties are unsecured, receivable on demand and are denominated in RMB. Their carrying amounts as at 31 December 2015 and 2016 approximated their fair value.

27. Deferred government grants

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

	At 1 January 2016 RMB'000	**Receipt of grants** RMB'000	**Credited to income statement during the year** RMB'000	**At 31 December 2016** RMB'000
Government grant related to assets	10,633	—	—	10,633
Government grant related to costs	3,651	—	(3,651)	—
	14,284	—	(3,651)	10,633

Notes to the Consolidated Financial Statements

27. Deferred government grants (continued)

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.

28. Revenue

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Treatments and general healthcare services	**285,599**	240,103
Pharmaceutical sales	**105,906**	87,740
Management service fee	**18,943**	13,561
Ancillary hospital services	**2,954**	2,270
Rental income	**2,006**	—
	415,408	343,674

Notes to the Consolidated Financial Statements

29. Expenses by nature

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Employee benefit expenses (Note 30)	**121,778**	99,988
Pharmaceutical and consumables used (Note 13)	**106,617**	86,483
Depreciation and amortization (Note 6, 8 and 9)	**31,085**	21,706
Operating lease rental expenses	**13,475**	8,563
Operating lease rental expenses prepaid for pipeline healthcare facilities	**12,887**	7,388
Canteen expenses	**14,018**	11,280
Utilities expenses	**7,561**	5,820
Examination and testing fees	**6,062**	3,388
Provision for impairment of trade receivables (Note 14)	**3,770**	4,907
Provision for impairment of other receivables (Note 15)	**132**	1,078
Travelling expenses	**3,789**	2,481
Promotion and marketing	**3,144**	1,970
Donation to charities	**4,479**	1,814
Service fee	**6,125**	—
Outsourcing fee	**74**	345
Listing expenses	**—**	5,177
Auditor's remuneration		
– Audit services	**1,824**	1,532
– Non-audit services	**—**	—
Others	**18,095**	13,859
	354,915	277,779

Notes to the Consolidated Financial Statements

30. Employee benefit expenses, including directors' emoluments

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	**102,686**	83,248
Social security contribution	**14,911**	11,143
Share-based payment expenses (Note 20)	**2,311**	2,249
Other staff welfare expenses	**1,870**	3,348
	121,778	99,988

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	**91,486**	77,229
Administrative expenses	**30,292**	22,759
	121,778	99,988

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

30. Employee benefit expenses, including directors' emoluments

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2015: one) directors whose emoluments were reflected in the analysis show in Note 44. The emoluments payable to the remaining three (2015: four) individuals during the year are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Basic salaries, social security contribution and share-based payments	**1,491**	1,621

The emoluments fell within the following bands:

	Year ended 31 December	
	2016	2015
Emoluments band		
Nil to HKD1,000,000	3	4

31. Other income

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants and subsidies	**8,019**	2,975
Interest income from term deposits	**4,736**	—
Others	**549**	99
	13,304	3,074

Notes to the Consolidated Financial Statements

32. Other gain/(losses)

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Gain from deemed disposal of a subsidiary (Note 10)	**4,540**	—
Losses on disposals of property, plant and equipment	**(116)**	(135)
Others	**(204)**	(9)
	4,220	(144)

33. Finance income – net

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	**929**	1,140
Exchange gain - net	**25,139**	10,485
	26,068	11,625
Finance expenses		
Finance expenses relating to long-term payables (a)	**(5,636)**	(4,002)
Interest expense from bank borrowings	**(6,703)**	(1,065)
Less: amounts capitalized on qualifying assets	**6,594**	1,065
	(5,745)	(4,002)
Finance income - net	**20,323**	7,623

(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

34. Income tax expense

The income tax expense of the Group for the years ended 31 December 2015 and 2016 is analysed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	**32,875**	23,978
Deferred income tax (Note 11)	**(6,287)**	(5,430)
	26,588	18,548

