弘和仁愛 HOSPITAL CORPORATION

弘和仁愛醫療集團有限公司
Hospital Corporation of China Limited

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3869

GLOBAL OFFERING

Sole Sponsor

CICC 中金香港证券

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

CICC 中金香港证券

IMPORTANT: If you are in any doubt about the contents of this prospectus, you should seek independent professional advice.

Hospital Corporation of China Limited
弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering :	33,334,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares :	3,333,600 Shares (subject to adjustment)
Number of International Offer Shares :	30,000,400 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price :	HK$15.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value :	HK$0.001 per Share
Stock code :	3869

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

CICC
中金香港证券

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or about Thursday, March 9, 2017 and, in any event, not later than Thursday, March 9, 2017. The Offer Price will be not more than HK$15.00 per Offer Share and is currently expected to be not less than HK$12.80 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$15.00 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK$15.00 per Offer Share. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Thursday, March 9, 2017 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and on the website of our Company at **www.hcclhealthcare.com**. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, delivered, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements under the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

February 28, 2017

Latest time for completing electronic applications under **WHITE FORM eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on Thursday, March 9, 2017
Application lists open[3]	11:45 a.m. on Thursday, March 9, 2017
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Thursday, March 9, 2017
Latest time for completing payment of **WHITE FORM eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, March 9, 2017
Latest time for giving **electronic application instructions** to HKSCC[4]	12:00 noon on Thursday, March 9, 2017
Application lists close[3]	12:00 noon on Thursday, March 9, 2017
Expected Price Determination Date[5]	Thursday, March 9, 2017
(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Wednesday, March 15, 2017
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Offer Shares—11. Publication of Results" in this prospectus	Wednesday, March 15, 2017
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our website at **www.hcclhealthcare.com** from	Wednesday, March 15, 2017
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function from	Wednesday, March 15, 2017

Dispatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[6] . . . . Wednesday, March 15, 2017

Dispatch/collection of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[7] . . . . Wednesday, March 15, 2017

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence on . . . . Thursday, March 16, 2017

The application for the Hong Kong Offer Shares will commence on Tuesday, February 28, 2017 through Thursday, March 9, 2017, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, March 15, 2017. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, March 16, 2017.

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for lodging applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day of lodging applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, March 9, 2017, the application lists will not open on that day. Please refer to the section headed "How to Apply for the Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares—6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or about Thursday, March 9, 2017 and, in any event, not later than Thursday, March 9, 2017. If, for any reason, the Offer Price is not agreed by Thursday, March 9, 2017 between our Company and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

(6) Share certificates for the Hong Kong Offer Shares are expected to be issued on Wednesday, March 15, 2017 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects, and neither of the Underwriting Agreements has been terminated in accordance with its terms, prior to 8:00 a.m. on the Listing Date, which is expected to be on or around Thursday, March 16, 2017. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.

(7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessfully applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The above expected timetable is a summary only. You should refer to the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Hospital Corporation of China Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Information contained in our website, located at www.hcclhealthcare.com, does not form part of this prospectus.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a hospital operation and management group, led by a professional team with extensive hospital management experience. Through our operation and management of hospitals, we plan to consolidate medical resources in the regions where our hospitals are located and establish regional medical service centers providing consistent, systematic, easy-to-access, high quality and comprehensive medical services to residents of these regions. We serve as the core platform for the hospital operation and management business of Hony Capital. We focus on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. We have a dedicated management team with extensive experience and strong execution skills, in particular comprehensive experience in hospital management. Our core management team primarily includes members with experience in Class III hospitals as well as key medical professionals of the hospitals under our management with extensive hospital management experience. We implement our standardized and streamlined management system, taking into account the background and circumstances of each individual hospital, to improve the hospitals' overall management, capabilities and operational efficiency. During the Track Record Period and up to the Latest Practicable Date, we have provided hospital management services to Yangsi Hospital (through Weikang Investment during the Track Record Period and up to the Latest Practicable Date and also through Honghe Ruixin since January 2015) and operated Fuhua Hospital since January 2014. Yangsi Hospital is a non-public not-for-profit general hospital with Class II hospital-equivalent scale, while Fuhua Hospital is a non-public for-profit general hospital with Class I hospital-equivalent scale. According to Frost & Sullivan, Class II and Class III are classifications of hospitals authorized by the PRC government and are determined by a number of criteria such as medical specialties, medical staff of hospitals, work efficiency and clinical skill. According to the same source, hospitals with Class II and Class III-equivalent scale are hospitals that are similar in size and level of service quality to those of Class II and Class III hospitals but have not been rated by the PRC government due to the complexities of China's hospital level evaluation procedures. For more details on classifications of hospitals in China, please see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on the Administration and Classification of Medical Institutions—Categories of Healthcare Institutions in China" of this prospectus.

We have extensive investment experience that will enable us to expand through mergers and acquisitions. We target Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have demonstrated advanced performance in medical specialties and are located in areas with sizeable populations and attractive economic conditions. With these hospitals as a starting point, we are committed to consolidating medical resources in a region by investing in target hospitals to form a regional medical service center, and we seek to further develop it into a high quality regional medical service center covering healthcare services, rehabilitative services and geriatric services. Our ultimate goal is to establish a nationwide medical services network through strategic mergers and acquisitions across China. We have identified our management of Yangsi Hospital as the core component of our strategic plan to establish a regional medical service center in Shanghai with our operation of Fuhua Hospital as an extension of this plan. According to the Frost & Sullivan Report, Yangsi Hospital is Shanghai's largest non-public hospital in terms of revenue in 2015. It provides medical services in Shanghai's Yangsi area, which has a population of approximately 300,000. Fuhua Hospital is a general hospital that extends the coverage of medical services offered by Yangsi Hospital. The operations of these two hospitals in Shanghai complement each other, and we will further consolidate medical resources in the region to gradually establish a regional medical service center.

Our Company was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability. Prior to our acquisition of Weikang Investment on September 30, 2014, we had no significant operations. Among our Predecessor Entities, (1) Weikang Investment provided management and consultancy services to Yangsi Hospital, a non-public not-for-profit general hospital founded (舉辦) by Weikang Investment on January 5, 2007, and (2) Fuhua Hospital, a non-public for-profit general hospital established by Independent Third Parties on October 17, 2007 and which was 100% acquired by Weikang Investment on January 15, 2014, provided general hospital services. We acquired an 80% equity interest in Weikang Investment on September 30, 2014 from five Independent Third Parties for a total consideration of RMB1,038.4 million, RMB116.0 million of which was assigned to the fair value of Weikang Investment's contractual rights to provide management services to Yangsi Hospital. Following our acquisition of Weikang Investment, the Predecessor Entities came under our control. Our Group's results include the results of the Predecessor Entities beginning from September 30, 2014. After our acquisition of Weikang Investment, we restructured our hospital management service business and in December 2014 established Honghe Ruixin to provide strategic planning and development hospital management services. Five individuals acquired, in aggregate, a 20% equity interest in our subsidiary, Honghe Ruixin, in accordance with a share purchase agreement dated December 25, 2014. Honghe Ruixin began providing consultancy services to Yangsi Hospital in January 2015. The services provided by Honghe Ruixin to Yangsi Hospital were substantially different from those that Weikang Investment had been offering in both form and substance. Honghe Ruixin has provided strategic planning and development consultancy services to Yangsi Hospital, while Weikang Investment provides management services related to Yangsi Hospital's daily operations, with a focus on administrative and functional areas. See the sections headed "History, Development and Corporate Structure" starting on page 134 of this prospectus and "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" starting on page 177 of this prospectus for more information.

Accounting and Financial Presentation Matters

Presentation of Financials and Basis of Consolidation

In this prospectus we have presented two sets of accountant's report—one in respect of our Group's financial information and the other in respect of our Predecessor Entities' financial information, which are set forth in Appendices IA and IB, respectively. Please see "Financial Information—Basis of Presentation" for more information. Our Group's financial results comprised (i) in the period from February 21, 2014 to December 31, 2014, primarily the hospital management services that Weikang Investment provided to Yangsi Hospital and the general hospital services that Fuhua Hospital provided after we acquired the Predecessor Entities on September 30, 2014, and (ii) in 2015 and the nine months ended September 30, 2016, primarily the hospital management services that Honghe Ruixin and Weikang Investment provided to Yangsi Hospital and the general hospital services provided by Fuhua Hospital. Our Predecessor Entities' financial results comprised (i) in 2013, the hospital management services provided by Weikang Investment to Yangsi Hospital and (ii) in 2014, 2015 and the nine months ended September 30, 2016, the hospital management services that Weikang Investment provided to Yangsi Hospital and the general hospital services that Fuhua Hospital provided.

The following table sets forth our revenue by segment during the periods indicated:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2015		Nine months ended September 30, 2016	
	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total
Hospital management services	18,378	77.7	119,077	83.5	82,020	83.8	94,278	81.7
Management service fees(1)	18,071	76.4	117,847	82.7	81,123	82.9	93,285	80.8
Other service fees(2)	307	1.3	1,230	0.8	897	0.9	993	0.9
General hospital services	5,275	22.3	23,447	16.5	15,875	16.2	21,089	18.3
Total revenue	23,653	100.0	142,524	100.0	97,895	100.0	115,367	100.0

Notes:

(1) Amounts are shown net of value-added tax payable by Honghe Ruixin for the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016 and value-added tax payable by Weikang Investment starting from May 2016.

(2) Include parking charges collected by Weikang Investment from end-customers at a parking lot located in Yangsi Hospital and operated by Weikang Investment.

The following table sets forth our gross profits, gross profit contribution and gross profit margins by segment for the periods indicated:

	Period from February 21 to December 31, 2014			Year ended December 31, 2015			Nine months ended September 30, 2015			Nine months ended September 30, 2016		
	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross Profit Margin	Amount	Contribution	Gross Profit Margin
	RMB ('000)	%	%	RMB ('000)	%	%	RMB ('000)	%	%	RMB ('000)	%	%
Hospital management services	15,596	98.1	84.9	99,290	98.2	83.4	67,890	98.5	82.8	65,136	98.2	69.1
General hospital services	294	1.9	5.6	1,839	1.8	7.8	1,061	1.5	6.7	1,211	1.8	5.7
Total	15,890	100.0	67.2	101,129	100.0	71.0	68,951	100.0	70.4	66,347	100.0	57.5

The following table sets forth our Predecessor Entities' revenue by segment during the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total
Hospital management services	46,443	100.0	65,734	81.7	65,787	73.7
Management service fees	45,540	98.1	64,642	80.4	64,557	72.3
Other service fees[1]	903	1.9	1,092	1.3	1,230	1.4
General hospital services	—	—	14,675	18.3	23,447	26.3
Total revenue	46,443	100.0	80,409	100.0	89,234	100.0

Notes:

(1) Include parking charges collected by Weikang Investment from end-customers at a parking lot located in Yangsi Hospital and operated by Weikang Investment.

The following table sets forth our Predecessor Entities' gross profits, gross profit contribution and gross profit margins by segment for the periods indicated:

	Year ended December 31,								
	2013			2014			2015		
	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin
	RMB ('000)	%	%	RMB ('000)	%	%	RMB ('000)	%	%
Hospital management services	40,273	100.0	86.7	57,817	101.0	88.0	54,213	96.1	82.4
General hospital services	—	—	—	(574)	(1.0)	(3.9)	2,190	3.9	9.3
Total	40,273	100.0	86.7	57,243	100.0	71.2	56,403	100.0	63.2

We do not consolidate Yangsi Hospital's financial results under the applicable accounting standards, because (1) no part of the earnings of Yangsi Hospital, a not-for-profit hospital registered as a Privately-funded Non-enterprise Entity in China, constitutes "distributable profits" under relevant Chinese law, and (2) we do not have control over material matters of Yangsi Hospital, which are subject to the approval of its executive committee, and are subject to veto rights of the employee representatives (as a group) and the independent member on the executive committee. See the section headed "Financial Information—Basis of Presentation" starting on page 253 for more information. Weikang Investment is not required under Chinese law to commit, nor has it committed, any further investment in Yangsi Hospital.

Acquisition of Weikang Investment

We acquired an 80% equity interest in Weikang Investment on September 30, 2014 for a total consideration of RMB1,038.4 million (the "Consideration"). At the time of the Weikang Acquisition, we agreed on the Consideration based on our assessment of the overall value that this investment would have for our overall business strategy, but we did not consider, evaluate or allocate the Consideration to each tangible asset and intangible benefit associated with the acquisition (including the parcels of land owned by Weikang Investment and Yangsi Hospital). Please see the section headed "History, Development and Corporate Structure—Weikang Acquisition—Major factors attributable to the acquisition cost" starting on page 138 of this prospectus for a more complete discussion of the Consideration and the factors we considered in making the Weikang Acquisition.

Based on the valuation report of an independent valuer, (i) RMB116.0 million, or approximately 10% of the Consideration, was assigned to the fair value of Weikang Investment's contractual rights to provide management services to Yangsi Hospital, (ii) RMB15.0 million was assigned to medical licenses of Fuhua Hospital, and (iii) RMB958.9 million was recognized as goodwill as a result of the Weikang Acquisition.

Weikang Investment's contractual rights to provide management services to Yangsi Hospital accounted for a relatively low proportion of the Consideration mainly due to the following reasons: (i) Weikang Investment's rights over Yangsi Hospital did not meet the relevant accounting standards for Yangsi Hospital to be consolidated as our subsidiary; as a result, only the then-existing contractual relationship between Weikang Investment and Yangsi Hospital was recognized as an identifiable asset as of the acquisition date; (ii) the contractual relationship, which began subsequent to the acquisition date, between Honghe Ruixin and Yangsi Hospital under the Hospital Management Agreements did not meet the relevant accounting standards to be identified as intangible assets arising from the Weikang Acquisition; as a result, the advanced strategic consultancy services that we began providing to Yangsi Hospital after the Weikang Acquisition through Honghe Ruixin were not identified as intangible assets arising from the Weikang Acquisition and were instead deemed to be the synergistic effect of the acquisition. Please see the section headed "Business—Acquisition of Weikang Investment" starting on page 163 of this prospectus for more details regarding the investment assessment and evaluation of the Weikang Acquisition.

Under the relevant valuation and accounting standards, no other tangible or intangible assets associated with the Weikang Acquisition could be recognized as identifiable assets associated with the acquisition. For more details regarding the composition of the Consideration recognized at the acquisition date, please see Note 32 to the Accountant's Report included in Appendix IA starting on page IA-76 of this prospectus. For more details about the assets that were not identifiable as of the acquisition date, please see the section headed "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheets—Intangible Assets" starting on page 312 of this prospectus.

As the value of the identifiable tangible and intangible components (including the contractual rights to provide management services and the medical licenses) associated with the Weikang Acquisition was significantly less than the Consideration, the residual amount of the Consideration of RMB958.9 million was accounted for as goodwill on our balance sheet. This goodwill is attributable to benefits we gained through the acquisition that were not recognized as net identifiable assets in the purchase price allocation under the relevant valuation and accounting standards, which primarily include (i) our entering into China's healthcare industry, (ii) potential contractual relationships between our Group and Yangsi Hospital and other hospitals, (iii) our business model for hospital management, which can be replicated in the future, and (iv) synergies within our Group. Accordingly, RMB950.9 million of the goodwill was allocated to the hospital management services segment on the date of the Weikang Acquisition, which accounted for over 70% of our total assets during the Track Record Period.

Attributable to the synergistic effects of the Weikang Acquisition, we were able to further expand our relationship with Yangsi Hospital and successfully replicated Weikang Investment's hospital management model to Honghe Ruixin. In 2015, Honghe Ruixin began providing advanced strategic consultancy services to Yangsi Hospital by entering into annual hospital management and consultancy agreements with Yangsi Hospital, together with Weikang Investment. For more details related to services Honghe Ruixin provided to Yangsi Hospital, please see the section headed "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" starting on page 177 of this prospectus.

Assessment on Fair Value of the Land

In accordance with the definition of fair value under the International Valuation Standards Framework, because there were title defects in the land owned by Weikang Investment and there was no established market for the transfer of land with title defects, the fair value of the land could not be assessed in the purchase price allocation upon completion of the Weikang Acquisition. Furthermore, with reference to IFRS 10 'Consolidated Financial Statements', the parcel of land owned by Yangsi Hospital was not taken into account in the purchase price allocation, because we do not control and thus do not consolidate Yangsi Hospital. Please see the sections headed "History, Development and Corporate Structure—Weikang Acquisition—Determination of the Consideration" starting on page 138, "Financial Information—Basis of Presentation" starting on page 253 and Note 6 "Property, Plant and Equipment" to the Accountant's Report starting on page IA-39 of this prospectus for more details.

We have not been able to obtain the land use rights for the land owned by Weikang Investment as a result of long-standing and complicated historical reasons, which have been subsequently identified by the People's Government of Sanlin Town as issues arising from rural urbanization and development of Shanghai. We have been unable to ascertain the timeline that the title defects on the land can be expected to be rectified.

In accordance with the relevant accounting standards, (i) the determination of whether a tangible or intangible asset associated with the Weikang Acquisition could be recognized as identifiable assets was made at the acquisition date, and (ii) no changes to purchase price allocation can be made 12 months after the relevant acquisition. Accordingly, any rectification of title defect in the land owned by Weikang Investment will not have any retrospective impact on the results of the purchase price allocation at the acquisition date or the amount of goodwill.

Goodwill Impairment Assessment

We continue to recognize the goodwill assessed at the time of the Weikang Acquisition on our balance sheet and conduct goodwill impairment reviews at least annually. In performing goodwill impairment testing, we allocated the goodwill to our operating segments: general hospital services segment and hospital management services segment. We did not recognize any impairment losses in respect of goodwill during the Track Record Period. As of the acquisition date, RMB7.9 million and RMB950.9 million of the goodwill was allocated to our general hospital services segment and hospital management services segment, respectively.

In performing goodwill impairment testing, we have selected the value-in-use model by reference to the relevant accounting standards. However, the value-in-use model that we use for goodwill impairment assessment includes only the value of the our existing business (i.e. the general hospital services of Fuhua Hospital, and the hospital management services provided to Yangsi Hospital), which differs from our assessment of our commercial objectives of the Weikang Acquisition, which includes future expansion of our hospital management business by replicating Weikang Investment's business model. For details regarding the reasons for this difference and goodwill impairment testing, please see the section headed "Financial Information—Critical Accounting Policies, Judgments and Estimates—Critical Accounting Estimates and Judgments—Estimated Impairment of Goodwill" starting on page 267 of this prospectus.

In conducting goodwill impairment assessments of our operating segments, we have made assumptions on revenue, operating margins, growth rates and discount rates. Set forth below are the key assumptions for the eight-year forecast period as of each period/year end (estimated based on our operations for the periods indicated) that we used in our goodwill impairment testing and the breakeven point of such key assumption for our hospital management services segment:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2016	
	Key assumption	Breakeven point	Key assumption	Breakeven point	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	17.45%	16.56%	9.59%	8.68%	9.65%	8.23%
Percentage of costs and operating expenses over revenue................	9.95%	13.80%	9.95%	14.20%	10.02%	16.66%
Percentage of the pre-tax discount rate*....................	14.63%	15.10%	14.67%	15.21%	14.70%	15.62%

* *Same for the eight-year forecast period and after that period.*

The table below sets forth the financial impact on our goodwill impairment testing if each key assumption had been one percentage point higher or lower than its breakeven point for our hospital management services segment as of September 30, 2016:

Key assumptions	Breakeven point of key assumptions	Change of one percentage point for each key assumptions	Impact
Revenue (% compound growth rate)	8.23%	7.23%	Carrying amount exceeds recoverable amount by RMB76.6 million
Cost and operating expenses (% of revenue)	16.66%	17.66%	Carrying amount exceeds recoverable amount by RMB17.6 million
Pre-tax discount rate (%)	15.62%	16.62%	Carrying amount exceeds recoverable amount by RMB108.1 million

The discussions above represent only the bases for the key assumptions we used in our impairment testing. They do not represent a forecast or projection of our future performance or profitability, and they should be considered only in evaluating our impairment testing. See the sections headed "Risk Factors—Risks Relating to Our Business and Industry—We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it would adversely affect our results of operations and financial position" starting on page 46, "History, Development and Corporate Structure—Weikang Acquisition" starting on page 138 and "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheets—Intangible Assets" starting on page 312 for more details.

For details related to the goodwill impairment assessment of general hospital service segment, please see the section headed "Critical Accounting Estimates and Judgments—Estimated Impairment of Goodwill—(iv) Discount rates".

OUR BUSINESS MODEL

Our Hospital Management Business

We operate our hospital management business through (i) our ownership of the management companies, Weikang Investment and Honghe Ruixin, and (ii) contractual arrangements between Yangsi Hospital and us (through Weikang Investment and Honghe Ruixin). Our relationship with Yangsi Hospital has been governed by the Hospital Management Agreements, including (i) the six-year Hospital Management Framework Agreement, which was effective from January 1, 2013 until January 1, 2016, (ii) the 51-year Letter of Intent beginning January 1, 2014, (iii) the 10-year Long

Term Hospital Management Agreement, which replaced the Hospital Management Framework Agreement on January 1, 2016, and (iv) the one-year hospital management and consultancy agreements, which are entered into with Yangsi Hospital each year pursuant to the Letter of Intent, the Hospital Management Framework Agreement (for 2013, 2014 and 2015) and the Long Term Hospital Management Agreement (beginning January 1, 2016). Pursuant to the Hospital Management Agreements, we provide management and consultancy services to Yangsi Hospital, and receive management service fees, and the amount of these fees is calculated based on a percentage of Yangsi Hospital's annual revenue. The percentage is determined on an annual basis. See the section headed "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" starting on page 177 for detailed terms of the Hospital Management Agreements.

Under the Hospital Management Agreements, Weikang Investment (in 2013, 2014, 2015 and the nine months ended September 30, 2016) and Honghe Ruixin (in 2015 and the nine months ended September 30, 2016) charged management service fees equal to a percentage of Yangsi Hospital's annual revenue. In 2015 and 2016, these management service fees, which were payable to both Weikang Investment and Honghe Ruixin, were calculated using a rate that comprises a fixed component and a performance-based floating component. In 2013 and 2014, the management fees were based on a fixed percentage and were paid only to Weikang Investment. In aggregate, the management service fees that Weikang Investment (in 2013, 2014, 2015 and the nine months ended September 30, 2016) and Honghe Ruixin (in 2015 and the nine months ended September 30, 2016) charged Yangsi Hospital for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016 were 11%, 14%, 22.5%, 21.5% and 22.1% of Yangsi Hospital's total revenue for these respective periods.

The following table sets forth a breakdown of the hospital management services segment's revenue, gross profit and gross profit margin by hospital management company for the periods indicated. The table below includes data from our Group's financial information for the year ended December 31, 2015 and for the nine months ended September 30, 2015 and 2016, while for the years ended December 31, 2013 and 2014, the table includes data from our Predecessor Entities' financial information. The cost of revenue of our Group's hospital management services segment includes the amortization of Weikang Investment's contractual rights to provide management services to Yangsi Hospital following our acquisition of the Predecessor Entities, while the cost of revenue of the Predecessor Entities' hospital management services segment does not include amortization of contractual rights. Given these differences, the gross profit and gross profit margin data for 2013 and 2014 are not comparable with the gross profit and gross profit margin data for 2015 and 2016.

	Year ended December 31,			Nine months ended September 30,	
	2013	**2014**	**2015**	**2015**	**2016**
Revenue (RMB'000):					
Weikang Investment	46,443	65,734	65,787	45,768	42,718
Honghe Ruixin	—	—	53,290	36,252	51,560
Total	46,443	65,734	119,077	82,020	94,278

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
Gross profit (RMB'000):					
Weikang Investment	40,273	57,817	51,908	35,906	25,445
Honghe Ruixin	—	—	47,382	31,985	40,575
Total	40,273	57,817	99,290	67,891	66,020[(1)]
Gross profit margin:					
Weikang Investment	86.7%	88.0%	78.9%	78.5%	59.6%
Honghe Ruixin	N/A	N/A	88.9%	88.2%	78.7%
Total	86.7%	88.0%	83.4%	82.8%	70.0%[(1)]

Note:

(1) Amounts different from the gross profit/gross profit margin of our hospital management services segment for the same period mainly due to the corporate expenses in relation to the employee benefit expenses of RMB0.9 million incurred by New Pride, a subsidiary of our Company, as a result of the cash bonus we have agreed to pay to Mr. Lu Wenzuo.

Our General Hospital Business

We own and operate Fuhua Hospital, a non-public for-profit general hospital registered in the form of a limited liability company located in Pudong New District of Shanghai. Fuhua Hospital is a Medical Insurance Designated Medical Institution, and it provides services integrating clinical care and rehabilitation services. As of the Latest Practicable Date, Fuhua Hospital had 15 medical departments. See "Business—The Hospitals—Fuhua Hospital" for more details.

The following table sets forth the general hospital services segment's revenue, gross profit and gross profit margin during the periods indicated. The table below includes data from our Group's financial information for the year ended December 31, 2015 and for the nine months ended September 30, 2015 and 2016, while for the year ended December 31, 2014, the table includes data from our Predecessor Entities' financial information. The cost of revenue of our Group's general hospital services segment includes a higher amount in respect of amortization of Fuhua Hospital's medical licenses compared with that included in the cost of revenue of the Predecessor Entities' general hospital services segment, as a result of the appreciation in fair value of these medical licenses upon our acquisition of the Predecessor Entities. Given these differences, the gross profit and gross profit margin data for 2014 are not comparable with the gross profit and gross profit margin data for 2015 and 2016.

	Year ended December 31,		Nine months ended September 30,	
	2014	2015	2015	2016
Revenue (RMB'000)	14,675	23,447	15,875	21,089
Gross profit (RMB'000)	(574)	1,839	1,061	1,211
Gross profit margin	(3.9)%	7.8%	6.7%	5.7%

Our Customers

Our largest customer during the Track Record Period was Yangsi Hospital, to which our subsidiaries, Weikang Investment and Honghe Ruixin, provide management and consultancy services. Yangsi Hospital is a non-public not-for-profit general hospital registered as a Privately-funded Non-enterprise Entity and is located in the Pudong New District of Shanghai. Yangsi Hospital provides comprehensive medical services and as of the Latest Practicable Date, had 26 medical departments. For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, Yangsi Hospital generated revenue of RMB399.4 million, RMB461.7 million, RMB538.0 million and RMB443.6 million, respectively. In these same respective periods, management service fees (net of value-add tax, as applicable) generated from Yangsi Hospital (by Weikang Investment in 2013 and 2014 and by Weikang Investment and Honghe Ruixin in 2015 and the nine months ended September 30, 2016) were RMB45.5 million, RMB64.6 million, RMB117.8 million and RMB93.3 million.

We exercise substantial influence over the operational and managerial decisions of Yangsi Hospital through our ownership of the management companies. This influence is exercised through Weikang Investment and Honghe Ruixin's management rights under the Hospital Management Agreements and Weikang Investment's right to nominate a majority of the members in the executive committee of Yangsi Hospital under the hospital's rules of procedure for its executive committee. For more details of the governance structure and business of Yangsi Hospital, please see the sections headed "Business—Our Business Model—Our Hospital Management Business" starting on page 167 of this prospectus and "Business—The Hospitals—Yangsi Hospital" starting on page 175 of this prospectus.

Our other customers are patients of Fuhua Hospital, from whom we derive revenue by providing general hospital services. The majority of our patients rely on public medical insurance programs to pay for their medical treatments.

Suppliers to Yangsi Hospital and Fuhua Hospital

The supplies required in the operations of Yangsi Hospital and Fuhua Hospital primarily include pharmaceuticals and medical consumables. In 2013, 2014, 2015 and the nine months ended September 30, 2016, Yangsi Hospital's cost of pharmaceuticals, consumables and testing fees accounted for 48.0%, 48.4%, 47.8% and 49.7% of its total revenue, respectively. In the period from February 21, 2014 to December 31, 2014, in the year ended December 31, 2015 and in the nine months ended September 30, 2016, our cost of pharmaceuticals, consumables and testing fees as a percentage of our general hospital services segment's cost of revenue (both in respect of Fuhua Hospital) was 55.1%, 59.6% and 63.6%, respectively. In these same respective periods, our cost of pharmaceuticals, consumables and testing fees as a percentage of our general hospital services segment's total revenue (both in respect of Fuhua Hospital) was 52.1%, 54.9% and 59.9%. In 2014 and 2015, our Predecessor Entities' cost of pharmaceuticals, consumables and testing fees as a percentage of our Predecessor Entities' general hospital services segment's total revenue (both in respect of Fuhua Hospital) was 50.0% and 54.9%, respectively. In the period from February 21 to December 31, 2014, in the year ended December 31, 2015 and in the nine months ended September 30, 2016, purchases from our five largest suppliers accounted for 36.9%, 22.3% and 19.6% of our total cost of revenue, both in respect of Fuhua Hospital. Both Yangsi Hospital and Fuhua Hospital procure their medical supplies through the Shanghai Sunshine Medical Purchasing Website, an online platform that allows suppliers registered with the website to sell their products.