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	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**92,139**	70,170
Calculated at the tax rate of 25% (2015: 25%)	**23,035**	17,543
Expenses not tax deductible	**2,394**	2,507
Income not subject to tax	**—**	(167)
Over-provision in prior years	**(320)**	(1,335)
Tax losses for which no deferred income tax asset was recognised	**1,479**	—
	26,588	18,548

(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

35. 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 RMB55,709,000 and RMB68,832,000 for the years ended 31 December 2015 and 2016 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	
	2016	2015
	No. of shares	No. of shares
Ordinary shares issued at beginning of the period	**73,040,000**	50,000,000
Effect of issuance of shares	—	4,253,370
Weighted average number of ordinary shares at the end of year	**73,040,000**	54,253,370

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 2015 is based on 54,253,370 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 2016 is based on 73,040,000 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

36. Dividends

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

On 24 March 2017, the Board declared a final dividend of RMB18,260,000 for the year ended 31 December 2016 which was calculated based on 73,040,000 issued shares as at 31 December 2016. The proposed dividend was not reflected as a dividend payable in the consolidated financial statements as at 31 December 2016, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Proposed final dividend of RMB0.25 (2015: RMB0.25) per ordinary share	**18,260**	18,260

37. Cash generated from operations

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**92,139**	70,170
Adjustments for:		
– Interest income (Note 31 and 33)	**(5,665)**	(1,140)
– Unrealized exchange gain	**(12,548)**	(9,831)
– Share of losses of associates (Note 10)	**6,201**	6,278
– Gain from deemed disposal of a subsidiary (Note 32)	**(4,540)**	—
– Losses on disposals of property, plant and equipment (Note 32)	**116**	135
– Depreciation of property, plant and equipment (Note 6)	**24,815**	17,270
– Amortisation of intangible assets (Note 9)	**5,798**	3,964
– Amortisation of land use rights (Note 8)	**472**	472
– Receipt of government grant (Note 27)	**—**	450
– Deferred government grants income (Note 27)	**(3,651)**	(322)
– Share-based payment expense (Note 20)	**2,311**	2,249
– Finance expenses relating to long-term payables (Note 33)	**5,636**	4,002
– Payment for contractual rights to provide management services (Note 9)	**(4,356)**	(6,660)
	106,728	87,037

Notes to the Consolidated Financial Statements

37. Cash generated from operations (continued)

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in working capital		
– Inventories	**(1,798)**	405
– Properties under development	**(30,755)**	—
– Amounts due from related parties	**10,162**	(6,542)
– Amounts due to related parties	**—**	—
– Trade and other receivables	**(8,031)**	(58,188)
– Trade and other payables	**13,692**	(2,119)
– Advanced proceeds received from customers (a)	**(23,440)**	—
Cash generated from operations	**66,558**	20,593

(a) Advanced proceeds received from customers mainly represented the proceeds from pre-sale of properties of Wenzhou Guoda Investment.

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net book amount	**116**	135
Losses on disposals of property, plant and equipment (Note 32)	**(116)**	(135)
Proceeds from disposals of property, plant and equipment	**—**	—

Notes to the Consolidated Financial Statements

38. Business combinations

On 1 August 2016, the Group acquired 51% of the equity interest of Wenzhou Guoda Investment Co., Ltd ("Wenzhou Guoda Investment"), a real estate Company for RMB17,492,000 from Wenzhou Medical University(溫州醫科大學) and the creditor's rights for RMB20,604,000 from Wenzhou Medical University Asset Management Company Limited(溫州醫科大學資產經營有限公司), a state-owned Company, and obtained the control of Wenzhou Guoda Investment.

The following table summarises the consideration paid for Wenzhou Guoda Investment, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration:

	RMB'000
At 1 August 2016	
– Cash	17,492
Total consideration transferred	17,492
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	17,211
Investment properties (Note 7)	72,192
Property, plant and equipment (Note 6)	239
Properties under development (a)	122,768
Trade and other receivables	8,852
Deferred tax assets	3,942
Advanced proceeds received from customers	(43,936)
Trade and other payables	(56,049)
Borrowings	(74,147)
Current income tax liabilities	(17,085)
Deferred tax liabilities	(16,420)
Total identifiable net assets	17,567
Non-controlling interest	(8,608)
Goodwill	8,533
	17,492

Notes to the Consolidated Financial Statements

38. Business combinations (continued)

(a) The properties under development is expected to be completed within a normal operating cycle and becomes available for sale. As a result, it is classified as current asset. The properties under development comprised construction costs, land use rights of RMB 145,999,000 and capitalized borrowing cost of RMB 7,524,000.

The Group used valuation technique to determine the fair value of the assets and liabilities at acquisition date. The valuation method and key assumption are listed as follows:

For investment properties, the fair value was determined using income approach. The key assumptions used in determine the fair value include future rental income, general expense and discount rate.

For properties under development, the fair value was determined using hypothetical development approach. The fair value is deterimend by selling price less costs to completion and relevant expenses.

Had Wenzhou Guoda Investment been consolidated from 1 January 2016, the consolidated statement of profit or loss would show pro-forma revenue of RMB 4,030,000 and loss of RMB 1,347,000.

Notes to the Consolidated Financial Statements

39. 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
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
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	Associate established by the Company on 17 August 2015
Hangzhou Honglan Information Technology Co., Ltd (杭州宏瀾信息科技有限公司)	Associate of by the Company since 17 February 2016
Shandong Yining Hospital Co., Ltd (山東怡寧醫院有限公司)	Associate established by the Group on 16 August 2016
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

Notes to the Consolidated Financial Statements

39. Significant related party transactions (continued)

(a) Names and relationships (continued)

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 of 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 parties of the Company. The amount of the related party transaction disclosed in 2015 only covered the period from 1 January 2015 to 29 April 2015.

As stated in Note 10, before 20 Septermber 2016, Hangzhou Honglan was the Company's subsidiary. The transactions and balances among it and other Group companies were eliminated in the consolidated financial statements. The disclosure here are transactions and balances after 20 Septermber 2016.

(b) Related party transactions

		Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
(i)	Management service fee		
	Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	**1,700**	—
	Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	**—**	2,817
		1,700	2,817
(ii)	Rental expenses		
	Mr. Guan Weilu	**29**	29
	Mr. Guan Weili and Ms. Wang Lianyue	**—**	31
		29	60

Notes to the Consolidated Financial Statements

39. Significant related party transactions (continued)

(b) Related party transactions (continued)

	Year ended 31 December 2016 RMB'000	2015 RMB'000
(iii) Payment of expenses on behalf of related party		
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	**9,721**	16,778
Shandong Yining Hospital Co., Ltd (山東怡寧醫院有限公司)	**1,800**	—
Not-for-profit organisations established by the Group	**707**	1,030
Hangzhou Honglan Information Technology Co., Ltd (杭州宏瀾信息科技有限公司)	**505**	—
	12,733	17,808

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 26.

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

	Year ended 31 December 2016 RMB'000	2015 RMB'000
(iv) Purchase of properties from shareholders		
Mr. Guan Weili	**—**	5,000
Ms. Wang Lianyue	**—**	4,510
	—	9,510

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 2015 and 2016 were disclosed in Note 26.

Notes to the Consolidated Financial Statements

39. Significant related party transactions (continued)

(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	
	2016	2015
	RMB'000	RMB'000
Salaries and bonus	**3,072**	2,748
Contributions to pension plans	**212**	126
Share-based payment expense	**854**	854
Other staff welfare expenses	**232**	223
	4,370	3,951

40. Commitments

(a) Capital commitments

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Contracted but not provided for		
– construction building	**14,577**	36,635
– leasehold improvements	**133,384**	60,529
– property, plant and equipment	**5,365**	10,935
	153,326	108,099

Notes to the Consolidated Financial Statements

40. Commitments (continued)

(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	
	2016	2015
	RMB'000	RMB'000
Not later than 1 year	**27,197**	28,593
Later than 1 year and not later than 5 years	**86,649**	74,546
Later than 5 years	**75,584**	105,831
	189,430	208,970

(c) Investment in subsidiaries

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Not later than 1 year	**35,100**	43,000
Later than 1 year and not later than 5 years	**7,650**	15,600
Later than 5 years	**17,200**	—
	59,950	58,600

41. Contingencies

The Group had no material contingent liabilities outstanding as at 31 December 2015 and 2016.