Price Controls

Under relevant Chinese national laws and local regulations, prices for basic healthcare services provided by not-for-profit medical institutions, including Yangsi Hospital, are subject to price controls administered by governmental authorities. The retail prices of the pharmaceuticals sold by the Hospitals may also be subject to price ceiling guidelines promulgated by local pricing bureaus, healthcare authorities, local medical insurance offices and other relevant government authorities. As Medical Insurance Designated Medical Institutions, Yangsi Hospital and Fuhua Hospital, when charging fees for medical treatments covered by public medical insurance programs, must comply with the pricing guidelines of the relevant local healthcare government authorities in respect of medical services, pharmaceuticals, medical consumables and medical devices. See the sections headed "Business—The Hospitals—Yangsi Hospital—Pricing and price controls" starting on page 196, "Business—The Hospitals—Fuhua Hospital—Pricing and price controls" starting on page 226 and "Risk Factors—Risks Relating to Doing Business in China—Changes in government policies in China with respect to the pricing of pharmaceuticals and medical services may impact our revenue and profitability" starting on page 65 for more information.

Each of Yangsi Hospital and Fuhua Hospital is subject to a government-approved annual quota for the amount of medical fees that it is allowed to recover under the Urban Employee Basic Medical Insurance Scheme ("**UEBMIS**") . For amounts in excess of the hospitals' government-approved annual quota, the local medical insurance bureau may, at its discretion, reimburse all or part of these excess amounts to the hospitals. Yangsi Hospital's medical fees under the UEBMIS that were in excess of the annual quota as of December 31, 2013, 2014 and 2015 and that were not reimbursed by the local medical insurance bureau were RMB7.2 million, RMB7.6 million and RMB8.3 million, respectively. Fuhua Hospital became a Medical Insurance Designated Medical Institution in January 2013 and is subject to the government-approved annual quota under the UEBMIS beginning from 2015. The amount of Fuhua Hospital's medical fees under the UEBMIS that were in excess of its annual quota as of December 31, 2015 and the amount that will not be reimbursed by the local medical insurance authority was RMB0.5 million. See "Business—The Hospitals—Yangsi Hospital—Pricing and price controls", "Business—The Hospitals—Fuhua Hospital—Pricing and price controls" and "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheets—Trade-nature Receivables" for more details.

Material Non-compliance—Properties

Our Group and Yangsi Hospital own certain properties in the PRC for their business operations. Our Group and Yangsi Hospital use the properties for non-property activities as defined under Rule 5.01(2) of the Listing Rules.

Yangsi Hospital operates on properties owned by Weikang Investment or Yangsi Hospital that have title defects. As of the Latest Practicable Date, Weikang Investment or Yangsi Hospital, as applicable, does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction works planning permits, commencement permits or completion inspection certificates. These properties with defective title have a total area of 7,900 square meters with an aggregate gross floor area of 27,146 square meters. The management service fees Weikang Investment and Honghe Ruixin (as applicable) charged (net of value-added tax) Yangsi Hospital in relation to its operation on these owned properties subject to title defects accounted for 98.1% and 80.4% of our Predecessor Entities' revenue for years ended December 31, 2013 and 2014, respectively, and 82.7% and 80.8% of our revenue for the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively. See the section headed "Risk Factors—Risks Relating to Our Business and Industry—There are risks associated with the land and buildings on which Yangsi Hospital operates, and we would face disruption to our business if Yangsi Hospital were required to find alternative premises" starting on page 51 in this prospectus, "Business—The Hospitals—Yangsi Hospital—Properties—Title defects of the Lands", "Business—The Hospitals—Yangsi Hospital—Legal proceedings and compliance—Non-compliance incidents" and "Business—Legal proceedings and compliance—Non-compliance Incidents" starting on page 208, page 219 and page 250, respectively in this prospectus for more information.

OUR COMPETITIVE STRENGTHS

- We have an experienced management team with strong execution capabilities encompassing the ability to enhance the value of hospitals under our management;
- We seize opportunities arising from China's economic restructuring and healthcare reforms and focus on the regional healthcare services market using an innovative operation model;
- We provide management and consultancy services to Shanghai's largest non-public hospital, as the pillar to establish a regional medical service center; and
- We have strong support from our Controlling Shareholders, which will assist us in establishing a hospital operation and management group with a cohesive platform and branding.

OUR STRATEGIES

- Implement strategy of multi-dimensional development to establish regional medical service centers;
- Consolidate medical resources to form a nationwide healthcare services network; and
- Enhance intra-group synergy to optimize resources allocation.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our and our Predecessor Entities' consolidated financial information extracted from the accountant's reports set out in Appendices IA and IB to this prospectus. See "Financial Information—Selected Financial Data" for a discussion of our Group's and our Predecessor Entities' financial information during the Track Record Period, "Business—The Hospitals—Yangsi Hospital—Key Information" for a discussion of Yangsi Hospital's financial performance during the Track Record Period and "Business—The Hospitals—Fuhua Hospital" for a discussion of Fuhua Hospital's financial performance in 2014, 2015 and the nine months ended September 30, 2016.

Consolidated Income Statements

Our Group

Comparisons of our results of operations between the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 may not be useful to the investors. Please see "Financial Information—Selected Financial Data—Our Group" for more information.

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30,	
			2015	2016
	RMB ('000)	RMB('000)	RMB ('000) (Unaudited)	RMB ('000)
Revenue	23,653	142,524	97,895	115,367
Cost of revenue	(7,763)	(41,395)	(28,944)	(49,020)
Gross profit	15,890	101,129	68,951	66,347
Selling expenses	—	(1)	(1)	(3)
Administrative expenses	(7,947)	(13,203)	(8,225)	(22,060)
Other (losses)/gain - net	(47)	(342)	(31)	871
Other income	—	2,477	977	1,081
Operating profit	7,896	90,060	61,671	46,236
Finance income - net	584	53	46	119
Profit before income tax	8,480	90,113	61,717	46,355
Income tax expense	(4,185)	(22,788)	(15,862)	(15,581)
Profit for the period/year	4,295	67,325	45,855	30,774

The Predecessor Entities

The operating results of our Predecessor Entities were not comparable from 2013 to 2014, nor from 2014 to 2015. Please see "Financial Information—Selected Financial Data—Our Predecessor Entities" for more information.

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB ('000)	RMB('000)	RMB ('000)	RMB('000)	RMB ('000) (Unaudited)	RMB ('000)
Revenue	46,443	56,756	80,409	89,234	61,643	63,807
Cost of revenue	(6,170)	(16,260)	(23,166)	(32,831)	(22,683)	(35,160)
Gross profit	40,273	40,496	57,243	56,403	38,960	28,647
Selling expenses	—	(18)	(18)	(1)	(1)	(3)
Administrative expenses	(1,238)	(1,768)	(2,848)	(3,755)	(2,627)	(3,196)
Other (losses)/gain - net	—	(3)	(71)	(111)	(31)	21
Other income	54	137	137	2,477	977	57
Operating profit	39,089	38,844	54,443	55,013	37,278	25,526
Finance income	29	583	1,167	53	46	56
Profit before income tax	39,118	39,427	55,610	55,066	37,324	25,582
Income tax expense	(10,029)	(10,166)	(14,565)	(13,772)	(9,336)	(7,816)
Profit for the year/period	29,089	29,261	41,045	41,294	27,988	17,766

Consolidated Statements of Financial Position of Our Group

	As at December 31, 2014	As at December 31, 2015	As of September 30, 2016
	RMB'000	RMB'000	RMB'000
Total current assets	168,965	192,317	189,454
Total current liabilities	188,358	136,421	61,756
Net current (liabilities)/assets	(19,393)	55,896	127,698
Total assets	1,282,058	1,302,029	1,296,215
Net assets	1,061,214	1,128,539	1,186,427
Equity attributable to owners of the Company	1,039,112	1,090,047	1,141,675

We acquired an 80% equity interest in Weikang Investment on September 30, 2014 for a total consideration of RMB1,038.4 million (the "Consideration"), RMB116.0 million of which was assigned to the fair value of Weikang Investment's contractual rights to provide management services to Yangsi Hospital and RMB15.0 million of which was assigned to medical licenses. At the time of the Weikang Acquisition, we agreed on the Consideration based on our assessment of the overall value that this investment would have for our overall business strategy, but we did not consider, evaluate or allocate the Consideration to each tangible asset and intangible benefit associated with the acquisition (including the parcel of land owned by Weikang Investment). We recorded goodwill of RMB958.9 million as a result of the acquisition. The goodwill that arose on our acquisition of Weikang Investment accounted for more than 90% of the Consideration because the Consideration we paid in that acquisition exceeded the fair value of the net identifiable assets we acquired as determined under the relevant accounting and valuation standards. This goodwill is attributable to benefits we gained through the acquisition that were not recognized as net identifiable assets in the purchase price allocation under the relevant accounting standards, which primarily include (i) our entering into China's healthcare industry, (ii) potential contractual relationships between our Group and Yangsi Hospital and other hospitals, (iii) our business model for hospital management, which can be replicated in the future, and (iv) synergies within our Group.

Our intangible assets consist primarily of goodwill, as well as contractual rights to provide management services and medical licenses. We recorded goodwill of RMB958.9 million as of each of December 31, 2014 and 2015 and September 30, 2016, which accounted for 74.8%, 73.6% and 74.0% of our total assets as of these same respective dates. We recorded intangible assets of RMB1,088.8 million, RMB1,085.4 million and RMB1,082.8 million as of December 31, 2014 and 2015 and September 30, 2016, respectively, which accounted for 84.9%, 83.4% and 83.5% of our total assets as of these same respective dates.

Some of our Chinese subsidiaries enjoy preferential tax treatments. Honghe Ruixin is subject to a preferred 9% corporate income tax rate from January 1, 2015 to December 31, 2017. Honghe Zhiyuan is subject to a preferred 9% corporate income tax rate from January 1, 2015 to December 31, 2017. Fuhua Hospital was exempt from business tax from January 1, 2013 to December 31, 2015, and this exemption has been renewed to cover the period from January 1, 2016 to September 28, 2017. From May 1, 2016, after the promulgation of the Notice of Replacing Business Tax with Value-added Tax, Fuhua Hospital became subject to value-added tax (instead of business tax), its business tax exemption continues to apply to its value-added tax during the remainder of the term. In addition, the local government in Dazi, Tibet has agreed to provide government subsidies to Honghe Ruixin and Honghe Zhiyuan, each equal to 60% of the business tax and 50% of the value-added tax payable by Honghe Ruixin or Honghe Zhiyuan (as applicable).

KEY FINANCIAL RATIOS

	Period from February 21 to December 31,	Year ended December 31,	Nine months ended September 30,	
	2014	2015	2015	2016
Gross profit margin	67.2%	71.0%	70.4%	57.5%
EBIT margin	33.4%	63.2%	63.0%	40.1%
Net profit margin	18.2%	47.2%	46.8%	26.7%
Return on equity	N/A	6.1%	5.7%	3.6%
Return on assets	N/A	5.2%	4.8%	3.2%

	As of December 31,		As of September 30,
	2014	2015	2016
Current ratio	0.9x	1.4x	3.1x
Quick ratio	0.9x	1.4x	3.0x
Debt ratio[1]	17.2%	13.3%	8.5%

Note:

(1) Equals total liabilities divided by total assets as at the respective financial period-end.

For the formulas (except for debt ratio) and further details of our key financial ratios, see the section headed “Financial Information—Other Key Financial Ratios” starting on page 327 of this prospectus.

KEY INFORMATION

Yangsi Hospital:

	As of or for the year ended December 31,			As of or for the nine months ended September 30,	
	2013	2014	2015	2015	2016
Revenue (RMB'000)	399,401	461,730	537,977	388,155	443,623
Cost of revenue (RMB'000)	(347,125)	(368,957)	(403,561)	(287,629)	(331,614)
Gross profit (RMB'000)	52,276	92,773	134,416	100,526	112,009
Gross profit margin	13.1%	20.1%	25.0%	25.9%	25.2%
Management service fees (RMB'000)(1)	45,540	64,642	121,044	83,298	98,129
- Weikang Investment(1)	45,540	64,642	64,557	44,871	43,475
- Honghe Ruixin(1)	—	—	56,487	38,427	54,654
Number of hospital beds in operation as of the end of the relevant period	465	465	502	502	550
In-patients					
Occupancy rate of beds in operation	113%	117%	118%	108%	109%
Number of in-patient visits	16,200	17,647	19,062	13,747	15,434
Total revenue from in-patient services (RMB'000)	161,566	194,729	231,407	168,329	193,129
Average revenue per in-patient visit (RMB)	9,973	11,035	12,140	12,245	12,513
Out-patients					
Number of out-patient visits	1,427,802	1,471,857	1,501,416	1,086,795	1,089,420
Total revenue from out-patient services (RMB'000)	237,835	267,001	306,570	219,826	250,494
Average revenue per out-patient visit (RMB)	167	181	204	202	230
Net income (RMB'000)	2,823	2,373	2,795	9,106	2,523
Net income margin	0.7%	0.5%	0.5%	2.3%	0.6%
Current ratio	1.07	1.03	1.00	1.03	0.99
Quick ratio	1.01	0.98	0.94	0.96	0.88
Debt ratio	80%	80%	84%	81%	77%

Note:

(1) Comprises the management service fees that Yangsi Hospital recognized in its administrative expenses. These management service fees include a 6% value-added tax payable by Honghe Ruixin since January 2015 (when it began providing consultancy services to Yangsi Hospital) and by Weikang Investment since May 2016 (when it changed from paying business tax to paying value-added tax in respect of the management services provided to Yangsi Hospital). As advised by the PRC Legal Advisors, Yangsi Hospital (as the service purchaser) is required under the Temporary Regulations on Value-added Tax to bear the value-added tax payable by Weikang Investment and Honghe Ruixin (as the service providers) on the management services they charge Yangsi Hospital. See "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations Related to Taxation in China—Value-added Tax" for more information.

Fuhua Hospital:

	As of or for the year ended December 31,		As of or for the nine months ended September 30,	
	2014	2015	2015	2016
Revenue (RMB'000)	14,675	23,447	15,875	21,089
Cost of revenue (RMB'000)	15,249	21,608	14,814	19,878
Gross profit (RMB'000)	(574)	1,839	1,061	1,211
Gross profit margin	(3.9)%	7.8%	6.7%	5.7%
Number of hospital beds in operation as of the end of the relevant period	111	120	120	120
Occupancy rate of beds in operation	30%	73%	77%	83%
In-patients				
Number of in-patient visits	198	523	331	386
Total revenue from in-patient services (RMB'000)	3,632	7,554	5,227	6,881
Average revenue per in-patient visit (RMB)	18,343	14,444	15,792	17,826
Out-patients				
Number of out-patient visits	24,237	42,932	26,661	34,644
Total revenue from out-patient services (RMB'000)	11,043	15,893	10,648	14,207
Average revenue per out-patient visit (RMB)	456	370	399	410

The increases in Yangsi Hospital's out-patient visits and in-patient visits during the Track Record Period were primarily due to Yangsi Hospital's improved medical service quality as a result of strenghtened on-the-job training, internal controls and attention to nursing services, application of new therapeutic treatments and enlarged medical service scope in response to market demand, and increased hospital bed turnover rates. The increases in Yangsi Hospital's out-patient visits and in-patient visits from the nine months ended September 30, 2015 to the same period of 2016 were also due to its increased cooperation with nursing homes and increased attention to in-home care services. The increases in Yangsi Hospital's average revenue per out-patient visit and average revenue per in-patient visit during the Track Record Period were primarily due to changes in the mix of pharmaceuticals sold, and increases in Yangsi Hospital's medical service fees as a result of increased attention to medical services to the elderly—the group of patients that typically have relatively more complicated and severe diseases and increases in demand for Yangsi Hospital's VIP and other higher-priced medical services. The increases in Yangsi Hospital's average revenue per out-patient visit and average revenue per in-patient visit from the nine months ended September 30, 2015 to the same period of 2016 were also due to the Shanghai pricing authority raising guideline prices for certain basic pharmaceuticals.

The increases in Fuhua Hospital's out-patient visits and in-patient visits from 2014 to 2015 and from the nine months ended September 30, 2015 to the same period of 2016 were primarily due to our efforts to diversify and optimize the medical services that Fuhua Hospital provides, improve its medical capabilities, enhance its recognition among customers by providing free clinical services at communities and retrofit its wards to attract in-patient visits. The increases in Fuhua Hospital's out-patient visits and in-patient visits from the nine months ended September 30, 2015 to the same period of 2016 were also as a result of our efforts to provide a combination of nursing and medical services to the elderly. The decreases in Fuhua Hospital's average revenue per out-patient visit and average revenue per in-patient visit from 2014 to 2015 were primarily because after we acquired the Predecessor Entities, we revised Fuhua Hospital's operating strategy for it to provide quality medical services at prices consistent with local residents' demands and living standards. The increases in Fuhua Hospital's average revenue per out-patient visit and average revenue per in-patient visit from the nine months ended September 30, 2015 to the same period of 2016 were primarily due to the Shanghai pricing authority raising guideline prices for certain basic pharmaceuticals and an increase in demand for medical services from patients with complicated and severe diseases.

MEDICAL DISPUTES

Due to the nature of the healthcare industry and the risks inherent in treating patients, in particular patients with complex medical conditions requiring intensive care or high-risk clinical procedures, the Hospitals are exposed to risks of medical disputes that cannot be entirely eliminated. During the Track Record Period, Yangsi Hospital experienced certain medical disputes that involved patient fatalities and required the payment of monetary compensation. For more details of these medical disputes of Yangsi Hospital, see the section headed "Business—The Hospitals—Yangsi Hospital—Legal proceedings and compliance—Medical disputes" starting on page 215 in this prospectus.

OUR SHAREHOLDING STRUCTURE

Immediately upon completion of the Capitalization Issue and the Global Offering, Vanguard Glory will beneficially own 72.83% of the issued Shares of our Company, without taking into account Shares that may be issued pursuant to the exercise of the Over-allotment Option. Vanguard Glory is a wholly-owned subsidiary of Hony Fund V, one of our Controlling Shareholders.

Under the newly amended Foreign Investment Catalogue (2015), foreign investment in medical institutions is restricted to the form of sino-foreign equity joint venture or cooperative joint venture. In addition, under the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法) (the "**JV Interim Measures**"), the equity percentage of the foreign partner directly held in a sino-foreign joint venture may not exceed 70%. As confirmed by our PRC Legal Advisors, the restriction in the amended Foreign Investment Catalogue (2015) cannot be retrospectively applied to the Company's acquisition of Weikang Investment, and the JV Interim Measures will not be applicable to Yangsi Hospital and Fuhua Hospital. In implementing our future expansion plans, we will ensure that we comply with relevant foreign investment rules under the PRC laws and regulations when establishing or acquiring new for-profit hospitals. We do not expect the amended Foreign Investment Catalogue (2015) to have any material adverse impact on our current or future business. See the section headed "History, Development and Corporate Structure—Compliance with PRC Laws and Regulations" starting on page 153 for more information.

SHARE APPRECIATION RIGHTS AND SHARE AWARDS

We have adopted a Pre-IPO Share Appreciation Rights Scheme (the "**Pre-IPO SARs Scheme**") and a Post-IPO Share Appreciation Rights Scheme (the "**Post-IPO SARs Scheme**"). New Pride, a subsidiary of our Company, also entered into a service contract with Mr. Lu Wenzuo (the "**Service Contract**"). As at the Latest Practicable Date, the share appreciation rights in respect of 2,500,000 notional Shares were granted pursuant to the Pre-IPO SARs Scheme representing approximately 2.5% of the total issued share capital of our Company immediately following the Capitalization Issue that is expected to take place immediately prior to the completion of the Global Offering. Pursuant to the Service Contract, New Pride granted to Mr. Lu Wenzuo (a) certain share awards to acquire up to 3% equity interest in each of Weikang Investment and Honghe Ruixin or receive the cash equivalent; and (b) certain share appreciation rights.

The principal terms of the Pre-IPO SARs Scheme, the Post-IPO SARs Scheme and Service Contract are summarized in the section headed "Statutory and General Information—D. Share Appreciation Rights Schemes" starting on page IV-14 and "Statutory and General Information—E. Service Contract" starting on page IV-27 in Appendix IV to this prospectus.

RECENT DEVELOPMENTS

Our revenue increased from the year ended December 31, 2015 to the year ended December 31, 2016.

In 2016 we made certain issuances of our ordinary shares and granted share appreciation rights and other share-based awards to incentivize our management. We have recognized expenses as a result of these actions in the nine months ended September 30, 2016 and expect to recognize additional expenses in the fourth quarter of the year. Our estimated share-based compensation expenses for 2016 were RMB22.9 million. On March 31, 2016, we issued to Midpoint Honour (which is controlled by certain of our management members) ordinary shares representing 3% of our then-issued share capital. We expect to recognize RMB1.1 million of expenses in respect of this issuance in the fourth quarter of 2016. On November 28, 2016, we granted to certain members of our management Pre-IPO SARs representing approximately 2.5% of the total issued share capital of our Company immediately following the Capitalization Issue. We expect to recognize RMB1.4 million of expenses in the fourth quarter of 2016 in respect of the issuance of these Pre-IPO Share Appreciation Rights. On December 13, 2016, we (through New Pride) granted to Mr. Lu Wenzuo (a) certain share awards to acquire up to a 3% equity interest in each of Weikang Investment and Honghe Ruixin or receive cash equivalent to the value of up to 3% equity interest in each of Weikang Investment and Honghe Ruixin ("**Mr. Lu's Share Awards**") and (b) certain share-appreciation rights to receive a cash payment determined based on the appreciation of a notional equity interest in Weikang Investment and Honghe Ruixin ("**Mr. Lu's SARs**"). We expect to recognize RMB7.0 million and RMB1.4 million of expenses in the fourth quarter of 2016 in respect of Mr. Lu's Share Awards and Mr. Lu's SARs, respectively. In addition, we have agreed to pay a cash bonus of RMB2.5 million to Mr. Lu Wenzuo after the Listing. We expect to recognize RMB0.9 million of expenses in the fourth quarter of 2016 in respect of this cash bonus. Our operating results in 2016 are expected to be materially and adversely affected by the expenses described above related to our incentive schemes and our listing expenses. Please see "Risk

Factors—Risks Relating to the Global Offering—Our financial performance will be negatively affected by our incentive schemes we have adopted in respect of certain of our management members" and "Risk Factors—Risks Relating to the Global Offering—Our financial performance will be negatively affected by the listing expenses incurred in connection with the Global Offering."

Ms. Xia Yuanqing (夏遠青) ("**Ms. Xia**") ceased to be a member of the senior management team of the Company for personal reason from August 2016. On September 14, 2016, Ms. Xia transferred 14 ordinary shares in the Company indirectly held by Ms. Xia through Midpoint Honour and Han Prestige Limited to Vanguard Glory. Upon completion of this transfer, Vanguard Glory and Midpoint Honour held 97.14% and 2.86% interests in the Company, respectively.

Our Company entered into the amendment agreements to the subscription agreement dated December 4, 2016 and January 23, 2017, respectively, with Mr. Zhang Xiaopeng, Ms. Xia, Mr. Zang Chuanbo (臧傳波), Ms. Ding Yue (丁玥) and Ms. Kan Ruihan (闞睿涵), the respective investment holding companies, Hony Capital 2008 Management Limited, Midpoint Honour and Vanguard Glory. As such, on December 4, 2016, our Company repurchased the 14 ordinary shares from Vanguard Glory at a price of HK$1,787,495.50, and subsequently cancelled these shares. Upon completion of the transfer and repurchase, Vanguard Glory and Midpoint Honour held 97.14% and 2.86% interests in our Company, respectively.

Our subsidiary, Honghe Ruixin, declared an RMB38.3 million dividend on November 25, 2016, out of which RMB7.7 million was declared to be distributed to its minority shareholders. The dividend payable to Honghe Ruixin's minority shareholders was paid in January 2017.

Our Directors confirm that up to the date of this prospectus, except as disclosed above, there has been no material adverse change in our financial or trading position or prospects since September 30, 2016, and there is no event since September 30, 2016 that would materially and adversely affect the audited financial information as set out in Appendices IA and IB to this prospectus.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2016

We have prepared the following profit estimate for the year ended December 31, 2016.

For the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2016, our unaudited pro forma estimated earnings per Share for the year ended December 31, 2016 has been prepared based on the notes set out below. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial results for the year ended December 31, 2016 or for any future period.

Estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2016(1)(3)	Not less than RMB19.3 million (approximately HK$21.9 million)
Unaudited pro forma estimated earnings per Share for the year ended December 31, 2016(2)(3)	Not less than RMB0.15 (approximately HK$0.17)

Notes:

(1) The bases on which the above profit estimate has been prepared are summarized in Part A of Appendix IIB to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2016 based on the audited consolidated results of our Group for the nine months ended September 30, 2016, the unaudited consolidated results based on management accounts of our Group for the two months ended November 30, 2016 and an estimate of the consolidated results of our Group for the month ended December 31, 2016. The profit estimate has been prepared on a basis consistent in all material respects with our accounting policies, as presently adopted and as set out in Note 2 of Section II of the Accountant's Report of the Group, the text of which is set out in Appendix IA to this prospectus.

(2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit for the year ended December 31, 2016 attributable to owners of the Company by the weighted average number of 132,577,770 Shares that had been in issue for the year ended December 31, 2016, assuming that a total of 33,334,000 Shares under the Global Offering and Shares under the Capitalization Issue had been in issue as at January 1, 2016. The calculation of the estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The estimated consolidated profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share are converted into Hong Kong dollars at the exchange rate of HK$1.00 to RMB0.8822. No presentation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

Our estimated consolidated profit for 2016 declined significantly as compared to our profit for the year for 2015, primarily because (i) we granted share options, share appreciation rights and other share-based awards to certain senior management members who provided hospital management services at Honghe Ruixin and Weikang Investment in 2016, which resulted in a large amount of share-based compensation expenses, and (ii) our listing expenses increased significantly. For details with respect to the share-based compensation, please see "Summary—Recent Developments" starting on page 21, "Risk Factors—Risks Relating to the Global Offering—Our financial performance will be negatively affected by our incentive schemes we have adopted in respect of certain of our management members" starting on page 74, "Financial Information—Critical Accounting Policies, Judgments and Estimates—Share-based Payments" starting on page 265 and Note 16 to the Accountant's Report included in Appendix IA to this prospectus starting on page IA-55. For details with respect to our listing expenses, please see "Summary—Listing Expenses" starting on page 23, "Risk Factors—Risks Relating to the Global Offering—Our financial performance will be negatively affected by the listing expenses incurred in connection with the Global Offering" starting on page 74 and "Financial Information—Listing Expenses" starting on page 331.

LISTING EXPENSES

We incurred approximately RMB28.8 million of listing expenses during the Track Record Period, among which approximately RMB8.9 million was recorded as prepayments and approximately RMB19.9 million was recorded as expenses. We expect to incur approximately an additional RMB40.1 million of listing expenses (including underwriting commission) after the Track Record Period, of which approximately RMB0.7 million and RMB22.3 million will be capitalized and approximately RMB2.0 million and RMB15.1 million will be recognized as expenses in the fourth quarter of 2016 and in the first quarter of 2017, respectively. Our estimated listing expenses recorded in our consolidated statements of comprehensive income for 2016 will be approximately RMB16.9 million.

APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Tuesday, February 28, 2017 through Thursday, March 9, 2017, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, March 15, 2017. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, March 16, 2017.

OFFERING STATISTICS(1)

	Based on an Offer Price of HK$12.80 per Share	Based on an Offer Price of HK$15.00 per Share
Market capitalization(2)	HK$1,704.9 million	HK$1,997.9 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share(3)	HK$3.51	HK$4.07

Notes:

(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalization is based on 133,194,000 Shares in issue and outstanding immediately following the completion of the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix IIA "Unaudited Pro Forma Financial Information" to this prospectus and on the basis that 133,194,000 Shares are issued and outstanding immediately following the completion of the Global Offering.

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK$13.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus) and no exercise of the Over-allotment Option, we estimate that (i) the gross proceeds of the Global Offering that we will receive will be approximately HK$463.3 million, and (ii) the net proceeds of the Global Offering that we will receive, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering, will be approximately HK$380.2 million. We intend to use the net proceeds of the Global Offering, assuming the Over-allotment Option is not exercised, for the following purposes: (i) approximately 50%, or HK$190.1 million, will be used for strategic acquisition of Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that possess competitive advantages and are located in regions in China with sizeable population and economic activities; (ii) approximately 18%, or HK$68.4 million, will be used for further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals); (iii) approximately 15%, or HK$57.0 million, will be used for employee training at the Hospitals and other hospitals we own or manage from time to time, talents recruitment and academic research activities; (iv) approximately 7%, or HK$26.6 million, will be used for upgrading and improving our information technology system; and (v) approximately 10%, or HK$38.0 million, will be used to provide funding for our working capital and other general corporate purposes.

Please see the section headed "Future Plans and Use of Proceeds" starting on page 366 for further details.

DIVIDEND POLICY

We declared no dividends to our shareholders in the period from February 21, 2014 to December 31, 2014 or in the year ended December 31, 2015. Our subsidiary, Weikang Investment, declared an RMB31.9 million dividend on September 12, 2016, out of which RMB6.4 million was declared to be distributed, to its minority shareholders. The dividend payable to Weikang Investment's minority shareholders amounting to RMB6.4 million had been recognized as our liability as of September 30, 2016, and was paid in February 2017. Our subsidiary, Honghe Ruixin, declared an RMB38.3 million dividend on November 25, 2016, out of which RMB7.7 million was declared to be distributed to its minority shareholders. The dividend payable to Honghe Ruixin's minority shareholders was paid in January 2017. We may declare dividends after taking into account our results of operations and earnings, our capital requirements and surplus, our general financial condition, contractual restrictions, and other factors as our Directors may deem relevant at such time. Subject to the limitations described above and in "Financial Information—Dividend Policy" starting on page 330, as a dividend policy, our Directors expect to pay dividends from time to time in an aggregate amount of approximately 30% of profits attributable to owners of our Company. Any prior declaration of dividends may or may not reflect our future declarations of dividends.

RISK FACTORS

There are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and industry, (ii) risks relating to doing business in China and (iii) risks relating to the Global Offering. We believe the most significant risks we face include:

- Ongoing regulatory reforms in China are unpredictable. Changes in China's regulatory regime for the healthcare service industry, particularly changes in healthcare reform policies, could have a material adverse effect on our business operations and future expansion;

- We are dependent on Yangsi Hospital and Fuhua Hospital for all of our revenue during the Track Record Period and up to the Latest Practicable Date. Any adverse development relating to either of Yangsi Hospital or Fuhua Hospital could materially and adversely affect our business and future results of operations;

- If a hospital we manage terminates or does not renew our management agreements with it, or if we fail to maintain the level of management service fees we charge, our revenue and profitability may suffer;

- We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it would adversely affect our results of operations and financial position;

- Our ability to expand and grow our existing operations may be limited by our ability to (i) identify and capture expansion opportunities to acquire or manage new hospitals; (ii) obtain financing to acquire control of additional hospitals; (iii) successfully integrate newly acquired hospitals or achieve expected profitability; and (iv) successfully replicate our business model outside of Shanghai; and

- There are risks associated with the land and buildings on which Yangsi Hospital operates, and we would face disruption to our business if Yangsi Hospital were required to find alternative premises.

A detailed discussion of all the risk factors involved are set out in the section headed "Risk Factors" starting on page 43 in this prospectus. You should read the whole section carefully before you decide to invest in the Offer Shares.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Accountant's Reports"	the reports from the Reporting Accountant, the text of which is set out in Appendices IA and IB of this prospectus, each an "Accountant's Report"
"Acute Sky"	Acute Sky Holdings Limited (天銳控股有限公司), a company incorporated in the BVI as a limited liability company on January 2, 2014 and a direct wholly-owned subsidiary of our Company
"affiliate"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or, where the context so requires, any of them
"Articles" or "Articles of Association"	the articles of association of the Company (as amended from time to time), conditionally adopted on December 13, 2016, a summary of which is set out in Appendix III to this prospectus
"Audit Committee"	the audit committee of the Board
"Bliss Success"	Bliss Success Holdings Limited (妙榮控股有限公司), a company incorporated in Hong Kong as a limited liability company on December 20, 2011 and an indirect wholly-owned subsidiary of our Company
"Board" or "Board of Directors"	the board of Directors
"Bohai Economic Rim"	the economic hinterland surrounding Beijing and Tianjin, including areas in Hebei, Liaoning and Shandong, which surrounds the Bohai Sea
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate

"Capitalization Issue"	the issue of 99,850,014 Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in the section headed "History, Development and Corporate Structure—The Capitalization Issue"
"Cayman Companies Law"	the Companies Law (2016 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961), as amended or supplemented or otherwise modified from time to time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CFDA"	the China Food and Drug Administration (國家食品藥品監督管理總局)
"Chairman"	the chairman of the Board
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau Special Administrative Region and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company", "our Company" or "HCCL"	Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司) (formerly known as "Grand Accordia Healthcare Group Co. Limited"), a company incorporated in the Cayman Islands with limited liability on February 21, 2014

"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Vanguard Glory, Hony Fund V, Hony Capital Fund V GP, L.P., and Hony Capital Fund V GP Limited
"CPC"	the Communist Party of China
"Director(s)"	the director(s) of our Company
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法), which came into effect on January 1, 2008
"Ever Surpass"	Ever Surpass Investments Limited (恒越投資有限公司), a company incorporated in the BVI as a limited liability company on December 10, 2013 and a direct wholly-owned subsidiary of our Company
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting firm, which is an Independent Third Party
"Frost & Sullivan Report"	an industry report dated February 27, 2017 commissioned by us for a fee of RMB780,000, issued by Frost & Sullivan, containing an analysis of China's healthcare service market for the period covered in this report and other relevant economic data, as referred to in the section headed "Industry Overview" in this prospectus
"Fuhua Hospital"	Shanghai Fuhua Hospital Co., Ltd. (上海福華醫院有限公司), incorporated in the PRC as a limited liability company on October 17, 2007 and an indirect wholly-owned subsidiary of our Company
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "our Group", "we" or "us"	our Company and our subsidiaries and, in respect of the period before we became the holding company of our present subsidiaries, the entities that carried out the business of the present Group at the relevant time
"HK$" or "Hong Kong dollar(s)" or "cent"	Hong Kong dollars, the lawful currency of Hong Kong

"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Honghe Ruixin"	Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司), incorporated in the PRC as a limited liability company on December 23, 2014 and a subsidiary owned indirectly as to 80% by our Company
"Honghe Yixin"	Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司), incorporated in the PRC as a limited liability company on July 29, 2014 and an indirect wholly-owned subsidiary of our Company
"Honghe Zhiyuan"	Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司), incorporated in the PRC as a limited liability company on October 10, 2014 and an indirect wholly-owned subsidiary of our Company
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 3,333,600 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong subject to the terms and conditions set out in this prospectus and the Application Forms
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriter"	the underwriter of the Hong Kong Public Offering listed in the section headed "Underwriting—Hong Kong Underwriter" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated February 27, 2017 relating to the Hong Kong Public Offering and entered into by our Company, Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P., Hony Capital Fund V GP Limited, China International Capital Corporation Hong Kong Securities Limited and the Hong Kong Underwriter
"Hony Capital"	a series of private equity investment funds, together with their respective management companies/general partners

"Hony Capital Entities"	Hony Fund V, Hony Capital Fund V GP, L.P., and Hony Capital Fund V GP Limited, and each a Hony Capital Entity, being a Controlling Shareholder
"Hony Fund V"	Hony Capital Fund V, L.P., an exempted limited partnership formed in the Cayman Islands on August 10, 2011 and being a Controlling Shareholder
"Hospitals"	Yangsi Hospital and Fuhua Hospital
"Hospital Management Agreements"	annual hospital management and consultancy agreements entered into (i) between Yangsi Hospital and Weikang Investment, for 2013 and 2014, and (ii) among Yangsi Hospital, Weikang Investment and Honghe Ruixin, for 2015 and 2016, the Hospital Management Framework Agreement, the Letter of Intent and the Long Term Hospital Management Agreement
"Hospital Management Framework Agreement"	a six-year hospital management framework agreement entered into by Yangsi Hospital and Weikang Investment on January 1, 2013, pursuant to which Weikang Investment agreed to provide management and consultancy services to Yangsi Hospital for a period of six years from January 1, 2013 to December 31, 2018. This agreement was replaced by the Long Term Hospital Management Agreement on January 1, 2016
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, our subsidiaries or any of their respective associates
"International Offer Shares"	the 30,000,400 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation
"International Offering"	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S or any other available exemption from registration under the U.S. Securities Act
"International Underwriter"	the international underwriter that is expected to enter into the International Underwriting Agreement

"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering, which is expected to be entered into by our Company, the Controlling Shareholders, the Sole Global Coordinator and the International Underwriter
"Latest Practicable Date"	February 19, 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Letter of Intent"	a 51-year letter of intent entered into between Yangsi Hospital and Weikang Investment on October 8, 2014 in respect of the provision of management and consultancy services for the period from January 1, 2014 to December 31, 2064
"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Committee"	the listing committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about Thursday, March 16, 2017 on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended or supplemented from time to time
"Long Term Hospital Management Agreement"	a 10-year hospital management agreement entered into by Yangsi Hospital, Weikang Investment and Honghe Ruixin on January 1, 2016, pursuant to which Weikang Investment and Honghe Ruixin provide management and consultancy services to Yangsi Hospital for a period of 10 years from January 1, 2016 to December 31, 2025
"M&A Rules"	the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the memorandum of association of the Company (as amended from time to time), conditionally adopted on December 13, 2016, a summary of which is set out in Appendix III to this prospectus

"Medical Insurance Designated Medical Institution"	medical institutions designated by the relevant local medical insurance authority as ones that are permitted to treat patients covered by public medical insurance programs
"Midpoint Honour"	Midpoint Honour Limited, a company incorporated in the BVI as a limited liability company on December 10, 2013 and a shareholder holding 2.86% issued share capital of our Company immediately prior to the Global Offering
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作貿易部)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"New Pride"	New Pride Holdings Limited (捷穎控股有限公司), a company incorporated in Hong Kong as a limited liability company on April 11, 2012 and an indirect wholly-owned subsidiary of our Company
"NHFPC"	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), which was reorganized from the former Ministry of Health of the PRC and National Population and Family Planning Commission in March 2013
"Nomination Committee"	the nomination committee of our Board
"NPC"	the National People's Congress of the PRC (全國人民代表大會)
"NRCMIS"	New Rural Cooperative Medical Insurance Scheme (新型農村合作醫療保險制度), a voluntary medical insurance scheme covering rural residents in China
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option

"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriter, pursuant to which we may be required by the Sole Global Coordinator (on behalf of the International Underwriter) to allot and issue up to an aggregate of 5,000,000 additional Shares representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Post-IPO Share Appreciation Rights Scheme"	the share appreciation rights scheme conditionally adopted by our Company on December 13, 2016 for the benefit of our employees, Directors, customers and suppliers of our Group, business or joint venture partners and certain advisors of our Group and their respective employees, a summary of the principal terms of which is set forth in "Statutory and General Information—D. Share Appreciation Rights Schemes—2. Post-IPO Share Appreciation Rights Scheme" in Appendix IV to this prospectus
"PRC Government" or "State"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
"PRC Legal Advisors"	Global Law Office
"Pre-IPO Share Appreciation Rights Scheme"	the share appreciation rights scheme conditionally adopted by our Company on November 28, 2016 for the benefit of our employees, Directors, customers and suppliers of our Group, business or joint venture partners and certain advisors of our Group and their respective employees, a summary of the principal terms of which is set forth in "Statutory and General Information—D. Share Appreciation Rights Schemes—1. Pre-IPO Share Appreciation Rights Scheme" in Appendix IV to this prospectus
"Predecessor Entities"	Weikang Investment and Fuhua Hospital, taken as a whole
"Price Determination Date"	the date, expected to be on or about Thursday, March 9, 2017, on which the Offer Price will be determined and, in any event, not later than Thursday, March 9, 2017
"Principal Share Registrar"	Maples Fund Services (Cayman) Limited

"Privately-funded Non-enterprise Entity"	an entity which is established by enterprises, institutions, associations or other civic entities as well as individual citizens using non-state assets and conduct not-for-profit social service activities
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Reporting Accountant"	PricewaterhouseCoopers
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration of Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SATCM"	the State Administration of Traditional Chinese Medicine of the PRC (中華人民共和國國家中醫藥管理局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of HK$0.001 each
"Shareholder(s)"	holder(s) of Shares
"Sole Sponsor", "Sole Global Coordinator", "Sole Bookrunner" or "Sole Lead Manager	China International Capital Corporation Hong Kong Securities Limited
"Stabilizing Manager"	China International Capital Corporation Hong Kong Securities Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)

"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and Vanguard Glory, pursuant to which Vanguard Glory will agree to lend up to approximately 15% of the Offer Shares initially available under the Global Offering to the Stabilizing Manager on terms set forth therein
"Track Record Period"	the three financial years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016
"UEBMIS"	the Urban Employee Basic Medical Insurance Scheme (城鎮職工基本醫療保險制度), a mandatory medical insurance program covering urban workers and retirees in China
"Underwriters"	the Hong Kong Underwriter and the International Underwriter
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"URBMIS"	the Urban Resident Basic Medical Insurance Scheme (城鎮居民基本醫療保險制度), a voluntary medical insurance program covering urban residents without formal employment in China
"US$"	U.S. dollars, the lawful currency of the United States of America
"U.S." or "United States"	the United States of America
"U.S. Securities Act"	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
"Vanguard Glory"	Vanguard Glory Limited (譽鋒有限公司), a company incorporated in the BVI as a limited liability company on January 10, 2012 and the immediate holding company and Controlling Shareholder of our Company
"Weikang Acquisition"	New Pride acquired an aggregate of 80% equity interest in Weikang Investment from the Weikang Investment Minority Shareholders
"Weikang Investment"	Shanghai Weikang Investment Management Co., Ltd., (上海維康投資管理有限公司), incorporated in the PRC as a limited liability company on April 15, 2002 and a subsidiary owned indirectly as to 80% by our Company

"Weikang Investment Minority Shareholders"	Mr. Chen Zhixiong (陳志雄), Ms. Hu Jianlian (胡劍蓮), Ms. Lu Jingping (陸景平), Mr. Wang Zhejun (汪浙軍) and Mr. Wang A'Mao (汪阿毛) (the father of Mr. Wang Zhejun and Mr. Wang Jianjun (汪建軍))
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's/applicants' own name
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of White Form eIPO at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Yangsi Hospital"	Shanghai Yangsi Hospital (上海楊思醫院), a Privately-funded Non-enterprise Entity established on January 5, 2007 and a hospital founded and managed by our Group
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
"Yixin Research Centre"	Shanghai Yixin Andrology and Reproductive Research Centre (上海益新男科與生殖研究所), a Privately-funded Non-enterprise Entity established in the PRC on July 18, 2014

In this prospectus, the terms "associate", "close associate", "connected person", "core connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

The glossary of technical terms contains terms used in this prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

"anorectal"	a branch of medicine that deals with matters associated with the anus and rectum
"assistant doctors"	the entry professional rank for doctors in China; an assistant doctor (助理醫師) (usually not possessing a Master's degree) may undertake basic tasks such as patient's medical record preparation and practice medicine under the supervision of attending doctors or other superiors
"attending doctors"	the second professional rank for doctors in China; an attending doctor (主治醫師) may supervise resident doctor and typically undertake medical treatment, teaching, research and disease prevention work
"associate-chief doctor"	the third professional rank for doctors in China; an associate-chief doctor (副主任醫師) may supervise attending and resident doctors, direct research work of a specific field, and typically handle complex medical cases
"beds in operation"	the fixed sum of beds that are used for clinical services in a medical institution as of a specific date, including regular beds and care beds
"breast surgery"	a branch of medicine that deals with diseases associated with the breast
"cardiology"	a branch of medicine that deals with matters associated with the heart and the vessels
"chief doctor"	the highest professional rank for doctors in China; a chief doctor (主任醫師) is generally in charge of a specific clinical department
"Class I Hospital"	the smaller local hospitals designated as Class I hospitals by the NHFPC hospital classification system, typically having fewer than 100 beds in operation and primarily providing more basic healthcare services limited to the neighborhood community
"Class II Hospital"	the regional hospitals designated as Class II hospitals by the NHFPC hospital classification system, typically have 100 to 500 beds in operation, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions

"Class IIB Hospital"	each Class II Hospital can be further divided into A, B and C. Class IIB hospitals are the second tier hospitals among Class II hospitals in China
"Class III Hospital"	the largest regional hospitals with the highest standard in China designated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds in operation, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives
"Class IIIA Hospital"	each Class III Hospital can be further divided into A, B and C. Class IIIA hospitals are the top tier hospitals in China
"Class IIIB Hospital"	each Class III Hospital can be further divided into A, B and C. Class IIIB hospitals are the second tier hospitals among Class III hospitals in China
"endocrinology"	a branch of medicine concerned with the structure, function, and disorders of the endocrine glands
"gastroenterology"	a brand of medicine which deals with disorders of the stomach and intestines
"general surgery"	a branch of medicine concerned with a broad spectrum of diseases that may require surgical treatment
"gynecology"	a branch of medicine that deals with the diseases, abnormalities and routine physical care of the reproductive system of women
"healthcare service"	the service practice that provides in-patient and out-patient diagnosis, treatment and prevention of human disease, illness, injury or dysfunction through the medical procedures performed by professional practitioners in medicine, optometry, nursing, pharmacy and other fields
"in-patient visits"	a patient visit during which the patient receives overnight lodging as well as treatment
"nephrology"	a branch of medicine that deals with diseases of kidneys
"neurology"	a branch of medicine that deals with the anatomy, functions and organic disorders of nerves and the nervous system
"obstetrics"	a branch of medicine that involves the medical care of women during pregnancy, childbirth and the recuperative period following delivery

"occupancy rate of beds in operation"	The aggregate number of a hospital's occupied beds as of 12am midnight of each day divided by the hospital's aggregate number of beds in operation as of 12am midnight each day
"oncology"	a branch of medicine that deals with tumors, including study of their development, diagnosis, treatment and prevention
"otolaryngology"	a branch of medicine that deals with conditions of the ear, nose and throat region; sometimes also referred to as ENT
"orthopaedics"	a branch of medicine that focuses on injuries and diseases of the musculoskeletal system, which includes bones, joints, ligaments, tendons, muscles and nerves
"out-patient visit"	a patient visit during which the patient is not hospitalized overnight but visits a hospital or associated facility for diagnosis or treatment
"public medical insurance programs"	primarily include UEBMIS, URBMIS, and NRCMIS
"resident doctor"	the entry professional rank for doctors in China; a resident doctor (住院醫師) must have a medical degree, and may undertake basic tasks such as patient's medical record preparation and practice medicine under the supervision of attending doctors or other superiors
"respiratory medicine"	a branch of medicine that deals with diseases and abnormalities of the respiratory system
"stomatology"	a branch of medicine that deals with diseases and disorders of the mouth
"urology"	a branch of medicine that focuses on the urinary tracts and on the reproductive system of males

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "can", "continue", "could", "expect", "target", "going forward", "intend", "may", "ought to", "plan", "potential", "project", "seek", "should", "will", "would" and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our ability to maintain relationship with, and the actions of and developments affecting, our major customers and suppliers;
- future developments, trends and conditions in the industries and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory and operating environment in the industries and markets in which we operate;
- our ability to retain senior management and key personnel, and recruit qualified medical professionals;
- our business strategies and plans to achieve these strategies, including our expansion plans;
- the actions of and developments affecting our competitors;
- the amount and nature of, and potential for, future development of our business;
- changes or volatility in interest rates, foreign exchange rates, equity prices, operations, margins, risk management and overall market trends;
- the effects of the global financial markets and economic crisis;
- capital market developments; and
- our dividend policy.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, our financial condition and actual results of operations may vary materially from those estimated, anticipated or projected, as well as from historical results.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that all of our business is located in China and we are governed by a legal and regulatory environment that in some respects may differ from that prevailing in other countries. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The trading price of our Shares could also decrease significantly due to any of these risks and you may lose all or part of your investment.

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. These risk factors can be broadly categorized into: (i) risks relating to our business and industry; (ii) risks relating to doing business in China; and (iii) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Ongoing regulatory reforms in China are unpredictable. Changes in China's regulatory regime for the healthcare service industry, particularly changes in healthcare reform policies, could have a material adverse effect on our business operations and future expansion.

China's regulatory regime governing the healthcare service industry is undergoing reform, and new regulations and policies are expected to be promulgated. It is uncertain what impact these new regulations and policies would have on our competitiveness, operations and corporate structure. In recent years, the PRC Government launched a new healthcare reform plan to ensure that every citizen has access to affordable basic healthcare services. In pursuit of these policy objectives, the PRC Government has implemented extensive regulations and policies to address the affordability, accessibility and quality of healthcare services, medical insurance coverage, distribution of pharmaceutical products and reform of public hospitals. In addition, the PRC Government has gradually reduced regulatory hurdles for establishing and investing in non-public hospitals, in particular by private capital, and encouraged development of hospital management groups.

Our business operations and future expansion are largely driven by the PRC Government's policies, which may change significantly and are beyond our control. There can be no assurance that the PRC Government will not impose additional or stricter laws or regulations on healthcare services or foreign investments, or strengthen and tighten supervision and management of medical institutions including hospitals, in particular, non-public hospitals, or implement stricter or more comprehensive regulations on the distribution of pharmaceutical products, medical devices and medical consumables. Depending on the priorities of the PRC Government, the political climate and the regulatory regime with respect to foreign investment control at any given time, and the development of the Chinese healthcare system, future regulatory changes may affect public hospital reform, limit private or foreign investments in healthcare service industry, change reimbursement rates for healthcare services provided to publicly insured patients, or implement additional price control on pharmaceutical products or medical services. Any of these events could have a material and adverse impact on our business, financial condition, results of operations, prospects and future growth.

We are dependent on Yangsi Hospital and Fuhua Hospital for all of our revenue during the Track Record Period and up to the Latest Practicable Date. Any adverse development relating to either of Yangsi Hospital or Fuhua Hospital could materially and adversely affect our business and future results of operations.

We relied on Yangsi Hospital and Fuhua Hospital for all of our revenue during the Track Record Period and up to the Latest Practicable Date. Management service fees from Yangsi Hospital accounted for 98.1%, 80.4%, 72.3% and 65.4% of our Predecessor Entities' revenue for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, respectively. Management service fees from Yangsi Hospital accounted for 76.4%, 82.7% and 80.8% of our revenue for the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively. For the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016, general hospital services provided by Fuhua Hospital accounted for 18.3%, 26.3% and 33.1% of our Predecessor Entities' revenue and 22.3%, 16.5% and 18.3% of our total revenue in these respective periods. Unless we are successful in acquiring control of or managing additional hospitals, all of our revenue will continue to be derived from Yangsi Hospital and Fuhua Hospital. As a result, any development that has a material adverse effect on either of the Hospitals may also have a material adverse effect upon our business and financial performance. In particular, under the Hospital Management Agreements with Yangsi Hospital, we receive management service fees calculated based on a predetermined percentage of or formula based on the hospital's revenue and various performance criteria, as determined under the hospital management and consultancy agreements for each relevant year. See the section headed "Business—Our Business Model—Our Hospital Management Business" and "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" for more details on the calculation of the management service fees. Therefore, any development that has a material adverse effect on Yangsi Hospital may adversely affect our management service fee rates and further affect our financial performance. These types of adverse developments could include any of the following:

- any significant reduction in the number of patients admitted;
- an increase in competition from existing hospitals or other medical institutions or the establishment of new medical institutions near Yangsi Hospital and Fuhua Hospital;
- failure to make improvements or enhancements to medical equipment, or failure to acquire new medical equipment and other facilities in a timely manner;
- failure to satisfactorily complete annual or periodic inspections;
- failure to attract and retain high quality doctors and other medical professionals;
- any medical malpractice or medical disputes;
- failure to meet the demand for or level of services expected by patients;

- any outbreak of contagious or epidemic diseases;
- fire, floods, typhoons, earthquakes, power failures or similar events that may interrupt normal operations; and
- any material change in the current demographic, economic, competitive or regulatory conditions applicable to the Hospitals.

If a hospital we manage terminates or does not renew our management agreements with it, or if we fail to maintain the level of management service fees we charge, our revenue and profitability may suffer.

During the Track Record Period, we managed Yangsi Hospital under our Hospital Management Agreements and derived our management service fees thereon. In 2013, 2014 and 2015 and the nine months ended September 30, 2016, management service fees (net of value-added tax) from Yangsi Hospital (by Weikang Investment in 2013 and 2014 and by Weikang Investment and Honghe Ruixin in 2015 and the nine months ended September 30, 2016) were RMB45.5 million, RMB64.6 million, RMB117.8 million and RMB93.3 million, respectively. Furthermore, we recorded an intangible asset on our balance sheet relating to the contractual rights to provide management services to Yangsi Hospital of RMB115.2 million, RMB112.9 million and RMB111.2 million as of December 31, 2014 and 2015 and September 30, 2016, respectively, accounting for 9.0%, 8.7% and 8.6% of our total assets as of these same respective dates. This asset reflects the fair value of the Hospital Management Agreements, entered into between us and Yangsi Hospital, and are amortized on a straight-line basis over the contractual term of 50 years starting from October 1, 2014 based on the Hospital Management Framework Agreement and the Letter of Intent; as confirmed by our PRC Legal Advisors, the Letter of Intent is a valid, legally binding and enforceable contract under Chinese law. The fair value of the contractual rights to provide management services was accessed based on various key assumptions, including revenue growth rate of Yangsi Hospital and management fee ratio, made as of the acquisition date. See the sections headed "Business—Our Business Model—Our Hospital Management Business", "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements", "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheets—Intangible Assets" and Note 7(a) "Intangible Assets—Contractual rights to provide management service" to the Accountant's Report in Appendix IA to this prospectus for more details. Yangsi Hospital may unilaterally terminate the Hospital Management Agreements during the tenure of our management (i) upon force majeure events, (ii) upon a material breach of representations and warranties, or untrue representation or false statement by us, or (iii) if we indicate our intention not to fulfill our obligations, which will result in our losing the entitlement to receive management service fees from Yangsi Hospital. In addition, if we fail to maintain influence at the executive committee of Yangsi Hospital, in particular given that we do not have control over the employee representatives and/or independent members of the executive committee who might vote against the members we nominate, Yangsi Hospital may terminate these agreements or may choose not to renew the Hospital Management Agreements with us after these agreements expire. If any of these events were to occur, we would not only cease to derive revenue from Yangsi Hospital, but would also have to write off our intangible asset relating to the contractual rights to provide management services to Yangsi Hospital.

In addition to the risk of termination or non-renewal, we also face risks related to the level of management fees Yangsi Hospital pays, which are subject to change annually. The approval of material matters of Yangsi Hospital, including the terms of the Hospital Management Agreements (including the amount of the management services fees), requires votes including the support from at least one employee representative and the independent member of the executive committee of Yangsi Hospital. We (through Weikang Investment and Honghe Ruixin) enter into one-year hospital management and consultancy agreements with Yangsi Hospital each year. These agreements provide for the specific terms of hospital management services for the respective years, including the scope of management and consultancy services, calculation of management service fees and performance criteria. The specific terms of hospital management services under these one-year hospital management and consultancy agreements are therefore subject to further negotiations between us and Yangsi Hospital each year. Accordingly, we do not have control over the amount of the management services fees we charge to Yangsi Hospital each year and therefore cannot assure you that the ratio of the hospital management service fees we charge to Yangsi Hospital's revenue going forward will be maintained at a level similar to those for the Track Record Period. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it would adversely affect our results of operations and financial position.

We recorded goodwill of RMB958.9 million as of each of the dates of December 31, 2014 and 2015 and September 30, 2016, accounting for 74.8%, 73.6% and 74.0% of our total assets as of the same respective dates. Our goodwill arose from our acquisition of Weikang Investment on September 30, 2014. The goodwill was primarily attributable to the hospital management business of Weikang Investment, as well as the general hospital business of Fuhua Hospital. This goodwill represents the excess of the consideration over the fair value of the net identifiable assets we acquired. In determining our consideration in our acquisition of Weikang Investment (including the amount of the goodwill), we considered the following factors:

- the opportunity for us to quickly enter the hospital operation and management business through our acquisition of Weikang Investment;
- Weikang Investment's ability to continue to enter into hospital management agreements with Yangsi Hospital given its influence at Yangsi Hospital's executive committee;
- Weikang Investment's high quality hospital management professionals and replicable business model of hospital management; and
- business opportunities for us to further cooperate with Yangsi Hospital, taking into consideration the market-leading position and brand recognition of Yangsi Hospital as a non-public hospital in Shanghai.

Impairment of Goodwill

We do not amortize goodwill, but we conduct impairment reviews at least annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, we allocate goodwill acquired in a business acquisition to each of the operating segments, namely the general hospital services segment and the hospital management services segment, that we expect to benefit from the synergies of the acquisition. We compare the carrying value of the operating segments containing the goodwill to the recoverable amount, which is the higher of the operating segments' value-in-use and fair value less costs of disposal. We determine the recoverable amount for the general hospital services segment and the hospital management services segment based on value-in-use calculations. We did not recognize impairment losses in respect of goodwill during the Track Record Period. Please refer to Note 2.6(a) "Summary of Significant Accounting Policies—Intangible Assets—Goodwill," Note 4(a) "Critical accounting estimates and judgements—Estimated impairment of goodwill" and Note 7(b) "Intangible Assets—Impairment tests for goodwill" in Appendix IA to this prospectus for further details of our accounting policies for goodwill and goodwill impairment, the estimates and assumptions involved therein, and the components of our goodwill during the Track Record Period.