Notes to the Consolidated Financial Statements

42. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**249,388**	173,991
Land use rights		**20,266**	20,738
Intangible assets		**86,282**	90,489
Investments in associates		**15,073**	8,422
Investments in subsidiaries		**102,371**	32,500
Deferred income tax assets		**4,833**	4,340
Available-for-sale financial assets		**50,000**	—
Deposits and prepayments		**4,109**	33,771
Total non-current assets		**532,322**	364,251
Current assets			
Inventories		**6,115**	5,150
Trade receivables		**82,359**	78,147
Other receivables, deposits and prepayments		**38,441**	37,173
Amounts due from subsidiaries		**246,160**	92,808
Amounts due from other related parties		**6,679**	18,143
Term deposits		**89,451**	251,334
Cash and cash equivalents		**356,529**	339,907
Total current assets		**825,734**	822,662
Total assets		**1,358,056**	1,186,913
EQUITY			
Equity attributable to owners of the Company			
Share capital		**73,040**	73,040
Capital reserve	(a)	**799,821**	797,510
Surplus reserve	(a)	**18,548**	11,342
Retained earnings	(a)	**110,484**	62,306
Total equity		**1,001,893**	944,198

Notes to the Consolidated Financial Statements

42. Balance Sheet and Reserve Movement of the Company (continued)

Balance sheet of the Company (continued)

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings		**130,000**	—
Deferred government grants		**10,632**	14,284
Long-term payables		**86,738**	98,821
Total non-current liabilities		**227,370**	113,105
Current liabilities			
Trade payables		**21,549**	16,607
Accruals and other payables		**35,641**	54,179
Amounts due to subsidiaries		**6,648**	—
Current income tax liabilities		**17,475**	4,468
Bank borrowings		**30,000**	50,000
Current portion of long-term payables		**17,480**	4,356
Total current liabilities		**128,793**	129,610
Total liabilities		**356,163**	242,715
Total equity and liabilities		**1,358,056**	1,186,913

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf.

GUAN Weili
Director

WANG Hongyue
Director

Notes to the Consolidated Financial Statements

42. 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 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	—	5,634	(5,634)
Value of employee services	2,249	—	—
Balance at 31 December 2015	797,510	11,342	62,306
At 1 January 2016	**797,510**	**11,342**	**62,306**
Profit for the year	—	—	**73,644**
Dividends paid relating to 2015	—	—	**(18,260)**
Transfer	—	**7,206**	**(7,206)**
Value of employee services	**2,311**	—	—
Balance at 31 December 2016	**799,821**	**18,548**	**110,484**

Notes to the Consolidated Financial Statements

43. Principal subsidiaries

The following is a list of the principal subsidiaries at 31 December 2016:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	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 (蒼南康寧醫院有限公司)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Qingtian Kangning Hospital Co., Ltd (青田康寧醫院有限公司)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Yongjia Kangning Hospital Co., Ltd (永嘉康寧醫院有限公司)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Yueqing Kangning Hospital Co., Ltd (樂清康寧醫院有限公司)	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 RMB34,200,000	—	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%	—
Linhai 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%
Wenzhou Yining Geriatric Hospital Co., Ltd (溫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%	—
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%	—
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	Paid-in capital of RMB10,000,000	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	Paid-in capital of RMB8,000,000	—	60%	40%