Key Assumptions and Sensitivity Analysis

In evaluating the potential for impairment of goodwill, we make assumptions regarding the continuity of the hospital management agreements with Yangsi Hospital, the potential hospital management agreements with other hospitals, future operating performance, business trends, market development and economic conditions. This analysis further requires us to make judgmental assumptions about revenue, operating margins, growth rates, and discount rates. Please see "Financial Information—Critical Accounting Policies, Judgments and Estimates—Critical Accounting Estimates and Judgments—Estimated Impairment of Goodwill" and Note 4(a) "Critical accounting estimates and judgements—Estimated impairment of goodwill" to the Accountant's Report in Appendix IA to this prospectus for key assumptions we used in our goodwill impairment testing and further details regarding sensitivity analysis.

Set forth below are discussions on sensitivity analysis for our goodwill impairment testing.

General hospital services segment

The table below sets forth each key assumption for the eight-year forecast period as of each period/year end (estimated based on our operations for the periods indicated) that we used in our goodwill impairment testing and the breakeven point of such key assumption:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2016	
	Key assumption	Breakeven point	Key assumption	Breakeven point	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	16.87%	-1.50%	9.69%	-17.19%	9.69%	-19.72%
Percentage of costs and operating expenses over revenue	88.00%	94.32%	85.00%	91.65%	85.00%	91.89%
Percentage of the pre-tax discount rate*	15.78%	23.62%	16.36%	27.35%	16.63%	30.33%

* Same for the eight-year forecast period and after that period.

Hospital management services segment

The table below sets forth each key assumption for the eight-year forecast period as of each period/year end (estimated based on our operations for the periods indicated) that we used in our goodwill impairment testing and the breakeven point of such key assumption:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2016	
	Key assumption	Breakeven point	Key assumption	Breakeven point	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	17.45%	16.56%	9.59%	8.68%	9.65%	8.23%
Percentage of costs and operating expenses over revenue	9.95%	13.80%	9.95%	14.20%	10.02%	16.66%
Percentage of the pre-tax discount rate*	14.63%	15.10%	14.67%	15.21%	14.70%	15.62%

* Same for the eight-year forecast period and after that period.

The tables below set forth the financial impact on our goodwill impairment testing if each key assumption had been one percentage point higher or lower than its breakeven point for each of our general hospital services segment and hospital management services segment as of September 30, 2016.

Sensitivity Analysis for the General Hospital Services Segment as of September 30, 2016

Key assumptions	Breakeven point of key assumptions	Change of one percentage point for each key assumption	Impact
Revenue (% compound growth rate)...................	-19.72%	-20.72%	Carrying amount exceeds recoverable amount by RMB0.3 million
Cost and operating expenses (% of revenue)	91.89%	92.89%	Carrying amount exceeds recoverable amount by RMB3.1 million
Pre-tax discount rate (%) ...	30.33%	31.33%	Carrying amount exceeds recoverable amount by RMB0.8 million

Sensitivity Analysis for the Hospital Management Services Segment as of September 30, 2016

Key assumptions	Breakeven point of key assumptions	Change of one percentage point for each key assumptions	Impact
Revenue (% compound growth rate)...................	8.23%	7.23%	Carrying amount exceeds recoverable amount by RMB76.6 million
Cost and operating expenses (% of revenue)	16.66%	17.66%	Carrying amount exceeds recoverable amount by RMB17.6 million
Pre-tax discount rate (%) ...	15.62%	16.62%	Carrying amount exceeds recoverable amount by RMB108.1 million

There are inherent uncertainties relating to these factors and to our management's judgment in applying these factors to the assessment of goodwill recoverability. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if there are any impairment indicators, including disruptions to the operations of the Hospitals, unexpected significant declines in our operating results, any divestiture of a significant component of our business or a decline in our market capitalization, any of which could be caused by our failure to successfully manage the Hospitals. Our estimates of the projected cash flows from the relevant operating segments may be susceptible to downward revision as a result of factors adversely affecting our hospital management business or general hospital services, or under circumstances where the Hospitals fail to sustain the growth we have estimated for it. If we were required to recognize impairment charges, they could substantially affect our reported earnings in the periods when recognized. In addition, impairment charges could negatively affect our financial ratios, limit our ability to obtain financing and adversely affect our financial position.

Our ability to expand and grow our existing operations may be limited by our ability to (i) identify and capture expansion opportunities to acquire or manage new hospitals; (ii) obtain financing to acquire control of additional hospitals; (iii) successfully integrate newly acquired hospitals or achieve expected profitability; and (iv) successfully replicate our business model outside of Shanghai.

We expect our future growth to result primarily from acquiring new hospitals or entering into new hospital management agreements with other hospitals. Our ability to expand our business will depend on a range of factors, including: (i) changes to the Chinese healthcare regulatory and policy environment, (ii) the reputation and track records of the hospitals we own or manage and those of their medical professionals, (iii) our financial resources, (iv) our ability to improve the financial and operational performance of hospitals under our management, (v) our ability to identify suitable target hospitals, successfully implement our expansion scheme, integrate hospitals we add to our network and improve their operating results, (vi) our ability to upgrade and expand facilities of the hospitals that we own or manage, and (vii) our ability to attract and retain talented and experienced medical and management professionals. In addition, as we expand our operations, we may encounter regulatory, personnel and other difficulties that may also increase our costs of operations. If we are not able to identify or capture opportunities to expand our operations successfully, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We will need to raise additional capital to acquire control of additional hospitals and to maintain our operations and the operations of the hospitals that we manage, including investing in new medical facilities and equipment. If we fail to raise additional capital through future debt or equity offerings, our ability to implement our business strategy will be impaired, which would adversely affect our growth and prospects, and our results of operations. In addition, we cannot assure you that we will be able to obtain additional financing as and when needed on commercially reasonable terms or at all. Our ability to obtain external financing is subject to a variety of uncertainties, including: (i) our future financial condition, results of operations and cash flows; (ii) general market conditions for financing activities by companies in the healthcare services industry; and (iii) economic, political and other conditions in China and elsewhere. Any future bank borrowing or other debt financing that we obtain may contain restrictive covenants that limit our ability to operate or grow our business and to respond to changes in market trends, and may result in higher leverage and finance costs. Any future equity financing that we raise may result in a dilution of your equity interests in our Company, which could be significant, or in turn, could materially and adversely affect the market price of our Shares.

Acquisitions and integration involve substantial risks and inherent uncertainties including: (i) loss of patients or suppliers of the newly acquired hospitals; (ii) lack of managerial experience or resources in the newly acquired businesses; (iii) unforeseen difficulties in integrating operations, accounting systems and personnel; (iv) coordination of procurement and sales and marketing activities; (v) differences in corporate culture and management styles; (vi) disparate company policies and practices; (vii) the need to hire, retain and train hospital administrators, doctors and key personnel; (viii) risks relating to obtaining sufficient equity or debt financing; (ix) risks relating to obtaining and maintaining governmental approvals and licenses; (x) risks relating to additional or conflicting governmental regulations; and (xi) potential undisclosed liabilities of the targets. For example, in 2013 and 2014 Weikang Investment failed to recognize its revenue from the management service fees according to the applicable accounting policy, and the amounts that Weikang Investment invoiced to Yangsi Hospital were substantially less than the amounts due under the Hospital Management Agreements. Following our acquisition of Weikang Investment, we restated its revenues and fully paid the additional taxes according to the correct revenue figures. See "Business—Risk Management and Internal Control—Financial Reporting Internal Controls" for more information. In addition, our expansion plans and business growth could strain our managerial, operational and financial resources. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects. There is no guarantee that we will be able to successfully operate the hospitals that we acquire or manage or be able to integrate their operations with our other operations on a timely basis or at all, and we may incur higher costs than we anticipate. The profit, if any, of the newly acquired hospitals may not be sufficient to justify the acquisition costs and our expected future results of operations and synergies may not be achieved.

Yangsi Hospital and Fuhua Hospital are both located in Shanghai. To expand our hospital network, we expect to enter new geographic markets, which could present market, technological, regulatory and operational risks and challenges that we are unfamiliar with. Accordingly, we may not be able to achieve our expansion goals and successfully replicate our business model outside of Shanghai.

There are risks associated with the land and buildings on which Yangsi Hospital operates, and we would face disruption to our business if Yangsi Hospital were required to find alternative premises.

Yangsi Hospital faces legal uncertainties in its continued occupation of some of the properties it currently uses. First, as of the Latest Practicable Date, Weikang Investment and Yangsi Hospital do not hold the land use right certificates and building ownership certificates for their properties due to historical reasons in connection with the rural urbanisation and development of Shanghai, particularly Pudong New District, which occupied the land with a total area of 7,900 sq.m. and five buildings with an aggregate gross floor area of 27,146 sq.m. Furthermore, the construction works planning permit, commencement permits, completion inspection, environmental impact report and environmental protection inspection were not obtained or completed prior to the use or construction of the properties that house Yangsi Hospital's operations. For details, please refer to the section headed "Business—The Hospitals—Yangsi Hospital—Properties—Title defects of the Lands".

Our PRC Legal Advisors have advised us that the land and the buildings located on the affected land cannot be bought, sold or accepted as security for mortgages by Yangsi Hospital or Weikang Investment in absence of the relevant land use right certificate and building ownership certificates. In addition, Yangsi Hospital and Weikang Investment may be subject to penalties or orders to demolish and remove the buildings constructed on the land, restore the land to its original condition, or turn over the land and buildings to the government. For details of the legal consequences of these uncertainties, please refer to the section headed "Business—The Hospitals—Yangsi

Hospital—Properties—Title defects of the Lands". As a result of these issues, Yangsi Hospital's ability to use the relevant properties for its operations and financing could be adversely and materially affected, which could have a material adverse impact on our business and results of operations. If Yangsi Hospital is required to relocate, we and Yangsi Hospital may incur significant relocation costs, and lose revenue during the relocation process due to any inconvenience and temporary discontinuity caused to the patients who are in the process of receiving medical treatments.

The financial results of the Predecessor Entities may not be directly comparable to our Group's financial results and may not be indicative of our Group's financial results.

The Predecessor Entities came under our control on September 30, 2014. The Predecessor Entities' financial results are not directly comparable to the financial results of our Group for the following reasons:

- the assets acquired and liabilities we assumed from the Predecessor Entities were recorded at fair value, which resulted in the recognition of certain additional intangible assets (including goodwill and contractual rights to provide management services) and related amortization expenses in our financial statements, whereas the Predecessor Entities recorded its assets and liabilities at historical costs;

- expenses we incurred when acquiring Weikang Investment were recorded in our Group's financial statements; and

- our Group's financial statements may reflect the elimination of some intra-group transactions that are included in the Predecessor Entities' financial statements.

We experienced significant growth during the Track Record Period and may not be able to sustain our growth rate in the future.

During the Track Record Period, we recorded significant growth. The revenue of our Predecessor Entities increased by 73.1% from RMB46.4 million in 2013 to RMB80.4 million in 2014 and by 11.0% to RMB89.2 million in 2015. In addition, the net profit of our Predecessor Entities increased by 41.1% from RMB29.1 million in 2013 to RMB41.0 million in 2014 and by 0.6% to RMB41.3 million in 2015. The significant increases from 2013 to 2014 were primarily due to Weikang Investment's acquisition of Fuhua Hospital in January 2014. Our revenue was RMB23.7 million and RMB142.5 million in the period from February 21, 2014 to December 31, 2014 and in 2015, respectively. Our net profit was RMB4.3 million and RMB67.3 million in these respective periods. Our revenue increased by 17.8% from RMB97.9 million in the nine months ended September 30, 2015 to RMB115.4 million in the same period of 2016. The Hospitals have also experienced rapid growth since our acquisition of Weikang Investment on September 30, 2014 benefiting from improved management. Yangsi Hospital's revenue increased by 15.6% from RMB399.4 million in 2013 to RMB461.7 million in 2014, by 16.5% to RMB538.0 million in 2015 and by 14.3% from RMB388.2 million in the nine months ended September 30, 2015 to RMB443.6 million in the same period of 2016. The management service fees charged (by Weikang Investment in 2013 and 2014 and by Weikang Investment and Honghe Ruixin in 2015 and the nine months ended September 30, 2015 and 2016) to Yangsi Hospital (net of value-added tax) were RMB45.5 million, RMB64.6 million, RMB117.8 million, RMB81.1 million and RMB93.3 million in

2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016, respectively. The number of Yangsi Hospital's out-patient visits grew by 3.1% from 1,427,802 in 2013 to 1,471,857 in 2014, by 2.0% to 1,501,416 in 2015 and by 0.2% from 1,086,795 in the nine months ended September 30, 2015 to 1,089,420 in the same period in 2016. The number of Yangsi Hospital's in-patient visits grew by 8.9% from 16,200 in 2013 to 17,647 in 2014, by 8.0% to 19,062 in 2015 and by 12.3% from 13,747 in the nine months ended September 30, 2015 to 15,434 in the same period in 2016. Fuhua Hospital's revenue increased by 59.8% from RMB14.7 million in 2014 to RMB23.4 million in 2015 and by 32.8% from RMB15.9 million in the nine months ended September 30, 2015 to RMB21.1 million in the same period in 2016. The number of Fuhua Hospital's out-patient visits grew by 77.1% from 24,237 in 2014 to 42,932 in 2015 and by 29.9% from 26,661 in the nine months ended September 30, 2015 to 34,644 in the same period in 2016. The number of Fuhua Hospital's in-patient visits grew significantly from 198 in 2014 to 523 in 2015 and by 16.6% from 331 in the nine months ended September 30, 2015 to 386 in the same period in 2016. While we expect our business to continue to grow, there can be no assurance that we will sustain our historical growth rates or that we will be able to manage our growth successfully. Revenue growth may slow down or revenue may decline due to factors, risks and uncertainties described in this prospectus or otherwise, including inability to attract and retain patients, decreased patient spending, increased competition, a slowdown in the growth of the healthcare services market, the emergence of alternative business models, and changes in government policies or general economic conditions. Further, for well-established hospitals like Yangsi Hospital, their financial performances and market shares may remain relatively stable. You should not rely on the operating results of our Group or the Hospitals for any prior periods as an indication of our future operating performance. If our growth rate declines, investors' perception of our business and business prospects may also be adversely affected. Should any of the risks in relation to our growth strategy materialize, we may not be able to take advantage of market opportunities, execute our business plans or appropriately respond to competitive pressures, and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our limited operating history makes it difficult to evaluate our business and future prospects. Our past results may not be indicative of our future performance.

We started managing Yangsi Hospital and Fuhua Hospital in September 2014. We have a limited operating history, and our business model and ability to achieve satisfactory results of operations in managing hospitals are unproven. Our results of operations may not provide a meaningful basis for you to evaluate our business and future financial performance. We may not have sufficient experience to address the risks and uncertainties frequently encountered by medical institutions in China. As we implement our expansion strategy, we expect our operations to grow in size and complexity. During this process, we may not be able to: (i) maintain profitability; (ii) raise sufficient capital to sustain and expand our operations; (iii) expand by acquiring control of, or providing management services to, additional hospitals; (iv) effectively manage our growth and the hospitals we own or manage; (v) attract, retain and motivate qualified personnel; (vi) respond to changes in the regulatory environment, including changes that affect our acquisition model and corporate structure, in a timely manner; or (vii) maintain effective control of our costs and expenses. Any failure to address these risks may have a material adverse effect on our business, cash flows, financial condition, results of operations and prospects.

The Hospitals derive a significant portion of revenue by providing medical services to patients with public medical insurance coverage; any non-payment or delayed payment under China's public medical insurance programs could materially reduce their revenue and affect our results of operations.

According to the Frost & Sullivan Report, by the end of 2015, China's two urban medical insurance programs, URBMIS and UEBMIS, together covered over 86.3% of China's total registered urban population, and China's rural medical insurance program, NRCMIS, covered approximately 98.8% of China's total registered rural population. Under these public medical insurance programs, patients pay medical institutions a portion of their medical fees for medical services, pharmaceuticals and medical devices, and the medical institutions seek payment of the balance from the relevant public medical insurance program. The public medical insurance programs only reimburse providers for medical fees for certain approved medical services, pharmaceuticals and medical devices, and the reimbursement rates vary depending on the region, hospital grade and location, type of disease, treatment, age of patients and the type of medical insurance programs the patients belong to.

Revenue derived from patients covered by the public medical insurance programs accounted for approximately 68% and 67% of Yangsi Hospital's total revenue in 2015 and the nine months ended September 30, 2016, respectively, while the revenue from the public medical insurance programs accounted for approximately 78% and 75% of Fuhua Hospital's total revenue in 2015 and the nine months ended September 30, 2016, respectively. Most of Yangsi Hospital's patients that are covered by the public medical insurance programs settle a portion of their medical fees immediately by cash, and during the Track Record Period the remainder, approximately 80%, was covered by the public medical insurance programs. The excess amount of Yangsi Hospital's medical fees under the UEBMIS as of December 31, 2013, 2014 and 2015 that was not reimbursed by the local medical insurance bureau was RMB7.2 million, RMB7.6 million and RMB8.3 million, respectively. See section headed "Business—The Hospitals—Yangsi Hospital—Pricing and price controls" for more details. Most of Fuhua Hospital's patients covered by the public medical insurance programs settle a portion of their medical fees immediately by cash, and in 2014, 2015 and the nine months ended September 30, 2016, the remainder (approximately 70%, 70% and 78%, respectively) was covered by the public medical insurance programs. Fuhua Hospital has recovered all its medical fees under insurance programs in 2014. The excess amount of its medical fees under the UEBMIS as of December 31, 2015 that will not be reimbursed by the local medical insurance bureau was RMB0.5 million. See section headed "Business—The Hospitals—Fuhua Hospital—Pricing and price controls" for more details. Compounding the effects of Shanghai's aging population, the increasing proportion of aged patients admitted in the Hospitals and the higher reimbursement rates for covered medical fees for patients of advanced age, payment by the public medical insurance programs to the Hospitals is expected to account for a growing proportion of the total revenue of the Hospitals.

Although the Hospitals have not encountered material delayed settlement under the public medical insurance programs, any dispute or late or delinquent settlement may cause their accounts receivables to increase or result in write-offs. Under the current policies of the public medical insurance programs, a government-approved quota is assigned annually to each Medical Insurance Designated Medical Institution in respect of the medical fees that are allowed to be recovered from the public medical insurance programs. For more details on this allowance system, see the sections headed "Business—The Hospitals—Yangsi Hospital—Pricing and price controls" and "Business—The

Hospitals—Fuhua Hospital—Pricing and price controls." For the amounts in excess of the quota, the local medical insurance bureau normally will determine in the first half of the succeeding year whether these amounts will be reimbursed to the Hospitals. Under this system, the Hospitals write off medical fees when they are estimated to be unrecoverable under the public medical insurance programs in the following year. If the quota assigned by the local medical insurance bureau does not increase in line with the Hospitals' revenue growth, the loss generated from the write-offs would increase and as a result, could adversely affect our results of operations.

In addition, Yangsi Hospital or Fuhua Hospital might be disqualified as Medical Insurance Designated Medical Institutions if they fail to pass the assessment conducted by the local medical insurance bureau or as a result of grave non-compliance, penalties imposed by the local medical insurance bureau, or fraudulent acts during the annual assessment. The relevant local medical insurance bureau may also change the reimbursement policies and coverage plans such that certain services that Yangsi Hospital and Fuhua Hospital provide are no longer covered. If any of these events occurred, revenue from these sources may decline significantly.

Delay or failure in obtaining necessary governmental approvals for expansion plans may adversely affect our business, operations and future growth plans.

Our success depends on the expansion of the Hospitals' facilities to accommodate increasing patient admissions. In China, hospital expansion plans and changes in medical services offered require governmental approval. In recent years, Yangsi Hospital and Fuhua Hospital have been increasing their bed counts to support the growth in in-patient admissions. If Yangsi Hospital or Fuhua Hospital were to fail to obtain the necessary governmental approvals to expand their respective operations, our ability to generate additional revenue through the expansion of hospital services and facilities will be limited, and our business and prospects may be adversely affected.

We may be subject to China's Anti-Monopoly Law and regulations as we expand the hospital network through mergers, acquisitions or other contractual arrangements.

We may expand our business through mergers and acquisitions of, or contractual arrangements with, such as entering into management agreements, other hospitals or companies ("**Target Entities**"). This type of expansion may be considered as a form of concentration of business operators (經營者集中) under China's Anti-Monopoly Law (中華人民共和國反壟斷法) if the combined revenue of our Group and the Target Entities reach certain thresholds, in which case the proposed expansion would be subject to review and pre-approval by relevant PRC Government authorities. These pre-approval requirements are applicable where (i) the total amount of the global revenue realized by us and the Target Entities exceeds RMB10 billion during the preceding financial year with at least two businesses in the relevant concentration each achieving more than RMB400 million in revenue within China during the preceding financial year; or (ii) the total amount of the revenue within China realized by us and the Target Entities exceeds RMB2 billion during the preceding financial year with at least two businesses in the relevant concentration each achieving more than RMB400 million in revenue within China during the preceding financial year, provided that such concentration shall result in change of control or enable a participant to exercise decisive influence on the Target Entities. The Anti-Monopoly Law review process may be time-consuming and is subject to uncertainty. For more details, see the paragraph headed "—Risks Relating to Doing Business in China—Uncertainties in the

Chinese legal system and government policies may adversely affect our business and limit the legal protection available to you" in this section. Any material delay during the review and pre-approval processes or any failure to obtain the requisite approval could delay our expansion plans and result in a material adverse effect on our business and prospects.

We depend on the services of our core management team and other key personnel, and our business and financial position could be harmed if the Hospitals are unable to attract and retain highly qualified doctors and other medical professionals.

Our success depends heavily on the continuing services of our senior management team, in particular Mr. Zhang Xiaopeng, our chief executive officer, and Mr. Lu Wenzuo, our executive Director and the hospital administrator of Yangsi Hospital. We rely on their industry and business experience as well as their relationships with key management of the Hospitals and relevant government authorities. Our senior management is exposed to various risks relating to our day-to-day business operations, and as a result may be unable or unwilling to continue their employment with us. For instance, Mr. Lu Wenzuo may, solely in his capacity as the hospital administrator of Yangsi Hospital, be held liable for certain actions of Yangsi Hospital under applicable Chinese laws and regulations. Ms. Xia Yuanqing, the former deputy general manager of our Company, ceased to be a member of our senior management team for personal reason from August 2016. If one or more of our senior management team were unable to continue in their present positions, or to terminate their employment with us, we might not be able to replace them in a timely manner, at acceptable costs or at all, and our business and ability to execute our strategy may be materially and adversely affected. Also, we may repurchase the Shares subscribed for by and attributable to the departing senior management members pursuant to the terms of the management subscription agreements. In such case, we will be obliged to pay the subscription consideration to the departing management members pursuant to the management subscription agreements. Please see "History, Development and Corporate Structure—Management Subscription" and Note 16 "Share-based Payments" to the Accountant's Report in Appendix IA to this prospectus for more details.

In addition, if any member of our senior management team or any other key professional joins a competitor or establishes a competing company, we may lose valuable industry and business know-how that is critical to our business or expansion strategies. All of our executive officers have entered into employment agreements with us that contain confidentiality and non-competition provisions. However, in the event of any disputes between any of our executive officers and us, we cannot assure you that any of these agreements will be enforced. Any of the above risks may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations also depend heavily upon the efforts, abilities and experience of the doctors and other medical professionals in the Hospitals. Therefore, it is essential to our ongoing business that we continually attract and retain qualified medical professionals.

The recruitment of doctors in China is highly competitive, especially for specialists, due to the limited pool of experienced medical professionals. Doctors are permitted to practice at multiple medical institutions on a contractual basis in accordance with the multi-site practice policy implemented in several provinces and cities in China, including Shanghai. We believe that the key factors that doctors consider when deciding where they will work include the reputation of the hospital, the quality of the facilities, the number of patient visits, research and teaching opportunities, compensation and location. According to the Frost & Sullivan Report, among hospitals in the PRC, public hospitals employ the vast majority of doctors in China; approximately 84.1% of hospital doctors were retained by public hospitals in 2015. The Hospitals may not compare favorably with other healthcare service providers, in particular public hospitals, and hence may be forced to offer more compensation and benefits to attract experienced doctors. Despite the attractive remuneration package offered by us and China's favorable policies to encourage doctors to practice in multiple medical institutions, there are other uncertainties such as competition from other medical institutions and the preferences of doctors to work exclusively in one medical institution, which may affect our ability to recruit and retain doctors.

Our success is also dependent in part on the ability of the Hospitals to recruit and retain other medical professionals, including nurses, physiotherapists, radiographers and pharmacists, and on their ability to train and manage these medical professionals. It has become increasingly costly to recruit and retain medical personnel in recent years, and we expect these costs to continue to increase, which may adversely affect our profitability. In addition, if we are unable to control the staff costs of the Hospitals, the financial performance of the Hospitals may be adversely affected, which may in turn affect our revenue and profitability.

In addition, our performance and the execution of our growth strategy depend significantly on our ability to attract and retain quality hospital administrators and managers. We face competition for recruiting hospital administrators and managers from other public and non-public healthcare providers, and the availability of suitable candidates in China is limited. Competition for these individuals may require us to offer better remuneration packages to attract and retain them, which could increase our costs and adversely affect our profitability.

Moreover, we may not be able to build trusting relationships with our doctors, nurses or other staff or provide them with adequate training or an appropriate work environment. If we and the Hospitals fail to attract or retain a sufficient number of experienced doctors or other medical personnel, hospital administrators and managers, we may not be able to maintain the quality of our services and the number of patient visits at the Hospitals may decrease significantly, which may materially and adversely affect our business, financial condition and results of operations.

If Yangsi Hospital or Fuhua Hospital fails to properly manage the employment or conduct of doctors and other medical professionals, Yangsi Hospital or Fuhua Hospital may be subject to penalties, fines, loss of licenses, or an order to cease practice, which could materially and adversely affect our business.

The practicing activities of doctors and other medical professionals are strictly regulated under the Chinese laws and regulations. Doctors and other medical professionals who practice at medical institutions must hold practicing licenses and register their licenses at the specific medical institutions, and may only practice within the scope of their licenses. On April 5, 2014, a trainee doctor of Fuhua Hospital, who had not obtained the relevant health professional qualification, performed Chinese medical treatment for two patients under the supervision of a senior doctor, which violated the Administrative Measures on Medical Institutions. Please see the section headed "Business—Legal Proceedings and Compliance—Non-compliance Incidents" for more details.

In practice, it usually takes more than 30 days for doctors and other medical professionals to transfer their licenses from one medical institution to another or add another medical institution to their permitted practicing institutions. We cannot assure you that these doctors and other medical professionals will complete the transfer of their licenses and related government procedures on a timely basis or at all, or that the doctors and other medical professionals will not practice outside the permitted scope of their respective licenses.

We are subject to Chinese laws, rules and regulations relating to healthcare fraud and risks in relation to actions taken by us or our employees that constitute violations of Chinese laws. Any failure by us to comply with these laws, or effectively manage our employees in this regard, could severely damage our reputation and materially and adversely affect our business, financial condition, results of operations and prospects.

Failure to properly manage the employment or conduct of doctors and other medical professionals may subject Yangsi Hospital or Fuhua Hospital to administrative penalties, fines, loss of licenses, or an order to cease practice, any of which could materially and adversely affect our business and reputation.

We had net current liabilities as of December 31, 2014 and we cannot assure you that we will not continue to record net current liabilities.

As of December 31, 2014, we had net current liabilities of RMB19.4 million, primarily because before our acquisition of Weikang Investment, Weikang Investment declared a dividend of RMB53.0 million to its then shareholders, which was recorded in our accruals, other payables and provisions. We fully settled this dividend in February 2016. Please see the section headed "Financial Information—Liquidity and Capital Resources—Net Current Assets and Liabilities" for further details regarding our net current liabilities. We cannot assure you that we will not have net current liabilities in the future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to resort to external funding. If adequate external funds are not available on commercially reasonable terms or at all, we may face liquidity difficulties. As such, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to maintain our revenue and profitability as we operate in a highly competitive industry.

China's healthcare services industry is becoming increasingly competitive as the demand for medical services and pharmaceuticals grows and Chinese consumers are offered greater choices in providers. Yangsi Hospital ranked first in terms of revenue among the non-public general hospitals in Shanghai in 2015 according to the Frost & Sullivan Report, while it competes with other major hospitals, health stations and clinics in the region. In the geographical areas in which we operate or are considering operating, there are other hospitals and medical institutions, such as public hospitals, non-public hospitals, health stations, community health clinics, which in many cases provide services comparable to those which we or the hospitals we manage offer or expect to offer. New or existing competitors may provide services similar to the hospitals we own or manage, and may offer greater convenience, broader services, newer or better facilities, more specialized medical professionals, better reputation in the community, or cheaper pricing. If the hospitals we own or manage are unable to attract patients, the volume of patient visits could decrease significantly and our business, financial condition and results of operations may be materially and adversely affected.