Notes to the Consolidated Financial Statements

43. 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	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 (%)
Langfang Yining Hospital Management Co., Ltd (廊坊市怡寧醫院管理有限公司) (e)	The PRC, Limited liability Company	Hospital management consulting in PRC	Paid-in capital of RMB10,000,000	100%	100%	—
Zhejiang Huangfeng Hospital Management Co., Ltd (浙江黃鋒醫院管理有限公司) (f)	The PRC, Limited liability Company	Hospital management consulting in PRC	Paid-in capital of RMB10,500,000	51.22%	51.22%	48.78%
Zhejiang Kangning Hospital Management Co., Ltd. (浙江康寧醫院管理有限公司) (g)	The PRC, Limited liability Company	Hospital management consulting in PRC	Paid-in capital of RMB50,000,000	—	100%	—
Hangzhou Yining Hospital Co., Ltd (杭州怡寧醫院有限公司) (h)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Paid-in capital of RMB10,000,000	—	100%	—
Nanchang Kangning Hospital Co., Ltd (南昌康寧醫院有限公司) (i)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Nil	51%	51%	49%
Wenzhou Guoda Investment Co., Ltd (溫州國大投資有限公司) (j)	The PRC, Limited liability Company	Real estate sale in PRC	Paid-in capital of RMB21,560,000	—	75%	25%
Taizhou Kangning Hospital Co., Ltd (台州康寧醫院有限公司) (k)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Nil	—	51%	49%
Sihui Kangning Hospital Co., Ltd (四會康寧醫院有限公司) (l)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Paid-in capital of RMB2,550,000	—	51%	49%
Taizhou Luqiao Yining Hospital Co., Ltd (台州市路橋怡寧醫院有限公司) (m)	The PRC, Limited liability Company	Psychiatric hospital in PRC	Nil	—	51%	49%

Notes to the Consolidated Financial Statements

43. 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 as of 31 December 2016.

(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 as of 31 December 2016.

(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 RMB10,000,000 as of 31 December 2016.

(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 RMB8,000,000 as of 31 December 2016.

(e) 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 RMB10,000,000 as of 31 December 2016.

(f) Zhejiang Huangfeng Hospital Management Co., Ltd was set up on 5 February 2016 with a registered capital of RMB20,500,000. Its paid in capital was RMB10,500,000 as of 31 December 2016,

(g) Zhejiang Kangning Hospital Management Co., Ltd was set up on 1 July 2016 with a registered capital of RMB50,000,000. Its paid in capital was RMB50,000,000 as of 31 December 2016.

(h) Hangzhou Yining Hospital Co., Ltd was set up on 25 August 2016 with a registered capital of RMB10,000,000. Its paid in capital was RMB10,000,000 as of 31 December 2016.

(i) Nanchang Kangning Hospital Co., Ltd was set up on 7 April 2016 with a registered capital of RMB20,000,000. Its paid in capital was nil as of 31 December 2016.

(j) Wenzhou Guoda Investment Co., Ltd was set up on 9 February 2002 with a registered capital of RMB11,000,000. Its paid in capital was RMB21,560,000 as of 31 December 2016.

(k) Taizhou Kangning Hospital Co., Ltd was set up on 30 June 2016 with a registered capital of RMB10,000,000. Its paid in capital was nil as of 31 December 2016.

(l) Sihui Kangning Hospital Co., Ltd was set up on 19 August 2016 with a registered capital of RMB10,000,000. Its paid in capital was RMB2,550,000 as of 31 December 2016.

(m) Taizhou Luqiao Yining Hospital Co., Ltd was set up on 12 December 2016 with a registered capital of RMB10,000,000. Its paid in capital was nil as of 31 December 2016.

None of the subsidiaries with non-controlling interest are material to the Group.