The Hospitals' operations are susceptible to fluctuation in the costs of pharmaceuticals and medical consumables, which could adversely affect our margins and results of operations.

The profitability of the hospitals we own or manage is influenced by fluctuations in the costs of pharmaceuticals, medical devices, medical consumables and inspection fees. For example, in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2016, our cost of pharmaceuticals, consumables and testing fees was RMB2.7 million, RMB12.9 million and RMB12.6 million, accounting for 55.1%, 59.6% and 63.6% of our cost of revenue for general hospital services provided by Fuhua Hospital and 52.1%, 54.9% and 59.9% of our general hospital services segment's total revenue, respectively.

The availability and prices of pharmaceuticals, medical devices and medical consumables can fluctuate and are subject to factors beyond our control, including supply, demand, general economic conditions and governmental regulations, each of which may affect the costs or cause a disruption in the supply. The Hospitals may not be able to anticipate and react to changes in medical supply costs by changing service offerings or adjusting service fees in the future, or the Hospitals may be unable to pass these cost increases onto patients, which could materially and adversely affect our margins and results of operations.

Our business, financial condition and results of operations are subject to changes in patient preference, patient spending power and general economic conditions.

Our business may be materially and adversely affected if economic conditions were to result in patients cutting back on medical spending and becoming less willing to pay for hospital and healthcare services. Patients may choose not to undertake some of our treatments, procedures or services that are not considered medically necessary such as dental services and aesthetic medical treatments. In addition, with rising disposable income in China and growing demand for quality medical services, patients begin to pay attention to the facilities and environment of the hospitals, and seek safe and comfortable experiences in hospitals. The Hospitals may fail to upgrade their existing facilities or expand their facilities to satisfy patients' demands, which could adversely affect our business and results of operations. Because of this, any changes in consumer spending power and economic conditions may materially and adversely affect our business, financial condition and results of operations.

Concentration of our hospital operations in Shanghai exposes us to its changing regulatory, economic, public health, environmental and competitive conditions.

Yangsi Hospital and Fuhua Hospital are both located in Shanghai. As a result, we are highly sensitive to the regulatory, economic, public health, environmental and competitive conditions in Shanghai. Any outbreaks of epidemic disease in Shanghai could significantly disrupt our operations. Furthermore, natural disaster or other catastrophic events that are likely to happen in Shanghai, such as fire, drought, typhoons, flood, outages of critical utilities, transportation disruptions or terrorist attacks, may damage or limit our ability to operate Fuhua Hospital and manage Yangsi Hospital and require significant repair. Any negative event in Shanghai may have a material adverse effect on our business, financial condition and results of operations.

The Hospitals have been and could become the subject of litigation, claims and governmental investigations, including medical disputes brought by patients, which may harm our reputation and our business.

We rely on the doctors and other medical professionals of the Hospitals to make proper clinical decisions regarding the diagnosis and treatment of their patients. However, we do not have direct control over the clinical activities of the Hospitals or over the decisions and actions taken by the doctors and other medical professionals as their diagnoses and treatments of patients are subject to their professional judgment and in most cases, must be performed on a real time basis. Any incorrect clinical decisions or actions on the part of the doctors and other medical professionals, or any failure by the Hospitals to properly manage their clinical activities may result in unsatisfactory treatment outcomes, patient injury or possible patient death. The Hospitals are especially exposed to heightened risks from the treatment of complex medical conditions, such as cancer and cardiovascular diseases, which typically have variable outcomes. In addition, there are inherent risks associated with the clinical activities that may result in unavoidable and unfavorable medical outcomes. Yangsi Hospital and Fuhua Hospital do not purchase medical liability insurance. Any damages sought in any future malpractice suits brought against the Hospitals may be beyond the insurance coverage that they maintain. Any such event that might have a material adverse effect on the Hospitals could adversely affect our reputation, business, results of operations or prospects.

In recent years, doctors, hospitals and other healthcare service providers in China have become subject to an increasing number of legal actions alleging malpractice or other causes of action. Some unsatisfied patients may choose not to seek compensation via legal proceedings, and may refuse to apply for an official medical accident appraisal. They may use violence during the course of the disputes, which may cause bodily harm to the doctors and medical professionals and discourage other patients from visiting the Hospitals. If these types of actions occur, we may choose to settle with the unsatisfied patients without legal proceedings in order to minimize the negative impact on our reputation and operations. Any medical dispute, regardless of its merit or eventual outcome, could result in significant legal costs, diversion of medical professionals' and management's resources and reputational damage to us, which may in turn materially and adversely affect our business, financial condition and results of operations. For further details of the medical disputes that the Hospitals were involved in during the Track Record Period, see the sections headed "Business—Legal Proceedings and Compliance—Medical Disputes" and "Business—The Hospitals—Yangsi Hospital—Legal proceedings and compliance—Medical disputes".

The proper functioning of our and the Hospitals' computer network infrastructure and centralized information technology systems is essential to our business operation, and any technological failure, security breach or other disruptions may negatively impact our business.

The computer network infrastructure and information technology systems in the Hospitals, such as the hospital information system, the laboratory information system and the picture archiving and communication system help us to operate or manage and monitor the operational performance of the Hospitals, such as billing, financial and budgeting data, patient records and inventory. The Hospitals regularly maintain, upgrade and enhance the capabilities of the information systems to meet operational needs. Any failures associated with the information technology systems, including those caused by power disruption, natural disasters, computer viruses, hackers, network failures or other unauthorized tampering, may cause interruptions in the Hospitals' ability to provide services to their patients, keep accurate records, and maintain proper business operations. For example, the revenue breakdown by medical departments for the first few months of 2014 of Fuhua Hospital are not accessible because these data were stored on an old IT system that it has ceased to use. In particular, if the information technology system relating to the billing and medical insurance reimbursements were to malfunction and result in the loss of related records, the Hospitals may not receive full payment under the public medical insurance programs, which could cause a material adverse impact on their business and results of operations. In addition, the Hospitals may be subject to liability or damage to their reputation as a result of any theft or misuse of personal information stored on the systems. Any of these events may materially and adversely affect our business, financial condition and results of operations.

Any negative publicity about us, our hospitals, our industry or the non-public hospital industry could harm the brand recognition of us or our hospitals and trust in our services, which could result in a material adverse impact on our business and prospects.

Negative publicity involving us, our hospitals or the non-public hospital industry may materially and adversely harm the reputation of us or our hospitals, and therefore our business and prospects. Such negative publicity may result in increasing cost, diversion of management's attention, and governmental investigations or other forms of scrutiny. These consequences may increase our expenses, divert our management's attention, and adversely impact our business and results of operation.

The existence and distribution of counterfeit and illicit pharmaceuticals, medical devices and medical consumables could affect the ability of the Hospitals to render quality medical services and subject us to legal liability.

The Hospitals maintain internal controls and procedures to prevent the administration of counterfeit and illicit drugs to their patients. Nonetheless, counterfeit and illicit drugs could still be unknowingly purchased and administered to patients. Although the Hospitals purchase pharmaceuticals, medical devices and medical consumables from the suppliers through Sunshine Medical Website, and have not experienced any material issue with respect to counterfeit drugs to date, there can be no assurance that the issues described above will not occur in the future. Further, although the Hospitals conduct quality control checks upon delivery, they may not be able to identify all counterfeit pharmaceutical products. If these types of issues were to occur, the reputation of the Hospitals may suffer, the number of patient admissions may decrease, and the Hospitals may be subject to penalties and claims, which would adversely affect the revenue of the Hospitals, our ability to acquire additional hospitals and our reputation, business and prospects.

We may not be adequately insured.

We are exposed to potential liabilities that are inherent to the provision of healthcare services. We have maintained insurance coverage including pension, medical, unemployment, work-related injury and maternity insurance for our employees. However, we do not maintain any business interruption insurance or medical liability insurance and only maintain motor vehicle insurance and employee-related insurance. We may face liabilities that exceed our available insurance coverage or arise from claims outside the scope of our insurance coverage. In addition, as our business expands, the costs for us to maintain an adequate level of insurance may become increasingly high. Any significant uninsured loss could have material and adverse effects on our business, financial condition and results of operations.

If the Hospitals fail to continuously upgrade their medical equipment, the business and long-term competitiveness of the Hospitals could be adversely affected.

We must continually assess the equipment needs of the Hospitals and upgrade equipment as a result of technological advances in the healthcare services industry and the expectations of patients. Technological advances, potentially with respect to computer-assisted tomography scanners, or CT scanners, and magnetic resonance imaging, or MRIs, continue to evolve. Consequently the Hospitals will have to continuously invest in advanced medical equipment and technologies to further enhance their service quality.

The medical equipment and technology available in a hospital is essential to the medical services provided by the hospital and has become a crucial consideration when a patient selects a hospital. Any delay or failure to upgrade the equipment used by the Hospitals could harm the competitiveness of the Hospitals and reduce the volume of patients they treat, which may materially and adversely affect our business and results of operations.

We may be subject to fines or required to seek alternative premises for some of our leased properties because we have not obtained the relevant title certificates or registered the relevant lease agreements.

As at the Latest Practicable Date, there were two properties leased by Yangsi Hospital for which the lessors had not provided to Yangsi Hospital with the relevant ownership certificates to prove that they have the right to lease those properties. These leased properties have a total gross floor area of approximately 430 sq.m. and are mainly used as premises for Yangsi Hospital's offices and service centers for the local community. Such leases may be deemed invalid and unenforceable under Chinese law if the lessors do not have the right to lease the properties. If any of these leases were to be terminated as a result of challenges by third parties or the lessor's refusal to renew them upon expiration of such leases, Yangsi Hospital may be forced to relocate the operations in such leased properties and incur additional cost associated therewith. In addition, as three of the four lease agreements of Yangsi Hospital have not been registered, Yangsi Hospital may be subject to a fine up to RMB10,000 for each lease agreement not registered. Please refer to the section headed "Business—The Hospitals—Yangsi Hospital—Properties—Leased Properties" for more details.

As at the Latest Practicable Date, we occupied and leased three properties, among which two lease agreements had not been registered. We may be subject to a fine up to RMB10,000 for each lease agreement not registered. Please refer to the section headed "Business—Our Properties—Leased Properties" for more details.

Seasonal fluctuations in revenue at the Hospitals may impact our results of operations.

We have experienced and expect to continue to experience seasonal fluctuations in our revenue and profitability due to changes in patient volumes. The Hospitals typically experience fewer patient visits around the Chinese New Year festival in January or February and experience more patient visits in the fourth quarter. See the sections headed "Financial Information—Significant Factors Affecting Our Results of Operations—Seasonality" and "Business—Seasonality" for more details.

In addition, based on the Hospital Management Agreements, since the beginning of 2015, both Weikang Investment's and Honghe Ruixin's management service fees are based on formulas that have a fixed component and a performance-based floating component (prescribed by a cap rate and a floor rate). These management service fees are currently recognized quarterly in the first three quarters of each year and are calculated based on a floor rate (or as otherwise agreed by the parties) determined in the floating component based on estimates of Yangsi Hospital's quarterly revenue. The management service fees for the fourth quarter of each year are calculated by multiplying the audited full year revenue by the fixed rate and the performance-based floating rate, deducted by the management service fees recognized in the first three quarters. As a result, we may be entitled to higher or lower management service fees in the fourth quarter than the average in the first three quarters, depending on Yangsi Hospital's audited full-year revenue and its performance relative to specified criteria for that year. For more details on the terms of our Hospital Management Agreements, see the sections headed "Business—Our Business Model—Our Hospital Management Business" and "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements".

Any participation in fraudulent or abusive practices at the Hospitals may subject us to potential criminal and civil penalties.

It has become common in China for hospital personnel to overcharge certain pharmaceuticals and medical treatments, prescribe unnecessary pharmaceuticals and recommend unnecessary medical tests as well as negotiate kickbacks with manufacturers or distributors of pharmaceuticals and medical devices to increase revenue and profits.

In April 2004, the Ministry of Health announced plans to deter and prevent these types of fraudulent and abusive practices. Although the Hospitals have implemented policies to prevent these types of practices, any failure of the hospital employees to comply with those policies may result in the violation of relevant laws and regulations and may subject the Hospitals to investigations and potential criminal and civil penalties. A determination that any employee of the Hospitals has violated these laws, or the public announcement that the Hospitals or any employee of the Hospitals is being investigated for possible violations of these laws, may damage our reputation, result in a decrease in patient volume in the Hospitals and have a material adverse effect on our business, cash flows, financial condition, results of operations and prospects.

Failure to comply with China's anti-corruption laws and regulations could subject us and/or our doctors, staff and hospital administrators to investigations and administrative or criminal penalties, which could harm our reputation and materially and adversely affect our business, financial condition and results of operations.

We have adopted policies and procedures designed to ensure that the doctors, staff and hospital administrators comply with China's anti-corruption laws and regulations. For more details on our anti-corruption policies and procedures, please see the section headed "Business—Risk Management and Internal Control—Anti-corruption and Anti-bribery Policies." However, we operate in a sector that poses elevated risks of violations of anti-corruption laws and regulations, and the PRC Government has recently increased its anti-bribery efforts to reduce improper payments and other benefits received by doctors, staff and hospital administrators in connection with the purchase of pharmaceuticals and medical devices and the provision of healthcare services. Although we have established anti-corruption policies and procedures and have not been subject to any government investigation relating to anti-corruption violations, there is no assurance that these policies and procedures will effectively prevent noncompliance with China's anti-corruption laws arising from actions taken by the doctors, staff and hospital administrators without our knowledge. If this occurs, we and/or our doctors, staff and hospital administrators may be subject to investigations and administrative or criminal penalties, and our reputation could be significantly harmed by any negative publicity stemming from such incidents, which may materially and adversely affect our business, financial condition and results of operations.

Failure to protect confidential or personal information of patients against security breaches could damage our reputation, which could expose us to claims or litigation.

Doctors and other medical professionals are required by the codes of professional conduct applicable to them not to disclose medical or personal information of patients to any third party without the patient's consent, except in certain specific circumstances. In China, hospitals are subject to a number of laws and regulations governing patient data privacy, including the PRC Tort Liability Law (《中華人民共和國侵權責任法》) and Provision on the Administration of Medical Records in Medical Institutions (《醫療機構病歷管理規定》). These laws and regulations prohibit medical and healthcare service providers from providing patients' medical records to a third party without due authorization from the patients or for purposes other than medical education or study. We rely on certain internal control measures that the Hospitals have in place to ensure doctors and other medical professionals to abide by the relevant laws, but there can be no assurance that the confidentiality policies and measures can completely prevent leakage of the patients' medical or personal information or prevent such information from being used for an improper purpose. Any breach of confidentiality obligations towards the patients could expose us, the Hospitals, the doctors and other medical professionals to potential liabilities, such as claims or litigation, which may have an adverse impact on our reputation.

We face risks related to health epidemics, contagious diseases and other outbreaks.

Our business could be materially and adversely affected by the outbreaks of contagious diseases such as Middle East Respiratory Syndrome, or MERS, Ebola, Severe Acute Respiratory Syndrome, or SARS, H5N1 avian influenza, human swine flu, or Influenza A or H1N1 flu, or another epidemic. Any prolonged recurrence of H5N1 avian influenza or SARS, an outbreak of other epidemics, or other adverse public health developments in China may have a material and adverse effect on our business operations. We have not adopted any written preventive measures to combat any future outbreak of MERS, Ebola, SARS or any other epidemics. In addition, since we are in the hospital and healthcare business, any outbreak of epidemic may be expected to directly impact our operations, including by straining facilities and employees, exposing employees to the outbreak of epidemic, disrupting regular business operations, imposing upon the Hospitals local, national or international requirements to contain the outbreak of epidemic, exposing the Hospitals to potential liability for any actions taken or the failure to take with respect to instances of the outbreak of epidemic that are presented to the Hospitals and other unforeseeable events.

RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in political, social and economic policies in China may materially and adversely affect our business, financial condition, results of operations and prospects.

All of our operating subsidiaries are located in China and all of our business activities are conducted in China. Accordingly, changes in political, social and economic policies in China may materially affect our results of operations and business prospects. The Chinese economy differs from the economies in most developed countries in many aspects, including the level of government involvement, degree of development, economic growth rate, control of foreign exchange and allocation of resources. Since 1978, the PRC Government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. Many of the reforms are exploratory or experimental, and they are expected to be modified as the economic and social situation develops. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. Although China has experienced rapid economic growth over the past decades, its continued growth has been facing downward pressure since the second half of 2008 and its annual GDP growth rate has declined from 9.5% in 2011 to 7.7% in 2012 and 2013, and has further declined from 7.3% in 2014 to 6.9% in 2015. There is no assurance that future growth will be sustained at similar rates or at all. Our business, financial position, results of operations and prospects may be adversely affected by the PRC Government's political, economic and social policies affecting our industries.

Changes in government policies in China with respect to the pricing of pharmaceuticals and medical services may impact our revenue and profitability.

The PRC Government issues policies on the pricing of pharmaceuticals, medical services, medical devices and medical consumables. Different government authorities, including local pricing bureaus, local offices of medical insurance, local counterpart of NHFPC and other relevant government authorities may set price controls over pharmaceuticals, medical services, medical devices and medical consumables, mainly in the form of "price ceiling guidelines". In addition, the PRC Government has limited the prices that not-for-profit hospitals can charge patients for certain medical services. For more details, see the sections headed "Business—The Hospitals—Yangsi Hospital—Pricing and price controls," "Business—The Hospitals—Fuhua Hospital—Pricing and price controls" and "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Laws and Regulations on Prices of Medical Services, Pharmaceuticals and Medical

Devices". Yangsi Hospital and Fuhua Hospital, each a Medical Insurance Designated Medical Institution, may be subject to the price ceiling controls over its pharmaceuticals, medical services, medical devices and medical consumables when charging for items covered by the medical insurance programs. The profit margin of pharmaceuticals sold by a medical institution generally may not exceed 15% or, for ready-for-use Chinese herbs, 25%, of its actual procurement costs. Yangsi Hospital, as a not-for-profit hospital, is also subject to the price control for medical services issued by the relevant Shanghai authorities. While as a for-profit hospital, Fuhua Hospital is not subject to the pricing regulations that not-for-profit hospitals must abide by, in order to maintain the market position and compete effectively with other hospitals in the area where we operate, and as a Medical Insurance Designated Medical Institution and in light of public medical insurance reimbursement limits, we voluntarily implement price-matching policies for medical services provided at Fuhua Hospital. We cannot predict if the government will lower the retail price ceilings or permitted profit margins or change the pricing regulations or policies in the future or if additional pharmaceuticals, medical devices, medical consumables or medical services may become subject to price control, or more stringent insurance reimbursement limits. If the retail price ceilings or permitted profit margins of pharmaceuticals mentioned above are further reduced, the Hospitals may generate less revenue due to reduced sale prices even if we sold the same or greater volume of the same pharmaceuticals. As a result, our financial condition and results of operations could be materially and adversely affected.

Uncertainties in the Chinese legal system and government policies may adversely affect our business and limit the legal protection available to you.

Our subsidiaries and operations are located in China and are subject to Chinese laws and regulations. The Chinese legal system is a civil law system based on written statutes. Unlike the common law legal system, prior court decisions in a civil law system have little precedential value and can only be used as a reference. Furthermore, China's statutes are subject to the interpretation by the legislative bodies, judicial authorities and enforcement bodies, which increases the uncertainty. Since 1978, when the PRC Government started economic reforms, China has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade. Many of these laws and regulations are relatively new and subject to frequent changes and uncertainties in implementation and interpretation. There may also be new laws and regulations to cover new economic activities in China. We cannot predict the future developments in the Chinese legal system. For example, the Chinese government has formulated policies in the past few years encouraging non-public hospitals to procure professional hospital management services, such as the Notice of the State Council on Forwarding the Opinions of the NDRC, the Department of Health (now known as the NHFPC) and other Departments on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions (國家發改委、衛生部(國家衛生計生委)等部門關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知). We cannot assure you that these favorable governmental policies will not be revoked, suspended or discontinued in the future or that the Chinese laws and regulations regulating our business will continue to be interpreted in conformity with these policies. Any unfavorable regulatory developments or court decisions regarding non-public hospitals' procurement of hospital management services or substantial changes in the interpretation of the laws and regulations relevant to our business model could have a material adverse effect on our business and financial position. These uncertainties in the Chinese legal system may adversely affect our business and limit the legal protection available to you.

As a holding company, we rely on the distribution by our Chinese subsidiaries for funding.

We are a holding company incorporated in the Cayman Islands, and we operate our business through our operating subsidiaries in China. We rely on the distribution to us by our Chinese subsidiaries for funding, including to pay dividends to our Shareholders and to service any debt we may incur. Chinese laws permit dividends to be paid by our Chinese subsidiaries only out of their distributable profits determined in accordance with the PRC generally accepted accounting principles ("**PRC GAAP**"), which differ from the accounting principles and standards generally accepted in many other jurisdictions. Chinese laws also require each of our Chinese subsidiaries to allocate 10% of their after-tax profits to the reserve fund, based on PRC GAAP, until such reserve fund reaches 50% of their registered capital. Any of our Chinese subsidiaries that is a foreign invested enterprise may also be required to set aside individual funds for staff welfare, bonuses and development in accordance with Chinese laws. These reserve funds are not available for distribution as cash dividends. Additionally, factors such as cash flows, restrictions in debt instruments, withholding tax and other arrangements may restrict our Chinese subsidiaries' ability to pay dividends to us and in turn restrict our ability to pay dividends to our Shareholders. Distributions by our Chinese subsidiaries to us in forms other than dividends may also be subject to government approvals and taxes.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may negatively affect our business and our ability to conduct mergers, acquisitions or other investments and the value of your investment in our Company.

On February 3, 2015, the SAT issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non- Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) ("**Circular 7**"). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓企業所得稅管理的通知) ("**Circular 698**") and certain rules clarifying Circular 698. Circular 698 was issued by the SAT on December 10, 2009. Circular 7 provides comprehensive guidelines relating to, and heightened the Chinese tax authorities' scrutiny of, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise ("**PRC Taxable Assets**"). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, Circular 7 allows the Chinese tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC enterprise income tax. Circular 7 exempts this tax, for example, (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market, and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular 7 will be applicable to transfers of our Shares by our Shareholders. If the Chinese tax authorities impose PRC enterprise income taxes on these activities, the value of your investment in our Shares may be adversely affected.

We may be deemed as a PRC tax resident under the EIT Law and may be subject to PRC taxation on our worldwide income.

Under the EIT Law, enterprises established under the laws of jurisdiction other than China may be considered as a PRC tax resident provided that their "de facto management body" is located within China. Supplementary rules of the EIT Law define "de facto management body" as a body that exercises substantial management or control over the business, personnel, finance and properties of an enterprise. Through a circular promulgated in April 2009, the SAT further clarified the criteria for determining whether an enterprise has a "de facto management body" within China. As most of our management is currently based in China and many may remain in China in the future, we and our non-PRC subsidiaries may be treated as PRC tax residents and a number of unfavorable tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income and to PRC enterprise income tax reporting obligations. Any income sourced by us from outside China, such as interest on offering proceeds held outside China, would be subject to PRC enterprise income tax at a rate of 25%. While the EIT Law provides that dividend income between "qualified resident enterprises" is exempt from PRC enterprise income tax, it is not clear whether our Company and our non-PRC subsidiaries would be eligible for such exemption were we considered to be PRC tax residents. In addition, if we are treated as PRC tax residents under Chinese laws, capital gains realized from sales of our Shares and dividends we pay to non-PRC resident Shareholders may be treated as income sourced within China. Accordingly, dividends we pay to non-PRC resident Shareholders and transfers of Shares by these Shareholders may be subject to PRC income tax. The tax on this income of non-PRC resident Shareholders would be imposed at a rate of 10% (and may be imposed at a rate of 20% in the case of non-PRC resident individual Shareholders including the Weikang Investment Minority Shareholders), subject to the provisions of any applicable tax treaty. If we are required to withhold PRC income tax on dividends payable to you, or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially and adversely affected.

Dividends paid to our investors are subject to PRC withholding taxes.

Under the EIT Law and its implementation rules, a 10% withholding tax is applicable to the profit of a foreign-invested enterprise distributed to its immediate holding company outside China to the extent the distributed profit is sourced from China, (i) if the immediate holding company is neither a PRC resident enterprise nor has any establishment or place of business in China, or (ii) if the immediate holding company has an establishment or place of business in China but the relevant income is not effectively connected with the establishment or place of business. Pursuant to a special arrangement between Hong Kong and China, this rate will be lowered to 5% if a Hong Kong resident enterprise directly owns over 25% of the Chinese company. However, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, Chinese tax authorities have the discretion to adjust the tax rate enjoyed by the relevant offshore entity. We cannot assure you that Chinese tax authorities will determine that the 5% tax rate applies to dividends received by our subsidiaries in Hong Kong from our Chinese subsidiaries or that Chinese tax authorities will not levy a higher withholding tax rate on these dividends in the future. In addition, on August 27, 2015, the SAT promulgated the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (國家稅務總局關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公

告), which became effective on November 1, 2015 and replaced the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial). Under the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, any qualifying non-resident taxpayer meeting specified conditions may be entitled to the convention treatment when filing a tax return or making a withholding declaration through a withholding agent. However, the grant of the convention treatment is at the discretion of the tax authorities.

Preferential tax treatment and financial subsidies that we have enjoyed may be changed or terminated.

Under the EIT Law, enterprises in China are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Two of our subsidiaries, Honghe Zhiyuan and Honghe Ruixin, are eligible for a preferential 9% corporate income tax rate for the period from January 1, 2015 to December 31, 2017, in accordance with the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Autonomous Region (西藏自治區企業所得稅政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014. In addition, the local government in Dazi, Tibet has agreed to provide government subsidies to Honghe Ruixin and Honghe Zhiyuan, each equal to 60% of the business tax and 50% of the value-added tax payable by these entities. Further, Fuhua Hospital was exempted from business tax from January 1, 2013 to December 31, 2015, and this exemption has been renewed to cover the period from January 1, 2016 to September 28, 2017; from May 1, 2016 after the promulgation of the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (the "**Notice of Replacing Business Tax with Value-added Tax**"), Fuhua Hospital became subject to value-added tax (instead of business tax) and this business tax exemption continues to apply to its value-added tax during the remainder of the term. See "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations Related to Taxation in China—Value-added Tax" for more information. For further information, see the sections headed "Financial Information—Description of Selected Income Statement Line Items—The Group—Income Tax Expense" and "Financial Information—Significant Factors Affecting our Results of Operations—Taxation and Government Subsidies". For further information in relation to business tax and value-added tax, see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations Related to Taxation in China—Value-added Tax."

We received government grants and subsidies of RMB1.8 million from the local government in Sanlin in 2015 and RMB1.1 million from the local government in Dazi in the nine months ended September 30, 2016. There is no assurance that we could continue to enjoy the income tax incentive or financial subsidies described above at the historical level, or at all. Any change, suspension or termination of these preferential tax treatment and financial subsidies to us could adversely affect our financial condition, results of operations and cash flows.

Failure by our Shareholders or beneficial owners who are PRC residents to make required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing dividends and could expose us and our Shareholders who are PRC residents to liability under Chinese laws.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("**SAFE Circular No. 37**"), which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident ("**PRC Resident**") to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle ("**Offshore SPV**") that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV's Chinese subsidiary to distribute dividends to its overseas parent.

It is unclear how SAFE Circular No.37 and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategies. As of the Latest Practicable Date, to the best knowledge of our Directors, our PRC resident shareholders with offshore investments in our Group had registered with SAFE as to their offshore investments in accordance with SAFE Circular No. 37. Any failure by our PRC resident shareholders or beneficial owners to make the registrations or updates with SAFE may subject the relevant PRC resident shareholders or beneficial owners to penalties, restrict our overseas or cross-border investment activities, limit our Chinese subsidiaries' ability to make distributions or pay dividends, or affect our ownership structure and capital inflow from our offshore subsidiaries. As such, our business, financial condition, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our shareholders may be materially and adversely affected.

Current Chinese regulations on loans provided by, and foreign direct investment by, an offshore holding company to Chinese companies may delay or prevent us from using the proceeds from the Global Offering to fund our business operations in China.

Any loans or capital contributions that we, as an offshore entity, make to our Chinese subsidiaries that are foreign-invested enterprises, including with the proceeds of the Global Offering, are subject to Chinese laws and regulations. Foreign-invested enterprises must register with SAFE or its local counterpart in order to obtain shareholder loans from the foreign investors. The aggregate amount of these foreign loans must not exceed statutory limits. Furthermore, the foreign-invested enterprises must register with SAFE or its local counterpart for repayment of the foreign loans. In addition, foreign investors must obtain approvals from or make record filings with the MOFCOM or its local counterpart and register with the SAIC or its local counterpart to make capital contributions to the foreign-invested enterprises. We cannot assure you that we can obtain the required government approvals, record filings or registrations on a timely basis, or at all, with respect to loans or capital contributions that we may make to our Chinese subsidiaries. If we fail to obtain the approvals, record filings or registrations, our ability to use the proceeds from the Global Offering to fund our operations in China would be negatively affected, which would materially and adversely affect our liquidity and ability to expand our business.

Government control of currency conversion and fluctuation in the exchange rates of the Renminbi may adversely affect our business and results of operations and our ability to remit dividends.

Substantially all of our revenue and operating costs are denominated in Renminbi. The PRC Government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing Chinese foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, registration with the banks entrusted by SAFE is required for foreign currency conversions for payment under capital account items such as equity investments. The PRC Government may also at its discretion restrict our access in the future to foreign currencies for current account transactions. Under our current corporate structure, our revenue is primarily derived from dividend payments from our Chinese subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, since a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

The exchange rates of the Renminbi against foreign currencies, including the Hong Kong dollar, are affected by, among other things, changes in China's political and economic conditions. In addition, to the extent that we need to convert Hong Kong dollars that we will receive from the Global Offering into Renminbi for our operations, appreciation of Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount that we will receive. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making dividend payments on our Shares or for other business purposes appreciation of the Hong Kong dollar against Renminbi would reduce the Hong Kong dollar amount available to us.

You may encounter difficulty in effecting service of legal process upon us, our Directors or senior management and enforcing foreign judgments against us, our Directors or senior management.

We are a company incorporated in the Cayman Islands with substantially all of our assets located within China. Most of our Directors and senior management reside in China and substantially all of their assets are within China. As a result, it may not be possible for you to effect service of legal process within China on us, our Directors or senior management.

Judgments of courts of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty on that with China. Currently, China does not have treaties providing for the reciprocal enforcement of judgments of courts with the United Kingdom or most other western countries. On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned, pursuant to which reciprocal recognition and enforcement of the judgment may be possible between these two jurisdictions provided that the judgment is rendered by a final court of these two jurisdictions and the parties have an express written choice of court. It may be difficult or impossible for you to enforce judgments between these jurisdictions if you have not agreed on the sole jurisdiction with the other party. In addition, Hong Kong has no arrangement for reciprocal enforcement of judgments with certain other jurisdictions. As a result, you may encounter difficulty in enforcing foreign judgments against us, our Directors or senior management.

RISKS RELATING TO THE GLOBAL OFFERING

As there has been no prior public market for our Shares, their market price may be volatile and an active trading market in our Shares may not develop.

Prior to the Global Offering, there was no public market for our Shares. The Offer Price of our Offer Shares is the result of negotiations between us and the Sole Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. There is no guarantee that an active trading market for our Shares will develop, or, if it does develop, that it will sustain or that the market price of our Shares will not decline after the Global Offering.

The market price and trading volume of our Shares may be volatile, which may result in substantial losses for investors in our Shares.

The price and trading volume of our Shares may fluctuate widely in response to factors beyond our control. The factors that could cause significant market price change include but do not limit to the following:

- changes in our results of operations, earnings and cash flows, and securities analysts' estimates of our financial performance;
- changes in competitive landscapes of our industries, including strategic alliances, acquisitions or joint ventures by us or our competitors;
- changes in general economic conditions affecting us or our industries;
- regulatory developments, and our inability to obtain or renew necessary licenses and permits;
- changes in our senior management;

- fluctuations of the general stock market, particularly fluctuations in stock prices of other companies that operate mainly in China and are listed on the Stock Exchange; and

- material litigation or regulatory investigations affecting us or our senior management.

There will be a time gap of several business days between pricing and trading of our Shares offered under the Global Offering. The market price of the Shares after trading begins could be lower than the Offer Price.

The Offer Price of our Offer Shares will be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the Price Determination Date. Investors are unlikely to be able to sell or otherwise deal in our Shares before they commence trading. Accordingly, holders of our Offer Shares are subject to the risk that the price of our Offer Shares after trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse development that may occur between the Price Determination Date and the time trading begins.

Control by our Controlling Shareholders of a substantial percentage of our Company's share capital after the completion of the Global Offering may limit your ability to influence the outcome of decisions requiring the approval of Shareholders and the interests of our Controlling Shareholders may not be aligned with those of our other Shareholders.

Upon the completion of the Global Offering, approximately 72.83% of our Shares will be held by our Controlling Shareholders, assuming that the Over-allotment Option is not exercised. After the completion of the Global Offering, our Controlling Shareholders will continue to have significant influence on us on various important corporate actions requiring the approval of Shareholders, such as mergers, disposal of assets, election of Directors, and timing and amount of dividends and other distributions. There may be a conflict between our Controlling Shareholders' interests and your interests. Control by our Controlling Shareholders of a substantial percentage of our Shares may have the effect of delaying, discouraging or preventing a change in control of us, which may deprive you of opportunities to receive premiums for your Shares and may reduce the price of the Shares. If our Controlling Shareholders cause us to pursue strategic objectives that would conflict with your interests, you may also be left in a disadvantaged position.

Future sales or major divestment of our Shares by any of our Controlling Shareholders or cornerstone investors could adversely affect the prevailing market price of our Shares.

The market price of our Shares may be adversely affected by future sales of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by our Controlling Shareholders. The Shares held by our Controlling Shareholders or cornerstone investors are subject to certain lock-up arrangements; please see the section headed "Underwriting—Underwriting Arrangements and Expenses—Undertakings to the Stock Exchange pursuant to the Listing Rules—Undertakings by the Controlling Shareholders" and "Cornerstone Investor—Restrictions on the Disposal of Shares by the Cornerstone Investor" in this prospectus for a detailed description of the restrictions. After the restrictions of the lock-up arrangements expire, our Controlling Shareholders or cornerstone investors may dispose of our Shares. Sales of a substantial amount of our Shares following the expiration of such lock-up arrangements could adversely affect the market price of our Shares, which could negatively affect our ability to raise equity capital.

Our financial performance will be negatively affected by the listing expenses incurred in connection with the Global Offering.

Due to the non-recurring listing expenses in connection with the Global Offering, the financial results of our Group for the year ended December 31, 2016 and the year ending December 31, 2017 will be negatively affected. We incurred approximately RMB28.8 million of listing expenses during the Track Record Period, among which approximately RMB8.9 million was recorded as prepayments and approximately RMB19.9 million was recorded as expenses. We expect to incur approximately an additional RMB40.1 million of listing expenses (including underwriting commission) after the Track Record Period, of which approximately RMB0.7 million and RMB22.3 million will be capitalized and approximately RMB2.0 million and RMB15.1 million will be recognized as expenses in the fourth quarter of 2016 and in the first quarter of 2017, respectively. We would like to emphasise that such listing expenses are a current estimate for reference only and the final amount to be recognised to the income statement of our Group for the year ended December 31, 2016 and the year ending December 31, 2017 are subject to adjustments based on audit and the then changes in variables and assumptions. Nevertheless, the listing expenses in relation to the Global Offering are non-recurring. Accordingly, the Directors wish to inform the Shareholders and potential investors that the Group's financial results for the year ended December 31, 2016 and the year ending December 31, 2017 are expected to be materially and adversely affected by the estimated expenses in relation to the Global Offering.

Our financial performance will be negatively affected by our incentive schemes we have adopted in respect of certain of our management members.

To incentivize certain of our management members, in 2016 we issued ordinary shares, granted share-based awards and share appreciation rights and agreed to pay a cash bonus to certain of our management members. See "History, Development and Corporate Structure—Management Subscription," "Statutory and General Information—D. Share Appreciation Rights Schemes" and "Statutory and General Information—E. Service Contract" for more information on these incentive schemes. We recognized share-based compensation expenses of RMB12.0 million in the nine months ended September 30, 2016, and we expect to recognize additional expenses of RMB10.9 million in respect of these incentive schemes in the fourth quarter of 2016. The expenses that we expect to recognize in respect of these incentive schemes in the fourth quarter of 2016 are our current estimates for your reference only, and the final amount to be recognized in our income statement for the year ended December 31, 2016 is subject to change depending primarily on how actual results, in particular, our share price, differ from certain assumptions we used in estimating these amounts. Given the estimated size of the expenses in respect of our incentive schemes, we expect our financial results for the year ended December 31, 2016 to be materially and adversely affected by these expenses, and given that the total amount of expenses listed above is only an estimate, the size of this effect is uncertain.

Our future financing may cause dilution of your shareholding or place restrictions on our operations.

In order to raise capital and expand our business, we may consider offering and issuing additional Shares or other securities convertible into or exchangeable for our Shares in the future other than on a pro rata basis to our then existing Shareholders. As a result, the shareholdings of those Shareholders may experience dilution in net asset value per Share. If additional funds are to be raised through debt financing, certain restrictions may be imposed on our operations, which may:

- further limit our ability or discretion to pay dividends;
- increase our risks in adverse economic conditions;
- adversely affect our cash flows; or
- limit our flexibility in business development and strategic plans.

You will experience immediate and substantial dilution in the book value of your investment as a result of the Global Offering.

The Offer Price of our Offer Shares is higher than our net tangible book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares will experience an immediate dilution in pro forma net tangible book value per Share. Our existing Shareholders will, however, receive an increase in pro forma net tangible book value per Share with respect to their Shares. In addition, if the Sole Global Coordinator exercises the Over-allotment Option, holders of our Shares may experience further dilution.

There is no assurance that whether and when we will pay dividends. Dividends declared in the past may not be indicative of our dividend policy in the future.

We cannot guarantee when, if or in what form and amount dividends will be paid on our Shares following the Global Offering. Distribution of dividends must be proposed by our Board and is subject to a number of factors, including the results of operations, cash flows, financial situation and capital expenditure requirements of our Group, distributable profits of our subsidiaries and dividends they pay to us, our future plans and business prospects, market conditions, our Articles of Association, regulatory restrictions and our contractual obligations. Our subsidiary, Weikang Investment, declared an RMB31.9 million dividend on September 12, 2016, out of which RMB6.4 million was declared to be distributed to its minority shareholders. Our subsidiary, Honghe Ruixin, declared an RMB38.3 million dividend on November 25, 2016, out of which RMB7.7 million was declared to be distributed to its minority shareholders. However, our historical dividend distributions are not indicative of dividends that we may pay in the future. See the section headed "Financial Information—Dividend Policy" for more details of our dividend policy.

Certain facts, forecasts and other statistics contained in this prospectus are obtained from government sources and other third parties and may not be accurate or reliable, and statistics in the prospectus provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the "Industry Overview" section of this prospectus.

In this prospectus, certain facts, forecasts and other statistics concerning China, its economic conditions and the industries are derived from publications of PRC Government agencies or industry associations, or an industry report prepared by Frost & Sullivan and commissioned by us. Although we have taken reasonable care in extracting those facts, forecasts and statistics, they have not been independently verified by us, the Sponsor, the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. We cannot assure you that those facts, forecasts and statistics are accurate and reliable. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy in other jurisdictions. You should consider carefully how much weight you should place on those facts, forecasts and statistics.

This prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This prospectus contains certain future plans and forward-looking statements about us that are made based on the information currently available to our management. The forward-looking information contained in this prospectus is subject to certain risk and uncertainties. Whether we implement those plans, or whether we can achieve the objectives described in this prospectus, will depend on various factors including the market conditions, our business prospects, actions by our competitors and the global financial situations.

You will have limited ability to access our corporate records.

Shareholders of Cayman Islands exempted companies, such as our Company, have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of these companies except accounts that we are required to make available to our Shareholders periodically as a listed company. Save with respect to our Company's register of members, which, in accordance with our Articles of Association, will be made available to our Shareholders for inspection, our Directors have discretion under our Articles of Association to determine whether, and under what conditions, our accounts and books may be inspected by our Shareholders, and are not obligated to make them available to our Shareholders. This may make it more difficult for Shareholders to obtain the information needed to establish any facts necessary for a shareholder motion or derivative action.

You may experience difficulties in enforcing your shareholder rights because we are incorporated in the Cayman Islands, and the Cayman Islands law is different from the laws of Hong Kong and other jurisdictions in terms of minority shareholder's protection.

We are an exempted company incorporated in the Cayman Islands with limited liability. Cayman Islands law differs in some respects from the laws of Hong Kong and other jurisdictions where investors may be located. Our corporate affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands. The rights of our Shareholders to take legal actions against us and our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands, and from English common law, which is persuasive but does not have binding authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors may be located. In particular, the Cayman Islands have a less developed body of securities law. As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or Controlling Shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions.

Investors should read the entire prospectus carefully and should not place any reliance on any information contained in press articles or other media in making their investment decision.

Prior or subsequent to the publication of this prospectus, there may have been press and media coverage regarding us and the Global Offering, which includes certain information about us that does not appear in, or is different from what is contained in, this prospectus. We have not authorized the disclosure of any such information in the press or media. The financial information, financial projection, valuation and other information about us contained in such unauthorized press or media coverage may not truly reflect what is disclosed in the prospectus or the actual circumstances. We do not accept any responsibility for such unauthorized press and media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. To the extent that any information appearing in the press and media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Investors should rely only on the information contained in this prospectus in making investment decisions.

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from strict compliance with the relevant provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since we have our headquarters and principal operations in the PRC, the executive Directors have been and are expected to continue to be based in the PRC.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

(a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Lin Tun and Ms. Kwong Yin Ping Yvonne;

(b) each of the authorized representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;

(c) all the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange upon reasonable notice;

(d) our Company will retain a Hong Kong legal advisor to advise on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations after Listing;

(e) Halcyon Capital Limited, our compliance advisor, will act as an additional channel of communication with the Stock Exchange; and

(f) each Director has provided his or her contact information to the Stock Exchange.

Please see the section headed "Directors and Parties Involved in the Global Offering" in this prospectus for further details about other channels of communication with the Stock Exchange.

FINANCIAL STATEMENTS IN THIS PROSPECTUS

The Accountant's Report set out in Appendix IA to this prospectus contains the consolidated results of the Group for the period from February 21, 2014 (as the Company was incorporated on February 21, 2014, the consolidated results of the Group have been prepared since the date of incorporation) to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016. The Accountant's Report set out in Appendix IB to this prospectus contains the consolidated results of Weikang Investment and its wholly-owned subsidiary, Fuhua Hospital, for the year ended December 31, 2013, the nine months ended September 30, 2014, the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016.

Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to include an accountant's report which contains the matters specified in the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that we set out in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of our Group during each of the three financial years immediately preceding the issue of this prospectus. Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that we include in this prospectus a report by the auditors with respect to the profit and loss of our Group for each of the three financial years ended immediately preceding the issue of this prospectus and the assets and liabilities of our Group as at the end of each of the three financial years ended immediately preceding the issue of this prospectus (collectively, the "**Companies (Winding Up and Miscellaneous Provisions) Ordinance Requirements**").

Rule 4.04(1) of the Listing Rules requires that the consolidated results of our Group in respect of each of the three financial years immediately preceding the issue of the prospectus be included in the Accountant's Report to this prospectus.

Guidance Letter GL-25-11 issued by the Stock Exchange has provided the conditions for granting a waiver from strict compliance with Rule 4.04(1) of the Listing Rules as follows:

(1) the applicant must list on the Stock Exchange within three months after the latest year end;

(2) the applicant must obtain a certificate of exemption from the SFC on compliance with paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

(3) a profit estimate for the latest financial year (which must comply with Rules 11.17 to 11.19 of the Listing Rules) must be included in the prospectus or the applicant must provide justification why a profit estimate cannot be included in the prospectus; and

(4) there must be a directors' statement in the prospectus that there is no material adverse change to its financial and trading positions or prospect with specific reference to the trading results from the end of the stub period to the latest financial year end.

An application has been made to the SFC for the certificate of exemption from strict compliance with section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the inclusion of the Accountant's Report for the full financial year ended December 31, 2016 in this prospectus on the following grounds:

- our Directors consider that after performing sufficient due diligence work, there has been no material adverse change in the financial and trading positions or prospect of our Group since September 30, 2016 up to the date of issue of this prospectus and that there is no event which would materially affect the information contained in the Accountant's Reports and profit estimate of our Group in this prospectus. Our Directors and the Sole Sponsor consider that all information that is reasonably necessary for the potential investors to make an informed assessment of the activities or financial position of our Group has been included in this prospectus. Our Directors believe that an exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance Requirements would not prejudice the interests of the investing public; and

- strict compliance with section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would be unduly burdensome as it would not be possible for the audited results of our Group for the year ended December 31, 2016 to be finalized shortly after the year end. If the full year results of our Group for 2016 are to be included in this prospectus, there will be a significant delay in the listing timetable. If the financial information is required to be audited up to December 31, 2016, our Company and the Reporting Accountant would have to undertake a considerable amount of work to prepare, update and finalize the Accountant's Reports to cover such additional period within a short period of time. Our Directors consider that the benefits of such work to the prospective investors of our Company may not justify the additional work involved and the delay in the listing timetable, given that, up to the Latest Practicable Date, there had been no significant change in the financial position of the Group since September 30, 2016, being the expiry of the period reported on by the Reporting Accountant, and no event had occurred since September 30, 2016 that would materially and adversely affect the financial information disclosed in this prospectus.

A certificate of exemption has been granted by the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) the particulars of the exemption be set forth in this prospectus; (ii) this prospectus be issued by the end of February 2017; and (iii) the Shares be listed on the Main Board of the Stock Exchange on or before March 31, 2017, i.e. within three months after the latest financial year-end of the Company immediately preceding the issue of this prospectus.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the Accountant's Report for the full financial year ended December 31, 2016 in this prospectus on the following grounds:

- our Directors consider that after performing sufficient due diligence work, there has been no material adverse change in the financial and trading positions or prospect of our Group since September 30, 2016 up to the date of issue of this prospectus and that there is no event which would materially affect the information contained in the Accountant's Reports and profit estimate of our Group in this prospectus. Our Directors and the Sole Sponsor consider that all information that is reasonably necessary for the potential investors to make an informed assessment of the activities or financial position of our Group has been included in this prospectus. Our Directors believe that a waiver from strict compliance with Rule 4.04(1) of the Listing Rules would not prejudice the interests of the investing public;

- our Company shall be listed on the Stock Exchange within three months after December 31, 2016, being the latest financial year end of our Company immediately preceding the issue of this prospectus;

- this prospectus contains a statement from our Directors that there has been no material adverse change to the financial and trading positions or prospect of our Group since September 30, 2016 (being the date of which the latest audited consolidated financial statement of our Group were made up) and up to Latest Practicable Date;

- in accordance with Guidance Letter HKEx-GL-25-11, an estimate of the consolidated profit of our Group for the year ended December 31, 2016 has been included in this prospectus. The investing public would thus be given some guidance as to our Company's financial performance for the year ended December 31, 2016; and

- our Company shall publish its annual results and annual report within the time prescribed under the Rules 13.49(1) and 13.46(1) of the Listing Rules, respectively.

The Stock Exchange has granted us a waiver from strict compliance with Rule 4.04(1) of the Listing Rules on the conditions that (i) this prospectus be issued by the end of February 2017 and the Listing shall commence by the end of March 2017; (ii) we have obtained a certificate of exemption from the SFC from similar requirements under section 342(1) in relation to paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; (iii) the inclusion of a profit estimate for the year ended December 31, 2016 which complies with Rules 11.17 to 11.19 of the Listing Rules and a Directors' statement that there is no material adverse change to our financial and trading positions or prospect since September 30, 2016 up to the date of this prospectus.

Our Directors have confirmed that they have ensured that sufficient due diligence has been performed and that up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since September 30, 2016 (being the date to which the latest consolidated financial statements of our Group were made up) and there has been no event since September 30, 2016 which would materially affect the information contained in the Accountant's Reports and the profit estimate of our Group (as set out in Appendix IA, Appendix IB and Appendix IIB to this prospectus). Based on the due diligence work performed by the Sole Sponsor so far, nothing has come to the attention of the Sole Sponsor for it to cast doubt on the views of the Directors expressed above.

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of our or their respective directors, officers, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering", and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around March 9, 2017, subject to the Offer Price being agreed.

If, for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering.

No part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, March 16, 2017. The Shares will be traded in board lots of 200 Shares each. The stock code of the Shares will be 3869.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of us, the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF SHAREHOLDERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on our Hong Kong register of members. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in HK$ and RMB have been translated, for the purpose of illustration only, into United States dollars in this prospectus at the following exchange rates:

US$1.00: HK$7.7610

US$1.00: RMB6.8640

RMB1.00: HK$1.1335

No representation is made that any amounts in HK$ and RMB were or could have been or could be converted into United States dollars at such rates or any other exchange rates on such date or any other date.

Solely for convenience purposes, this prospectus includes translations of certain RMB amounts into US$. No representation is made that the RMB amounts could actually be converted into such foreign exchange at the rate indicated, or at all. Unless otherwise specified, translations of RMB into US$ in this prospectus are based on the rate of RMB1.00:HK$1.1335, being the PBOC rate prevailing on February 17, 2017, and US$1.00:HK$7.7610, being the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board on February 17, 2017.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Likewise, the products of sales volumes and average selling prices may differ from revenue by product type due to rounding adjustments.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original language shall prevail.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Zhang Xiaopeng (張曉鵬)	Room 3-802, No. A19 Yongding Road Haidian District Beijing	Chinese
Mr. Lu Wenzuo (陸文佐)	No. 5, Lane 389 Jinling Road East, Huangpu District Shanghai	Chinese
Non-executive Directors		
Mr. Zhao John Huan (趙令歡)	Flat A, 3/F Han Kung Mansion 26 Tai Koo Shing Road Tai Koo Shing Hong Kong	American
Mr. Yuan Bing (袁兵)	Grand Hills Residential, Unit 316 Heping Road No.8 Beijing	Chinese
Mr. Lin Sheng (林盛)	Room3-1002, Block 2 Greenlake Place No. 88, East 4th Ring Road North Chaoyang District Beijing	Chinese
Mr. Lin Tun (林暾)	Flat B, 5/F, No.135 Tai Hang Road, Jardine's Lookout Hong Kong	Chinese
Independent Non-executive Directors		
Ms. Chen Xiaohong (陳曉紅)	Room 502, West Gate, Building No. 6 No. A25 Taiping Road Haidian District, Beijing	Chinese

Name	Residential Address	Nationality
Mr. Shi Luwen (史錄文)	No. 12, Floor 6, Building No. 25 38 Xueyuan Road Haidian District, Beijing	Chinese
Mr. Zhou Xiangliang (周向亮)	No. 301, Unit 2, Building No. 201 Shi Ji Dong Fang Jia Yuan Chaoyang District, Beijing	Chinese

See the section headed "Directors and Senior Management" in this prospectus for further information regarding our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
Legal advisors to Our Company	*As to Hong Kong and U.S. laws:* Cleary Gottlieb Steen & Hamilton (Hong Kong) 37/F, Hysan Place 500 Hennessy Road Causeway Bay Hong Kong *As to PRC law:* Global Law Office 15 & 20/F, Tower 1, China Central Place No.81 Jianguo Road Chaoyang District Beijing 100025 PRC *As to Cayman Islands law:* Maples and Calder (Hong Kong) LLP 53/F, The Center 99 Queen's Road Central Hong Kong

Legal advisors to the Underwriters	*As to Hong Kong and U.S. laws:* Clifford Chance 27/F, Jardine House One Connaught Place Central Hong Kong *As to PRC law:* Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Chaoyang District Beijing,100022 PRC
Reporting Accountant	PricewaterhouseCoopers *Certified Public Accountants* 22/F Prince's Building Central Hong Kong
Industry Consultant	Frost & Sullivan Room 1014-1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai, 200232 PRC
Receiving Bank	Wing Lung Bank Limited 16/F, Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong
Compliance Advisor	Halcyon Capital Limited 11/F Floor 8 Wyndham Street Central Hong Kong

CORPORATE INFORMATION

Registered office in Cayman Islands	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal place of business and head office in the PRC	Hospital Corporation of China Limited 1602, Tower B, Jin Qiu International Building No. 6, Zhichun Road Haidian District Beijing PRC
Principal place of business in Hong Kong	Suite 2701, One Exchange Square Central Hong Kong
Company's Website	www.hcclhealthcare.com *(The information on the website does not form part of this prospectus)*
Company Secretary	Ms. Kwong Yin Ping Yvonne (FCIS, FCS) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. Lin Tun Flat B, 5/F No. 135 Tai Hang Road Jardine's Lookout Hong Kong
	Ms. Kwong Yin Ping Yvonne (FCIS, FCS) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Audit Committee	Mr. Zhou Xiangliang (Chairman) Mr. Shi Luwen Mr. Yuan Bing
Remuneration Committee	Ms. Chen Xiaohong (Chairman) Mr. Lin Sheng Mr. Zhou Xiangliang

Nomination Committee	Mr. Zhao John Huan (Chairman) Mr. Shi Luwen Ms. Chen Xiaohong
Cayman Islands Principal Share Registrar and Transfer Agent	Maples Fund Services (Cayman) Limited PO Box 1093 Boundary Hall Cricket Square Grand Cayman KY1-1102 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance Advisor	Halcyon Capital Limited 11/F Floor 8 Wyndham Street Central Hong Kong
Principal Bank	Citibank N.A., Hong Kong Branch 21/F, Citi Tower, One Bay East 83 Hoi Bun Road, Kwun Tong Kowloon

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering nor is any representation given as to its accuracy or completeness. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of China. Our Directors believe that there is no material adverse change in the market information since the date of the Frost & Sullivan Report that may qualify, contradict or have an impact on the information in this section.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, China's healthcare service market for the period from 2011 to 2015. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We agreed to pay Frost & Sullivan a total fee of RMB780,000, which we believe reflects market rates for reports of this type. Founded in 1961, Frost & Sullivan has 48 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. It conducts industry research among other services. Frost & Sullivan has been covering the Chinese market from its offices in China since the 1990s. It provides market research on a variety of industries including healthcare.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of China's healthcare service industry for the prospective investors. The Frost & Sullivan Report includes information on China's healthcare service industry as well as other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research consists of both primary and secondary research involving information obtained from various sources in respect of China's healthcare service industry. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports, government statistics and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. We believe that the sources of this information are appropriate sources for the information and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect.

Frost & Sullivan has developed its forecast on the following bases and assumptions:

- the social, economic and political environments of the PRC will remain stable during the forecast period, which will ensure a sustainable and steady development of the PRC healthcare industry;

- the PRC healthcare market will grow as expected with the rising healthcare demand and supply;

- the PRC Government will continue to support the healthcare reform; and

- the respective hospital markets where our healthcare facilities are located will grow during the forecast period.

Except as otherwise noted, all of the data and forecasts contained in this section have been derived from the Frost & Sullivan Report, various official government publications and other publications.

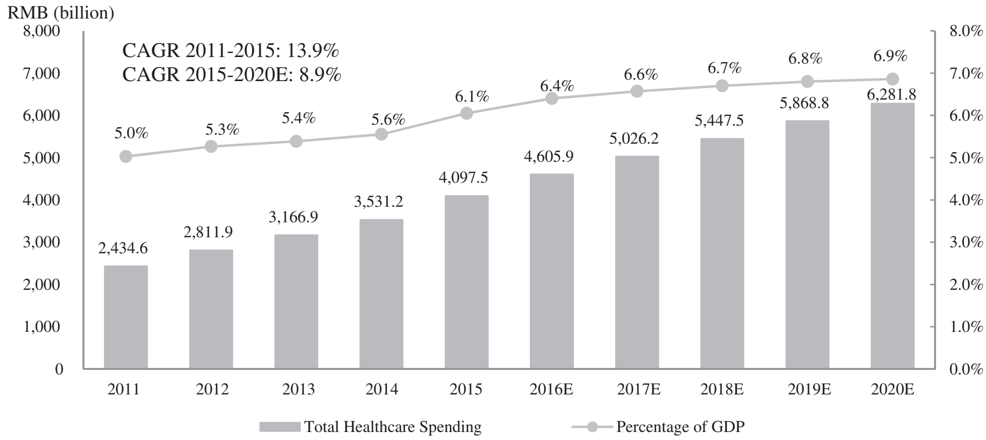
CHINA'S HEALTHCARE SERVICE MARKET OVERVIEW

Overview

The healthcare service industry is a building block in support of China's economic growth and people's well-being. Along with China's economic transformation, the consumer industry and service industry have become increasingly important in driving China's economic growth. As people demand better living standard and high-end medical service, the healthcare service industry is projected to maintain a rapid growth. From 2011 to 2015, China's total healthcare spending grew from RMB2,434.6 billion to RMB4,097.5 billion, representing a CAGR of 13.9% during this period. According to the Frost & Sullivan Report, China's total healthcare spending is projected to undergo a steady growth in the next few years. By 2020, China's total healthcare spending is forecasted to increase to RMB6,281.8 billion, representing a CAGR of 8.9% from 2015 to 2020. China's total healthcare spending grew from 5.0% of GDP in 2011 to 6.1% of GDP in 2015, and is expected to reach

6.9% of GDP by the end of 2020, according to the Frost & Sullivan Report. The chart below sets forth, for the years indicated, the total actual and estimated healthcare spending in China:

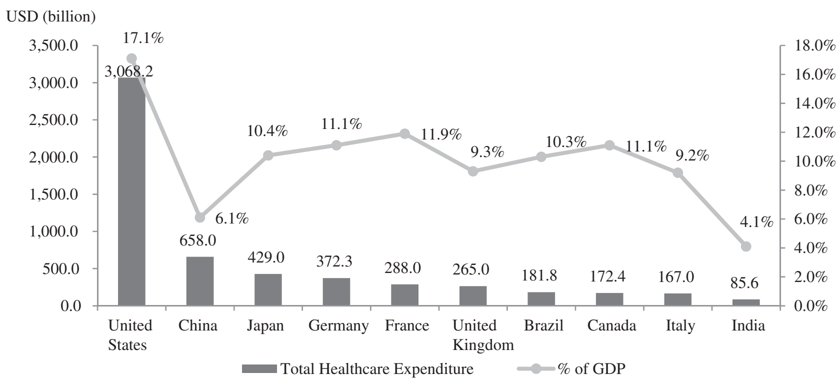
Total Healthcare Spending in China, 2011-2020E



Source: the Frost & Sullivan Report

By contrast, healthcare spending as percentage of GDP in China remains significantly low among the top 10 countries with the largest GDP. In 2015, China ranked second in total healthcare spending among these countries, but ranked ninth in healthcare spending in terms of the percentage of GDP, indicating that China still has ample potential for healthcare spending increment.