Notes to the Consolidated Financial Statements

44. Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of directors and the Chief Executive Officer ("CEO") is set out as follows:

For the year ended 31 December 2016:

	Fees RMB'000	Salaries RMB'000	Discretioary bonus RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payment RMB'000	Total RMB'000
Executive directors						
Mr. Guan Weili	—	356	65	54	—	475
Ms. Wang Lianyue (i)	—	289	65	54	—	408
Ms. Wang Hongyue	—	156	65	46	—	267
Non-executive directors						
Ms. He Xin	—	—	—	—	—	—
Mr. Yang Yang	—	—	—	—	—	—
Independent directors						
Mr. Chong Yat Keung	70	—	—	—	—	70
Mr. Wong Raymond Fook Lam (ii)	35	—	—	—	—	35
Mr. Huang Zhi	70	—	—	—	—	70
Mr. Ge Chuangji (ii)	35	—	—	—	—	35
	210	801	195	154	—	1,360

(i) Ms. Wang Lianyue is also the CEO of the Group.

(ii) Mr. Ge Chuangji was appointed as independent director and Mr. Wong Raymond Fook Lam resigned on 14 June 2016.

Notes to the Consolidated Financial Statements

44. Benefits and interests of directors (continued)

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

For the year ended 31 December 2015:

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

(iii) Mr. Yang Yang was appointed as non-executive director and Mr. Hu Changtao resigned on 8 April 2015.

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

45. Events after the balance sheet date

(a) Yiwu Kangning Hospital Management Co., Ltd was set up on 22 January 2017 with a registered capital of RMB30,000,000. Its paid in capital was nil as of 31 December 2016.

Definitions

"AGM"	the annual general meeting of the Company for the year 2016 to be convened and held on June 14, 2017
"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 Group
"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
"Chongqing Hechuan Kangning Hospital"	Chongqing Hechuan Kangning Hospital Co., Ltd. (重慶合川康寧醫院有限公司), a company established in the PRC with limited liability on June 5, 2015, 40% interest of which is held by the Group
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"Company" or "Wenzhou Kangning Hospital"	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 annual report, refers to Mr. GUAN Weili and Ms. WANG Lianyue
"CSRC"	the China Securities Regulatory Commission
"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

Definitions

"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly-owned subsidiary indirectly held by 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
"Hangzhou Honglan Information"	Hangzhou Honglan Information Technology Co., Ltd. (杭州宏瀾信息科技有限公司), a company established in the PRC with limited liability on November 20, 2015, 35% interest of which is held by the Company
"Hangzhou Yining" or "Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co., Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect wholly-owned subsidiaries
"HK$" or "HKD" 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 13, 2017, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
"Langfang Yining" or "Langfang Yining Hospital"	Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司), a company established in the PRC with limited liability on December 2, 2015, one of the Company's wholly-owned subsidiaries
"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
"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

Definitions

"Nangchang Kangning" or "Nanchang Kangning Hospital"	Nanchang Kangning Hospital Co., Ltd. (南昌康寧醫院有限公司), a company established in the PRC with limited liability on April 7, 2016, the Company's non-wholly owned subsidiary
"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 Cofmpany's indirect 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) for the year ended December 31, 2016 subject to the approval by the Shareholders at the AGM as described under the section headed "Dividend" of this annual report
"Prospectus"	the prospectus of the Company dated November 10, 2015
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"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 wholly owned subsidiary
"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 indirect non-wholly owned subsidiary
"Reporting Period"	the year ended December 31, 2016
"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

Definitions

"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)
"Shandong Yining" or "Shandong Yining Hospital"	Shandong Yining Hospital Co., Ltd. (山東怡寧醫院有限公司), a company established in the PRC with limited liability on August 16, 2013, 49% interest of which is held by the Company
"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 indirect non-wholly owned subsidiary
"Sihui Kangning" or "Sihui Kangning Hospital"	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, the Company's indirect 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
"Supervisory Committee"	the Company's Supervisory Committee established pursuant to the PRC Company Law
"US$" or "USD"	the lawful currency of the United States
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a Company established in the PRC with limited liability on February 9, 2002, the Company's indirect non-wholly owned subsidiary
"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

溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.