Healthcare Spending as Percentage of GDP among Countries with Top 10 GDP, 2015E



Note: The exchange rate of USD/RMB of 2015 here is 6.22722

Source: IMF; EIU; the Frost & Sullivan Report

Drivers of the healthcare service market in China

The growth of China's healthcare service market is expected to be considerable and be primarily driven by the following factors, according to the Frost & Sullivan Report:

Accelerating trend of population aging

According to the National Bureau of Statistics of the PRC, China's population aged 65 and above increased from 122.9 million in 2011 to 143.9 million by the end of 2015, representing a CAGR of 4.0% during that period. By the end of 2015, the number of individuals aged above 65 accounted for 10.5% of the total population of China. China has become an aging society. The aging trend is expected to continue and the population aged 65 and above is estimated to reach 186.6 million by the end of 2020, according to the Frost & Sullivan Report, which indicates an increase in the demand for healthcare services in China.

Increasing chronic, common and/or frequently-occurring diseases

China's increasing economic prosperity and urbanization have changed the epidemiological profiles of Chinese residents, resulting in a major shift from microbe-related infectious diseases to lifestyle-related chronic diseases in the past decades. In 2015, approximately one-third of the population aged over 15 suffered from at least one chronic disease, such as hypertension, diabetes and hyperlipidemia. According to the Frost & Sullivan Report, as indicated in the 2015 Progress Report of China Disease Prevention & Control published by NHFPC, death toll caused by chronic diseases had reached 86.6% of domestic death toll. Also, there is an upward trend for the younger generation in China to be diagnosed with chronic diseases.

As chronic diseases requires long-term treatment, rising chronic disease prevalence is expected to raise healthcare spending. According to the Frost & Sullivan Report, in 2015 nearly 67% of in-patients in China's urban hospitals suffered from common diseases or chronic diseases and such proportion reached 78% in county-level hospitals. Furthermore, chronic disease treatment requires lengthy therapeutic cycle results in sustainable medical revenue for corresponding healthcare institutions. According to the Frost & Sullivan Report, the spending on treatment of common diseases, chronic disease and frequently-occurring diseases accounts for over 70% of total healthcare market in China, which makes up the major segment in the healthcare market.

Increasing affordability and accessibility of healthcare services

Per capita disposable income of urban and rural residents has risen due to the boost of China's economy. In 2015, urban and rural per capita disposable incomes reached RMB31,195.0 and RMB11,422.0, representing a CAGR of 9.4% and 13.1% starting from 2011 respectively, and the healthcare spending of urban and rural residents reached RMB1,305.6 and RMB753.9 with a CAGR of 10.6% and 23.3% respectively, from 2010 to 2014.

Meanwhile, the PRC Government has dedicated strong effort to increase the accessibility and affordability of healthcare services through healthcare reform. Huge investment has been made to construct and upgrade healthcare infrastructures, and to expand medical insurance coverage. The public medical insurance system has been established to cover nearly all the population. Annual medical insurance expenditure per capita increased from approximately RMB936.0 in 2011 to approximately RMB1,398.8 in 2015 for urban residents, and from approximately RMB205.6 in 2011 to approximately RMB437.8 in 2015 for rural residents. Meanwhile, along with the rise in government funding for public medical insurance, per capita out-of-pocket spending by patients decreased at the same rate as the increase of the healthcare spending. According to the Frost & Sullivan Report, the three core public health insurance systems, namely Urban Resident Basic Medical Insurance Scheme ("**URBMIS**"), New Rural Co-operative Medical Insurance Scheme ("**NRCMS**") and Urban Employee Basic Medical Insurance Schedule ("**UEBMIS**"), have covered nearly 100% of the total registered population in China. By the end of 2015, URMBIS and UEBMIS covered over 86.3% of the total registered urban population and NRCMS covered approximately 98.8% of the total registered rural population in China.

The following table sets forth the population covered by the three medical insurance systems in China for the periods indicated:

	Year ended December 31,					
	2010	2011	2012	2013	2014	2015
	(in millions of people, except for percentage data)					
URBMIS	195.3	221.2	271.6	296.3	314.5	376.8
UEBMIS	237.4	252.3	264.9	274.4	283.3	288.9
NRCMS	835.6	831.6	805.3	802.1	736.3	670.3
Total registered population covered by the three systems	1,268.3	1,305.1	1,341.8	1,372.8	1,334.1	1,336.0
Overall registered population in China	1,340.9	1,347.4	1,354.0	1,360.7	1,367.8	1,374.6
Coverage rate	94.6%	96.9%	99.1%	100.9%	97.5%	97.2%

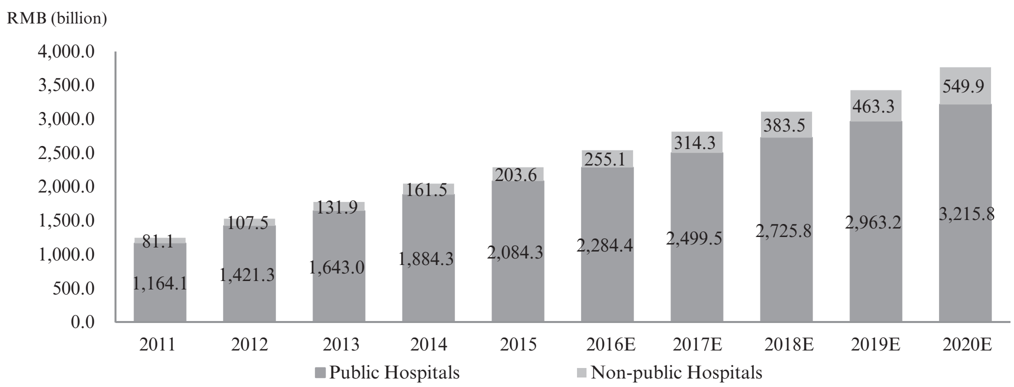
Source: NHFPC; the Frost & Sullivan Report

CHINA HOSPITAL MARKET

Overview

China's healthcare services providers can be categorized into three kinds: hospitals; primary healthcare institutions, such as community health centers; and other healthcare institutions, such as centers of disease control and preventive institutions for special diseases. Hospitals play the most essential role in China's healthcare service industry, by serving nearly 40.1% of total out-patients and over 76.4% of total in-patients in 2015. Revenue generated by healthcare providers in China reached RMB2,953.8 billion in 2015, of which RMB2,287.9 billion, or 77.5%, was attributable to hospitals. Overall hospital revenue in China grew at a CAGR of 16.4% from RMB1,245.1 billion in 2011 to RMB2,287.9 billion in 2015, and is estimated to further grow at a CAGR of 10.5% to RMB3,765.7 billion in 2020, according to the Frost & Sullivan Report.

Market Size of Hospitals, 2011-2020E

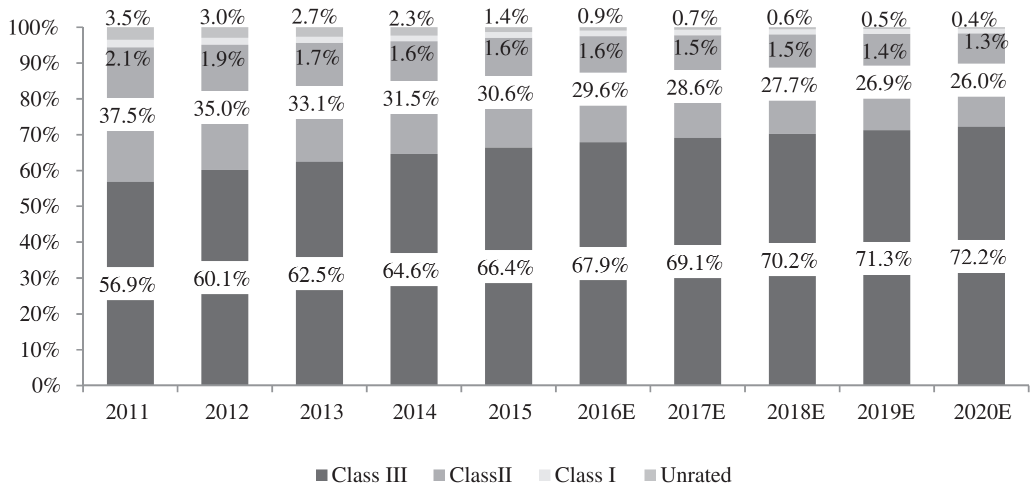


Source: NHFPC; the Frost & Sullivan Report

With regards to the total number of hospitals, there were 27,587 hospitals in China by the end of 2015. China's hospitals are mainly categorized as public hospitals and non-public hospitals. With regards to the classes of hospitals, China's hospitals are categorized as Class I hospitals, Class II hospitals and Class III hospitals, with Class III representing the highest evaluation. According to Frost & Sullivan, Class II and Class III are classifications of hospitals authorized by the PRC government and are determined by a number of criteria such as medical specialties, medical staff of hospitals, work efficiency and clinical skill. According to the same source, hospitals with Class II and Class III-equivalent scale are hospitals that are similar in size and level of service quality to those of Class II and Class III hospitals but have not been rated by the PRC government due to the complexities of China's hospital level evaluation procedures.

Class III public hospitals represent the largest market share in the public hospital market in China. The market share of Class III public hospitals among all public hospitals in China in terms of revenue grew from 56.9% to 66.4% from 2011 to 2015, and is expected to grow further in the future, according to the Frost & Sullivan Report.

Market Share of Various Rated Public Hospitals, 2011-2020E



Although the total number of non-public hospitals had outstripped that of public hospitals by the end of 2015, the total number of Class III hospitals is significantly lower than that of public hospitals, indicating that China's hospital industry is still dominated by public hospitals. In 2015, the total revenue of public hospitals reached RMB2,084.3 billion while that of non-public hospitals reached RMB203.6 billion. Although the market size of non-public hospitals is still small compared to that of public hospitals at present, non-public hospitals will play an increasingly important role in the healthcare service industry in the future. The following chart sets forth the number of hospitals in China in 2015.

Class	Public	Non-Public	Total
I	3,254	5,505	8,759
II	6,116	1,378	7,494
III	1,972	151	2,123
Unrated	1,727	7,484	9,211
Total	13,069	14,518	27,587

Source: NHFPC; the Frost & Sullivan Report

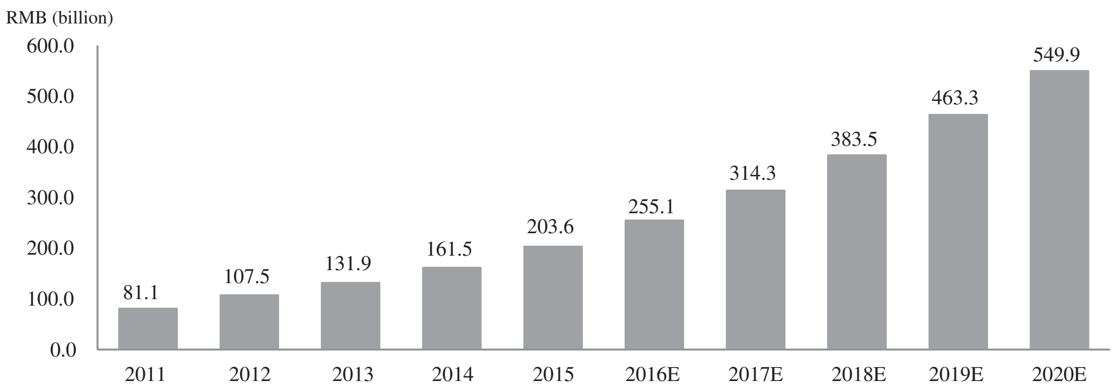
Non-public Hospitals in China

Overview

The number of non-public hospitals has grown rapidly due to government incentive policies, according to the Frost & Sullivan Report. The number of non-public hospitals has increased from 8,440 by the end of 2011 to 14,518 by the end of 2015, representing a CAGR of 14.5%. In the same period, the number of public hospitals decreased from 13,539 to 13,069. Moreover, the revenue of non-public hospitals increased from RMB81.1 billion in 2011 to RMB203.6 billion in 2015, with a CAGR of 25.9%. In the same period, the revenue of public hospitals increased from RMB1,164.1 billion to RMB2,084.3 billion, with a CAGR of 15.7%. Non-public hospitals are playing a more essential role in the healthcare service industry. Non-public hospitals represent the fastest growing sector in the healthcare service industry in China, and the growing trend is expected to continue in the next five years, according to the Frost & Sullivan Report.

Despite of the fast-growing trend, non-public hospitals are still developing at an early stage. Although the number of non-public hospitals had outstripped that of public hospitals by the end of 2015, the total revenue generated by non-public hospitals amounted to less than 10% as much as that of the public hospitals, indicating that non-public hospitals in China are still featured with low-earning performance. However, given that more and more non-public hospital groups have been developing through establishing, acquiring and/or cooperating with other hospitals or medical institutions, non-public hospitals are expected to have the competitive edge in the healthcare market and gradually become the major market players.

Market Size of Non-public Hospitals, 2011-2020E



Source: NHFPC; the Frost & Sullivan Report

Key Drivers of Non-public Hospital Market

With the accelerating aging population and rising prevalence of chronic, common and/or frequently-occurring diseases, public hospitals are unable to catch up with the rapid growth in demand for healthcare services, leading non-public hospitals to play an essential role to address the gap of unmet demand.

The key drivers of non-public hospital market are as follows, according to the Frost & Sullivan Report:

- **Incentive policies in healthcare reform**: the PRC Government has made enormous investment in healthcare reform, and the development of non-public hospitals has been set as a priority in the Government Work Report and the "13th five-year" healthcare planning. The PRC Government is making efforts to eliminate unfair treatments between public hospitals and non-public hospitals, creating a more favorable policy environment for non-public hospitals in respect of tax and other areas. The government has issued policies to encourage social capital investment in the healthcare industry and increase the number of beds invested by social capital to no less than 1.5 beds per thousand permanent residents (which was only 0.52 in 2013) in 2020, compared to 4.8 beds per thousand permanent residents for total hospital beds to be planned in 2020. Further, the scope of reimbursement of medical fees under public medical insurance has been expanded to cover certain qualified non-public medical institutions.

- **Multi-site physician practice**: pilot programs in certain cities allow doctors to practice in different places, or to work part-time in multiple hospitals. See "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on Medical Personnel of Medical Institutions—Regulations on Physicians Who Practice at Multiple Medical Institutions" for more details. These favorable regulations promote the development of non-public hospitals because experienced physicians from prestigious public hospitals are now able to bring their advanced medical skills to non-public hospitals to treat more patients and provide valuable hands-on training to non-public hospitals' physicians. Multi-site physician practice also improves non-public hospitals' patient flow as patients who had difficulties making appointments with public hospitals' prestigious physicians may now consult them at the non-public hospitals where these physicians conduct multi-site practices.

- **Disproportionate allocation of medical resources**: large public hospitals are generally highly concentrated in the centers of major cities, leaving many areas underserved. However, ongoing urbanization has resulted in demand for hospitals in emerging urban and suburban areas of cities.

- **Huge unmet demand for treatments of common and chronic diseases**: Under the current medical system in China, higher-class hospitals undertake the majority of patient visits. However, due to their initial establishment for treatment of more severe diseases, such higher-class hospitals may neglect treatment for common and/or chronic diseases, which leads to the development of non-public hospitals that take on this underserved market.

- **Rising demands for high-end medical services**: along with increasing disposable income of Chinese residents in recent years, more and more people demand high-end medical service with more customization or privacy. However, public hospitals are limited by the government policies on high-end service offerings. Under such circumstance, non-public hospitals have ample room for developing high-end medical services to seize the underserved market.

Entry Barriers of Non-public Hospitals

- **Hospital management experience and knowledge**: rich hospital management experience is essential to improving the operation efficiency and service quality of hospitals. The management of hospitals shall be conducted by qualified management talents who specialize in both medical practices and enterprise operation, in order to be appropriately involved and engaged in the initial operation process of non-public hospitals, as well as to improve the performance of the hospitals. However, such qualified management teams are hard to find, especially for senior-level talents.

- **Medical professionals:** non-public healthcare service providers compete with their public counterparts for well-respected and experienced doctors. The restrictions imposed on their practices also impede the mobility of doctors between medical institutions.

- **Licensing and branding:** obtaining the license to establish and operate a non-public hospital in China is a complicated and lengthy process, and only a limited number of non-public hospitals have obtained approvals for licensing. Non-public hospitals are allowed to participate in ratings of hospitals and could become certified as Class III hospitals, which will attract more patients. However, the process may take as long as ten years. Further, branding of non-public hospitals is an essential factor which depends on the hospitals' operation ability.

- **Investment experience and resources:** sufficient fund support and strong investment strategies are necessary for entering the market of non-public hospitals. Sufficient fund support from investors is fundamental for the acquisition of land or other expensive items. Strong investment strategies from investors provide for higher potential positive return after operations commence.

Economic Benefits for Investors of Non-public Hospitals

Healthcare institutions can be divided into for-profit healthcare institutions and not-for-profit healthcare institutions, which differ in the objective of operation, registration procedure, and executive policies of finance, tax, price, and accounting rules. According to the Frost & Sullivan Report, the main registration authorities for for-profit non-public hospitals and not-for-profit non-public hospitals are the Administration for Industry and Commerce and the Civil Administration, respectively. For both for-profit non-public hospitals and not-for-profit non-public hospitals, charges for drugs and medical services that are covered by public medical insurance cannot be higher than the prescribed price ceilings set by the local authorities. Not-for-profit non-public hospitals may enjoy more preferential tax exemptions under the PRC laws than for-profit non-public hospitals. A vast majority of hospitals in China are not-for-profit hospitals, which are mainly owned by the government. Further, the development of non-public hospitals has been set as a priority in the healthcare reform of the government.

Investors of for-profit hospitals generate return by receiving dividends from the hospitals while not-for-profit hospitals are not allowed to distribute dividend to their owners. According to the industry norm, there are two ways that generally are regarded as the most common practices of getting economic benefits for investors of not-for-profit hospitals:

Charging management fees

Under most circumstances, investors of non-public hospitals will provide consulting service, brand image development service and market planning service to improve the operation efficiency and service quality of the hospitals through management companies they own. In return, the management companies will charge a management fee for the services they provide. To be specific, a management contract is signed between such management company and the hospital, where the fee is charged based on the services provided by the management company to the hospital. According to the Frost & Sullivan Report, management fees take up around 5%-30% of total revenue of the hospital as agreed upon by most management companies and hospitals.

Some cases of Management Fee or Equivalent Calculation

Healthcare Group	Hospital Invested	Management Fee Calculation	Source
Public Company A	Not-for-Profit Hospital D	5%-25% of revenue	Prospectus
Public Company B	Not-for-Profit Hospital E	15% of revenue	Announcement published by the public company
Private Company C	Not-for-Profit Hospital F	25%-30% of revenue	Frost & Sullivan primary research

Source: the Frost & Sullivan Report

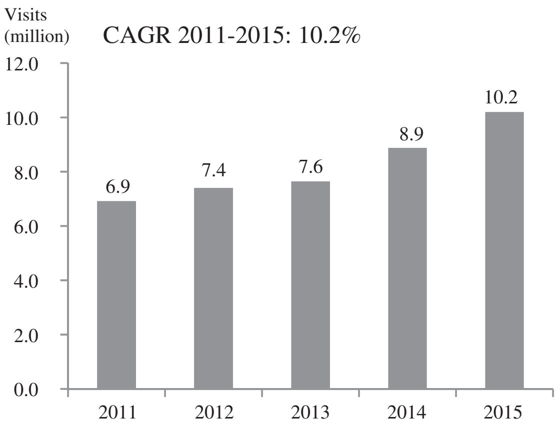
Undertaking medical supply chain + Charging management fees

The combination of undertaking medical supply chain and charging management fees is also one of the common practices of profit extraction from not-for-profit hospitals, which would involve a trusteeship contract between the investor and the hospital. To be specific, in such circumstance, the investment does not involve property ownership issues, but has privileged access to hospital operation via management assignment with the hospital. In such management assignment, the operations of medical supply chain and healthcare service form two main parts of the trusteeship, which generates remarkable profit for the trustee. Through operating the medical supply chain, the investor can generate profit from selling pharmaceutical or medical devices to the hospital. As for the operation of healthcare service, the healthcare management group charges certain proportion of revenue of the hospital as a reward of improvement in key performance indicators.

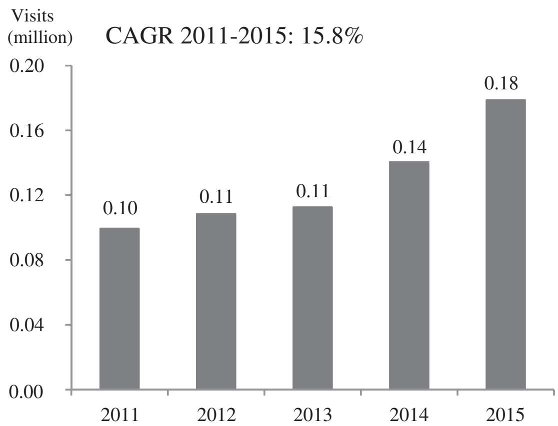
Non-public Hospitals in Shanghai

Shanghai is one of the most developed cities in China, with a total population of 24.2 million in 2015. The huge population base has stimulated the development of the local healthcare service market. In 2015, total out-patient visits reached 145.4 million and total in-patient visits reached 3.1 million. In the same year, the out-patient visits of public hospitals reached 135.2 million, while those of non-public hospitals were 10.2 million; the total in-patients visits of public hospitals were 2.9 million, while those of non-public hospitals were 0.18 million. A remarkable rise of non-public hospital out-patient and in-patient visits took place from 2011 to 2015. The total out-patient visits of non-public hospitals increased from 6.9 million in 2011 to 10.2 million in 2015, with a CAGR of 10.2%. The growth also occurred in in-patient visits of non-public hospitals, which increased from 0.10 million in 2011 to 0.18 million in 2015 with a CAGR of 15.8% during the same period.

Out-patient Visits of Non-public Hospitals in Shanghai, 2011-2015



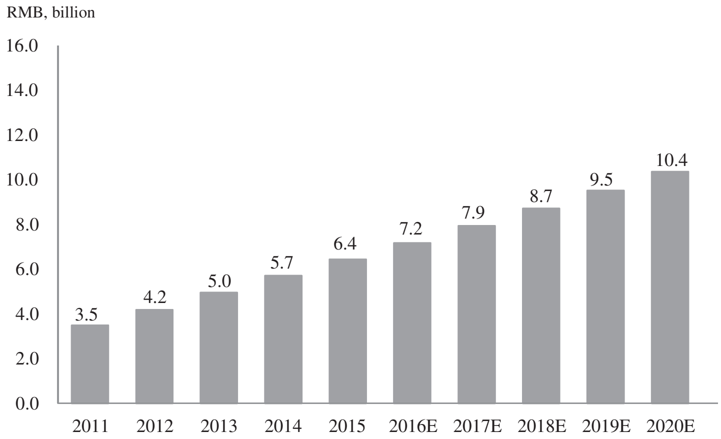
In-patient Visits of Non-public Hospitals in Shanghai, 2011-2015



Source: NHFPC; the Frost & Sullivan Report

In Shanghai, public hospitals have dominated the local healthcare service market for a long time. However, the overloaded service capacity of public hospitals make it harder to meet the increasing patient visits, while the rising disposable income of residents has created increasing demand for high-end healthcare services which are offered to a limited extent by public hospitals, thereby accelerating the development of non-public hospitals in Shanghai. According to the Frost & Sullivan Report, Shanghai had 161 non-public hospitals as of December 31, 2015 and the total market size of Shanghai's non-public hospitals reached RMB6.4 billion in 2015, with a CAGR of 16.5% starting from 2011. Driven by stimulus measures from the government on private capitals investing in healthcare services, Shanghai's non-public hospital market is projected to reach RMB10.4 billion in 2020, with a CAGR of 10.2% starting from 2015.

Market Size of Shanghai's Non-public Hospitals, 2011-2020E

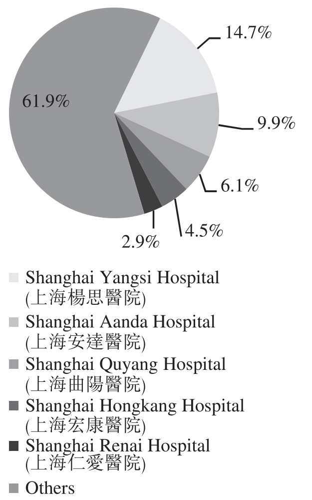


Source: the Frost & Sullivan Report

Despite the large and rapidly-growing non-public hospital market size in Shanghai, this segment is fragmented, with the top five players accounting for an aggregate of 28.5% of total market share for non-public hospitals in terms of revenue in 2015. In addition, among the top five non-public hospitals in Shanghai in terms of revenue in 2015, Yangsi Hospital is the only one that is located in Pudong New District's Yangsi area, which has a population of approximately 300,000. Shanghai United Family Hospital is located in Changning District; Shanghai Anda Hospital is located in Beicai area of Pudong New District; Shanghai Huashun Hospital is located in Jing'an District; and Shanghai Hongkang Hospital is located in Putuo District. Except for a few large-scale market leaders such as Yangsi Hospital, non-public hospitals in Shanghai are typically much smaller compared to public hospitals and are at a very preliminary stage of development. Among all non-public hospitals in Shanghai, Yangsi Hospital is ranked first in terms of total out-patient visits, total in-patient visits and revenue in 2015. In 2015, Yangsi Hospital accounted for 14.7% of total out-patient visits, 10.7% of total in-patient visits and 8.3% of total revenue in Shanghai's non-public hospitals, according to the Frost & Sullivan Report. Given these conditions, our Directors believe that competition from the other non-public hospitals in Shanghai, particularly in Yangsi area, has been, and is expected to be, very limited for the foreseeable future. The limited competition has not, and is not expected to, have any significant impact on our operations.

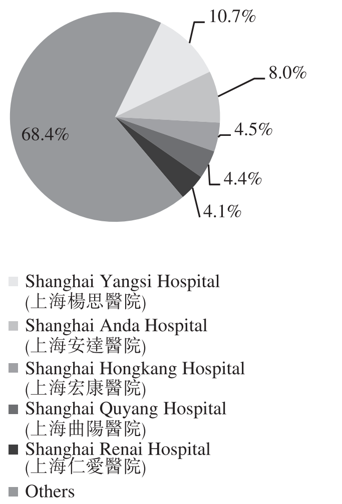
2015 Out-patient Visits of Non-public Hospitals in Shanghai

(Total non-public hospital out-patient visits: 10.2 million)



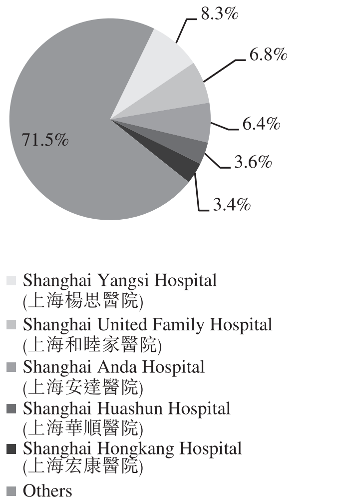
2015 In-patient Visits of Non-public Hospitals in Shanghai

(Total non-public hospital in-patient visits: 178.7 thousand)



2015 Revenue of Non-public Hospitals in Shanghai

(Total non-public hospital revenue: RMB6.4 billion)



Source: NHFPC; the Frost & Sullivan Report

CHINA'S HOSPITAL GROUP MARKET

With the deepening of healthcare reform, the PRC Government has encouraged the development of hospital groups in the policy "Guidelines for Healthcare Services Industry by the State Council" (國務院關於促進健康服務業發展的若干意見). The policy guides non-public medical institutions in developing high quality healthcare services and establishing professional hospital management groups. In the subsequent implementation process, developing professional hospital management groups has also been addressed in the "Outlines of National Healthcare Service System Planning (2015-2020)" (全國醫療衛生服務體系規劃綱要) (2015-2020), which indicates that the development of hospital management groups has become an explicit healthcare plan in China, as well as a major healthcare sector for social capital investment.

Currently, social capital is investing heavily in healthcare institutions. Many large-scale medical groups and public pharmaceutical companies have inclined to form hospital management groups. However, Chinese hospital management groups are still in the early stage of development with fragmented market performance, and it is difficult to calculate the precise market size and market share of Chinese hospital management groups. In 2015, the total number of beds in operation of the top five non-public hospital groups only accounts for less than 5% of the PRC non-public hospital market. Some hospital groups with innovative operation model and strategic positioning have been formed recently, such as Shanghai Fosun Pharmaceutical (Group) Co., Ltd., China Resources Healthcare Group Ltd., PKU HealthCare Industry Group Co., Ltd., Phoenix Healthcare Group Co., Ltd. (a company listed on the Stock Exchange with stock code 1515, now known as China Resources Phoenix Healthcare Holdings Company Limited), Jinling Pharmaceutical Company Limited, Hengkang Medical Group Co., Ltd. and Hospital Corporation of China Limited.

Future Trend of Hospitals Invested by Hospital Groups

- **Establishment of hospital network**: China's hospital groups are developed by means of establishing, acquiring or collaborating with more hospitals and other healthcare institutions, in order to form a hospital network, which takes advantage of the collaborative effect from each part of medical providers, to avoid insufficient resource allocation due to regional segmentation (resources such as medical talents, medical technologies, management teams) and to gain profit.

- **Diversified healthcare service offerings**: non-public hospital groups are building diversified healthcare services to meet various medical demands from patients. Apart from traditional hospital services, there are more healthcare choices provided by hospital groups such as premium healthcare service and specialty healthcare service. Through diversifying medical service offerings, hospital groups are able to target patients with customization and achieve differentiated positioning from public competitors.

- **Extensive scope of services**: hospital groups are inclined to extend healthcare-related services outside the core hospitals they own, such as institutions of elderly care and rehabilitation. The extensive scope of services can offer supplementary medical services to the groups' hospitals, and allow the groups to profit from ancillary and extensive services for patients.

Our business operations are subject to extensive supervision and regulation by the PRC Government. This section sets out a summary of the main applicable laws, rules, regulations and policies which have a significant impact on our business, including:

- those relating to the reform of medical institutions and that affect our ability to implement our current business strategy to expand our hospital network;
- those relating to the administration and classification of medical institutions, supervision over practicing, pharmaceuticals in medical institutions, medical equipment in medical institutions, medical personnel, medical advertisement, pricing, environmental protection, and labor protection and that regulate our day-to-day operations and affect our compliance costs;
- those relating to medical malpractice and that have an effect on our potential liabilities arising from day-to-day operations;
- those relating to foreign investment in China and that regulate the ability of our Company, as a foreign company, to conduct business in China; and
- those relating to taxation and foreign exchange matters and that have an impact on our results of operations and business.

LAWS AND REGULATIONS RELATED TO THE HEALTHCARE SERVICES SECTOR IN CHINA

Categories of Medical Institutions in China

Medical institutions in China can be divided into three main categories: public not-for-profit medical institutions, private not-for-profit medical institutions and private for-profit medical institutions. These categories have different registered business natures and apply different financial, tax, pricing and accounting standards. Public not-for-profit medical institutions, including those invested in by the government and military, are eligible for financial subsidies from governments, while private not-for-profit and private for-profit medical institutions are not. Both public not-for-profit and private not-for-profit medical institutions are required to charge healthcare service fees within a range stipulated by the relevant governmental price control authorities, to implement financial and accounting systems in accordance with standards promulgated by government authorities and to retain profits for their continued development. For-profit medical institutions are permitted to charge healthcare service fees in accordance with market practice, to implement financial and accounting systems in accordance with market practice for business enterprises and to distribute profits to their shareholders.

Regulations on the Reform of Medical Institutions

Opinions on Promoting Further Reform of the Healthcare System

The Opinions on Promoting Further Reform of the Healthcare System (中共中央、國務院關於深化醫藥衛生體制改革的意見) (the "**2009 Opinions**"), which were promulgated by the State Council and the Central Committee of the PRC on March 17, 2009, advocate a range of measures to reform medical institutions in the PRC and establish a basic healthcare system covering urban and rural residents. Measures aimed at reforming medical institutions include the separation of: (i) government agencies from public medical institutions, (ii) for-profit medical institutions from not-for-profit medical institutions, (iii) ownership of public hospitals from operations of public hospitals, and (iv) medical services from pharmaceutical sales. The 2009 Opinions include proposals for the establishment and improvement of governance systems of public medical institutions, and checks and balances between owners and operators in decision-making, execution and supervision processes of public medical institutions. The 2009 Opinions also encourage private capital to invest in medical institutions (including investments by foreign investors), the development of private medical institutions and the reform of public medical institutions (including those established by state-owned enterprises) through private capital investment.

Notice on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions

The Notice of the General Office of the State Council on Forwarding the Opinions of the NDRC, the Department of Health (now known as the NHFPC) and other Departments on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions) (國務院辦公廳轉發發展改革委衛生部等部門關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知), which was promulgated by the General Office of the State Council on November 26, 2010, stipulates that the PRC Government encourages and supports investments by private investors in medical institutions of various types. Social capital is encouraged to set up non-profit medical facilities and permitted to set up for-profit medical facilities. Priority shall be given to the social capital for setting up medical facilities when adjusting or increasing medical and health resources, as long as the entry criteria are satisfied. Private investors are also encouraged to participate in the reform of existing public hospitals, including those established by state-owned enterprises, by converting them into non-public medical institutions. Private medical institutions with experience in the provision of healthcare services and good reputation shall be selected as participants in the restructuring of public hospitals. The restructuring of public hospitals may be carried out through pilot reform programs in hospitals established by state-owned enterprises. Private medical institutions are encouraged to engage or authorize domestic or overseas medical institutions with professional experience to participate in the management of hospitals to improve their efficiencies. Medical institutions are encouraged to develop into large, sophisticated, technology-intensive medical groups and adopt brand-focused development strategies to build good reputation and image.

Several Opinions on Promoting the Development of Healthcare Service Industry

Several Opinions on Promoting the Development of Healthcare Service Industry (國務院關於促進健康服務業發展的若干意見) (the "**2013 Opinions**") was promulgated by the State Council on September 28, 2013. The 2013 Opinions encourage the private sector to invest in the healthcare service industry by various means including new establishment and participation in restructuring, and also encourage private capital investment in not-for-profit medical institutions for provision of basic health care services. The 2013 Opinions propose the idea of the relaxation of the requirements for sino-foreign equity joint or cooperative joint medical institutions and expand eligibility in the pilot program for wholly foreign-invested medical institutions.

Decision on Several Important Issues relating to Promoting Overall Reform

The Decision on Several Important Issues relating to Promoting Overall Reform (關於全面深化改革若干重大問題的決定) (the "**2013 Decision**"), which was promulgated by the Central Committee of the CPC on November 12, 2013, encourages private investors to establish hospitals, and support shall be prioritized for the establishment of non-profit medical institutions. Private investors are also encouraged to invest in underfunded service industries and participate in the restructuring of public hospitals by various means. The 2013 Decision also permits physicians to practice in multiple medical institutions, and allows private-invested medical institutions to be included in the medical insurance system.

Several Opinions on Accelerating the Development of Medical Institutions with Private Capital

Several Opinions on Accelerating the Development of Medical Institutions with Private Capital (關於加快發展社會辦醫的若干意見), which were promulgated on December 30, 2013 by the NHFPC and the SATCM, stipulate the policies of supporting the development of private-invested medical institutions, including the (i) relaxation of requirements for service sectors, allowing private capital investment in areas which are not explicitly prohibited; (ii) relaxation of requirements for the deployment and use of large medical equipment in private hospitals; (iii) improvement of supporting policies for the development of private hospitals in aspects such as medical insurance and price control; and (iv) acceleration of the approval process regarding the establishment and operation of private hospitals.

Opinions on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Private Investment

The Opinions on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Private Investment (關於創新重點領域投融資機制鼓勵社會投資的指導意見) (the "**2014 Opinions**"), which were promulgated on November 26, 2014 by the State Council, encourage the investment of private capital in certain key sectors. The 2014 Opinions stipulate that the PRC Government will continue to (i) promote the restructuring of eligible public medical institutions with the participation of private capital; (ii) encourage private capital to enter the healthcare sector by means such as sole proprietorships, joint ventures, cooperative ventures, joint operations and leasing;

(iii) improve the implementation of preferential tax policies and exemption policies of administrative and institutional fees for the construction of not-for-profit medical institutions, and policies to reduce by half the administrative and institutional fees for the construction of for-profit medical institutions; and (iv) implement the same pricing policy with regard to the utilization of electricity, water, gas and heat by both public and private medical institutions, and relax the price control over the services provided by private medical institutions.

Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020)

The Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020) (關於印發全國醫療衛生服務體系規劃綱要(2015—2020年)的通知), which was promulgated by the General Office of the State Council on March 6, 2015, stipulates that private medical institutions are significant and integral parts of the medical and healthcare service system as well as an effective approach to fulfilling people's multilevel and diversified medical and healthcare service needs. Private medical institutions may provide basic medical services, compete with public medical institutions in an orderly manner, provide top service to fulfill extra needs which are beyond basic needs and provide services in great demand such as rehabilitation and geriatric services to complement public medical institutions.

Up to 2020, planning shall be reserved for private medical institutions ensuring that each one thousand residents are entitled to no less than 1.5 hospital beds. Reservation shall also be made for the setup of diagnosis and treatment subjects and the allocation of large medical equipment. Requirements for the qualifications of medical institution sponsors shall be reduced as well as the conditions of setup medical institution through Sino-foreign equity/cooperative joint venture. The pilot scheme of establishment of medical institutions solely invested by qualified overseas capitals shall be expanded steps by steps. The requirements of service scope shall also be reduced and the social capitals shall be allowed to invest in areas not explicitly prohibited by the laws and regulations. Not-for-profit medical institutions are entitled to prior support. Private medical institutions shall be guided to develop into a high and large-scale level. Professional hospital management group shall develop. Support shall be made to the allocation of large medical equipment. The review and approval formalities shall be more efficient. Where the private medical institution is qualified, the corresponding approval shall be assumed and the process shall be simplified to improve the approval efficiency.

The Notice listed several principles: Perfect the supporting policies, including supporting the private medical institutions to be included into the scope of medical institutions designated for medical insurance; improve the planning and overall arrangement as well as the security of use of land; optimize the guiding policies for financing and investment; and improve price policies on finance and taxation. The medical service price of private medical institutions shall apply market price adjustment; encourage governments to purchase service provided by private medical institutions; strengthen the industry supervision and ensure the quality and safety of medical service.

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Private Capital

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Private Capital (關於促進社會辦醫加快發展若干政策措施的通知), which were promulgated by the General Office of the State Council on June 11, 2015 and came into effect on the same day, stipulate that, (i) the elimination and cancellation of unreasonable preceding items for examination and approval and the reduction in the time required for making such examination and approval; (ii) the reasonable control of the number and scale of the public medical institutions and the exploration of the space for development of the medical institutions invested by private capital; (iii) the support for the listing and financing of such eligible and qualified for-profit medical institutions invested by private capital; and (iv) that private investors with managerial experience in medical institutions are encouraged to participate in the management of public medical institutions through various formats including hospital management groups and subject to the clear distribution of power and responsibilities.

Regulations on the Administration and Classification of Medical Institutions

Administrative Measures on Medical Institutions and the Medical Institution Practicing License

The Administrative Measures on Medical Institutions (醫療機構管理條例), which were promulgated on February 26, 1994 by the State Council, came into effect on September 1, 1994 and revised on February 6, 2016, and the Implementation Measures of the Administrative Measures on Medical Institutions (醫療機構管理條例實施細則), which were promulgated by the NHFPC on August 29, 1994, came into effect on September 1, 1994 and were amended on November 1, 2006 and on June 24, 2008, stipulate that the establishment of medical institutions shall comply with the relevant regional planning requirements as well as the basic standards of medical institutions. Any entity or individual that intends to establish a medical institution shall follow the application approval procedures and register with the relevant healthcare administrative authorities to obtain a Medical Institution Practicing License (醫療機構執業許可證).

The Reply to the Relevant Application of Laws for Rectification Work against Illegal Blood Collection and Supply, Illegal Blood Plasma Collection and Illegal Medical Practice (衛生部關於對非法採供血液和單採血漿、非法行醫專項整治工作中有關法律適用問題的批覆), which was promulgated by the Ministry of Health on July 6, 2004, provides that a medical institution that subcontracts the operation of its medical departments to persons other than its personnel or to other institutions for them to conduct medical practices under the name of such medical institution, may be subject to administrative penalties in accordance with Article 46 of the Administrative Measures on Medical Institutions. Under this provision, any illegal gains resulting from such subcontracting shall be confiscated by the healthcare administrative authorities at or above the county level, a maximum penalty of RMB5,000 may be imposed, and, in the event of aggravating circumstances, the Medical Institution Practicing License of the medical institution may be revoked.

Administrative Measures for the Examination of Medical Institutions (For Trial Implementation)

The Administrative Measures for the Examination of Medical Institutions (For Trial Implementation) (醫療機構校驗管理辦法（試行）) , which were promulgated by the NHFPC and came into effect on June 15, 2009, stipulate that the Medical Institution Practicing License is subject to periodic examinations and verifications by registration authorities, and will be revoked in the event that such medical institution fails to apply for or pass the examination.

Opinions on Implementing Classification Administration of Urban Medical Institution

The Opinions on Implementing Classification Administration of Urban Medical Institution (關於城鎮醫療機構分類管理的實施意見), which were jointly promulgated by the NHFPC, the SATCM, the MOF and the NDRC on July 18, 2000 and came into effect on September 1, 2000, provide that not-for-profit and for-profit medical institutions shall be classified based on their business objectives, service purposes and implementation of various financial, taxation, pricing and accounting policies. Also, medical institutions funded by the government shall not operate for profit. Medical institutions shall file with competent healthcare administrative authorities a written statements of their not-for-profit/for-profit nature when going through application, registration and re-examination procedures in accordance with relevant laws, and the competent healthcare administrative authorities shall, jointly with other relevant authorities, decide the not-for-profit/for-profit nature for such medical institution based on the source of its investment and the nature of its business, etc.

Categories of Healthcare Institutions in China

According to the Basic Standards for Medical Institutions (For Trial Implementation) (醫療機構基本標準(試行)) which was promulgated on September 2, 1994 and revised on December 5, 2011 and the Interim Measures for the Assessment of Medical Institutions (醫院評審暫行辦法) promulgated by the NHFPC on September 21, 2011, medical institutions in the PRC can be graded into three classes (Class I, II and III) with regard to their medical practice conditions, including but not limited to, the amount of registered beds, treatment departments, personnel, properties, equipment as well as completeness of their internal rules and regulations. For example, according to the Basic Standards for Medical Institutions (For Trial Implementation), Class I (一級), Class II (二級) and Class III (三級) comprehensive medical institutions should have 20 to 99, 100 to 499 and more than 500 registered beds, respectively.

In addition, according to the Basic Standards for Medical Institutions (For Trial Implementation) and the Interim Measures for the Assessment of Medical Institutions, the NHFPC and the Hospital Assessment Committee (衛生部醫院評審委員會) lead, organize and supervise the assessment of medical institutions conducted every four years. The assessment takes the form of written evaluation, medical information statistics evaluation, on-site evaluation and social impact evaluation, and the outcome of such assessment can be classified as grade A (excellent) (甲等), grade B (good) (乙等) and grade C (failure) (不合格). Hospitals that fail the assessment will be given three to six months to undertake rectification measures before they undergo re-assessment. As a result, the highest level of a medical institution is a Class IIIA Hospital (三級甲等醫院).

- **General Hospitals of Class III**

The Accreditation Standard of General Hospitals of Class Ⅲ (2011) (《三級綜合醫院評審標準(2011年版) 》, promulgated and implemented by the Ministry of Health on 11 April 2011, and the Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class Ⅲ (2011) (《三級綜合醫院評審標準實施細則(2011年版)》), promulgated and implemented by the General Office of the Ministry of Health on 25 November 2011, provide detailed provisions for accreditation standards for general hospitals of Class Ⅲ. In addition to being used for accreditation purposes, these standards can also be used by other hospitals at any level and any type as a reference. The Accreditation Standard of General Hospitals of Class Ⅲ (2011) sets 354 accreditation standards, which are used to conduct on-site appraisal for general hospitals of Class Ⅲ and are also used by hospitals for self-evaluation and improvement, and 37 monitoring indices, which are used for monitoring, tracing and evaluating the operation, the quality of medical treatment and safety index of Class Ⅲ general hospitals.

The Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class Ⅲ (2011) are divided into standard terms (applicable to all general hospitals of Class Ⅲ), core terms (the most basic, most common standard terms which are the easiest to comply with and are required to be complied with) and optional terms (mainly referring to projects that require examination and approval, which cannot be conducted at the discretion of the hospital, or due to government's control). A five-grade assessment is used to present the results of accreditation, namely A (outstanding), B (good), C (pass), D (fail) and E (not applicable, referring to projects that are not approved or are agreed not to be provided at the discretion of health administrative departments after taking into consideration the functions and tasks of the hospital). As a result of accreditation, the general Class Ⅲ hospitals that pass the assessment shall be divided into Class IIIA Hospital (三級甲等醫院), which is the highest level of a medical institution, and Class IIIB Hospital (三級乙等醫院).

- **General Hospitals of Class II**

The Accreditation Standard of General Hospitals of ClassⅡ (2012) (《二級綜合醫院評審標準(2012年版)》, promulgated and implemented by the Ministry of Health on 30 December 2011, and The Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class Ⅱ (2012) (《二級綜合醫院評審標準(2012年版)實施細則》), promulgated and implemented by the General Office of the Ministry of Health on May 11 2012, provide detailed provisions for accreditation standards for Class II general hospitals. In addition to being used for accreditation purposes, these standards can be also used by other hospitals of any type as reference.

Class II hospitals are regional medical institutions that are mainly responsible for providing medical services for areas with multiple communities (with populations of about 100,000). These hospitals also provide health care, rehabilitation services and undertake certain teaching and scientific research tasks.

The Accreditation Standard of General Hospitals of ClassⅡsets 356 accreditation standards and monitoring indices, including 321 accreditation standards that can be used by hospitals for self-evaluation and improvement and which are also used to conduct on-site appraisals for Class II general hospitals , and 35 monitoring indices, which are used for monitoring, tracing and evaluating the operation, the quality of medical treatment and safety index of Class Ⅱ general hospitals. Similar to the basic rules for conducting the assessment of general hospitals of Class Ⅲ, a five-grade assessment is used to present the results of the accreditation and the general hospitals of Class Ⅱ that pass the assessment are divided into Class ⅡA (二級甲等醫院) and Class ⅡB (二級乙等醫院).

Regulations on Medical Insurance for Urban Employee

The Interim Measures for the Administration of the Designated Medical Institutions of the Basic Medical Insurance for Urban Employee (城鎮職工基本醫療保險定點醫療機構管理暫行辦法), which was jointly promulgated by the Ministry of Human Resources and Social Security, the NHFPC and the SATCM on May 11, 1999, set out that medical institutions, which provide medical services to urban employee with basic medical insurance, shall obtain the Certificate of the Designated Medical Institutions of the Basic Medical Insurance from the labor and social security regulatory authorities upon the examination of such authorities. According to the Guiding Opinions of Improving the Management of Designated Medical Institutions and Pharmacies of Basic Medical Insurance through Agreements (關於完善基本醫療保險定點醫藥機構協議管理的指導意見) promulgated by the Ministry of Human Resources and Social Security of the PRC on December 2, 2015, the review system of the Designated Medical Institutions of Basic Medical Insurance has been replaced by the management through agreements executed between social insurance authority and medical institutions.

Regulations on the Supervision over Pharmaceuticals and Medical Equipment in Medical Institutions

Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation)

The Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation) (醫療機構藥品監督管理辦法(試行)), which were promulgated by the CFDA and came into effect on October 11, 2011, stipulate that medical institutions shall purchase pharmaceuticals from enterprises qualified for the production or distribution of pharmaceuticals and comply with certain standards in respect of the storage, safekeeping, preparations and use of such pharmaceuticals.

Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances

The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances (麻醉藥品和精神藥品管理條例), which were promulgated by the State Council on August 3, 2005, revised on December 7, 2013 and revised on February 6, 2016, provide that, where a medical institution needs to use any narcotic pharmaceutical or Class I psychotropic substance, it shall, upon approval by the competent public health department, obtain the Seal Card for the Purchase and Use of Narcotic Pharmaceuticals and Class I Psychotropic Substances (麻醉藥品、第一類精神藥品購用印鑒卡).

Administrative Measures on the Radiotherapy

The Administrative Measures on the Radiotherapy (放射診療管理規定), which were promulgated by the NHFPC on January 24, 2006, came into effect on March 1, 2006 and revised on January 19, 2016, set out the basic statutory framework for medical institutions engaged in the clinical diagnosis and treatment using radioisotopes and radiation- emitting devices. Depending on the specific radiotherapy treatment, medical institutions shall apply for and obtain the License for Radiotherapy (放射診療許可證) issued by the competent public health administrative authorities. During the course of radiotherapy, medical institutions shall take protective measures in accordance with relevant laws and regulations.

Regulations on the Safety and Protection of Radioisotopes and Radiation-emitting Devices

The Regulations on the Safety and Protection of Radioisotopes and Radiation-emitting Devices (放射性同位素與射線裝置安全和防護條例), which were promulgated by the State Council on September 14, 2005, came into effect on December 1, 2005 and revised on July 29, 2014, stipulate that any entity engaging in the production, sale or use of radioisotopes or radiation-emitting devices of different categories shall obtain a corresponding license from the competent authority of environmental protection.

Administrative Measures on the Deployment and Use of Large Medical Equipment

The Administrative Measures on the Deployment and Use of Large Medical Equipment (大型醫用設備配置與使用管理辦法), which were jointly promulgated by the NHFPC, the NDRC and the MOF on December 31, 2004 and came into effect on March 1, 2005, provide that the management of large medical equipment is subject to the allocation planning and licensing system. Large medical equipment refers to those medical equipment listed in the catalog issued by the public health administrative authorities of the State Council or those unlisted medical equipment deployed for the first time within the provincial regions with a unit price above RMB5 million. Medical institutions that wish to purchase large medical equipment shall apply to the competent public health administrative authorities and purchase the approved large medical equipment upon receipt of a License for the Deployment of Large Medical Equipment. Operating personnel of the large medical equipment (including doctors, operation staff, engineers and technicians) shall accept corresponding job training and obtain corresponding operating qualifications.

Regulations on Medical Personnel of Medical Institutions

Law on Medical Practitioners of the PRC

The Law on Medical Practitioners of the PRC (中華人民共和國執業醫師法), which was promulgated by the Standing Committee of the NPC on June 26, 1998, came into effect on May 1, 1999 and revised on August 27, 2009, provides that physicians shall obtain the License for Medical Practice issued by the competent healthcare administrative authorities in order to practice in China.

Qualified physicians and qualified assistant physicians shall register with the relevant public health administrative authorities at or above the county level. After registration, physicians may work at medical institutions in their registered location in the types of jobs and within the scope of medical treatment, disease-prevention or healthcare business as provided in their registration.

Regulations on Physicians Who Practice at Multiple Medical Institutions

The Notice on Issues Concerning Physicians who Practice at Multiple Medical Institutions (關於醫師多點執業有關問題的通知), which was promulgated by the NHFPC on September 11, 2009 and came into effect on the same date, provides that a classification administration system shall be implemented for physicians' practices at multiple medical institutions. Physicians can practice at cooperative medical institutions after performing relevant record-filing procedures with the authorities with which the physicians' Licenses for Medical Practice are registered. The local NHFPC shall implement its policies for physicians who practice at multiple medical institutions after being approved by the NHFPC.

On July 12, 2011, the Notice of the General Office of NHFPC on Expanding the Pilot Scheme for Physicians who Practice at Multiple Medical Institutions (衛生部辦公廳關於擴大醫師多點執業試點範圍的通知) further relaxed the regulation on physicians' practices at multiple medical institutions and expands its trial areas. Qualified physicians in the pilot areas can apply for up to three medical institutions at which to practice. Physicians who apply for practicing at multiple medical institutions shall achieve the permission from their first practicing medical institution and approval of the local health administrative departments.

On September 27, 2016, the Administrative Measures concerning Physicians Who Practice at Multiple Medical Institutions (《廣東省衛生計生委廣東省中醫藥局關於醫師多點執業的管理辦法》) was jointly promulgated by the Health and Family Planning Commission of Guangdong Province and Traditional Chinese Medicine Bureau of Guangdong Province, which came into effect on October 1, 2016. According to these administrative measures, physicians' practices at multiple medical institutions are encouraged and the relevant requirements and procedures are further loosened up in a number of aspects, such as, to establish a registration network and simplify the procedures in order to facilitate the physicians' practices at multiple medical institutions.

Regulations on Nurses

The Regulations on Nurses (護士條例), which were promulgated by the State Council on January 31, 2008 and came into effect on May 12, 2008, provide that a nurse shall obtain a nurse's Practicing Certificate issued by competent healthcare administrative authorities, which is valid for five years. A qualified nurse shall only practice in the medical institution where his/her Practicing Certificate registered.

Regulations on Medical Malpractice

Tort Liability Law of the PRC

The Tort Liability Law of the PRC (中華人民共和國侵權責任法), which was promulgated by the Standing Committee of the NPC on December 26, 2009 and came into effect on July 1, 2010, provides that if a medical institution or its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation. The damage caused to the patient by the failure of the medical personnel to fulfill their statutory obligations in the course of diagnosis and treatment will be paid by the medical institution. Medical institutions and their medical personnel will protect the privacy of their patients and will be liable for damage caused by divulging the patients' private or medical records without consent.

Regulations on Handling Medical Malpractice

The Regulations on Handling Medical Malpractice (醫療事故處理條例), which were promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provide a legal framework and detailed provisions regarding the prevention, identification, compensation and penalties of or relating to cases involving personal injury to patients caused by medical institutions or medical personnel due to malpractice.

Administrative Measures regarding Point Deductions for Medical Institution Infractions of Shanghai

According to the Administrative Measures regarding Point Deductions for Medical Institution Infractions of Shanghai (上海市醫療機構不良執業行為積分管理辦法), which were promulgated by the Health Bureau of Shanghai on November 16, 2012, point deductions against a medical institution may take place in each of its examination and verification periods. Where a medical institution has a one-year examination and verification period and its points of infractions are deducted by more than 12 during such period, or where a medical institution has a three-year examination and verification period and its points of infractions are deducted by more than 36 during such period, the registration authority should extend its examination and verification period by one to six months. The medical institution shall apply for re-examination and verification upon expiration of the extended examination and verification period, whereas in the event that the points of infractions are deducted by more than six during the extended examination and verification period, the medical institution will fail the re-examination and verification and its Medical Institution Practicing License will be revoked by the registration authority.

Regulations on Environmental Protection related to Medical Institutions

According to the Law of PRC on Evaluation of Environmental Effects (中華人民共和國環境影響評價法), which was promulgated by the Standing Committee of the NPC on October 28, 2002 and came into effect on September 1, 2003 and revised on July 2, 2016, the State has established the system of Evaluation of Environmental Effects of Construction Projects. On the basis of the extent of the effects exerted on the environment by construction projects, the State exercises, in a classified manner, control over the evaluation of the effects of construction projects on the environment.

Specifically, where considerable effects may be exerted on the environment, a written report on environmental effects in which a comprehensive evaluation of the effects on the environment shall be made; where mild effects may be exerted on the environment, a statement on the effects in which an analysis or special evaluation of the effects shall be made; or where the effects on the environment are very little and therefore it is not necessary to make an evaluation of them, a registration form of environmental effects should be filled out. The document for evaluation of the environmental effects of a construction project shall, in accordance with the regulations of the State Council, be submitted by the construction unit for examination and approval to the competent administrative department for environment protection.

According to the Regulations on Administration of Environmental Protection Testing Acceptance on Completion of Construction Projects (建設項目竣工環境保護驗收管理辦法), which was promulgated by Ministry of Environmental Protection on December 27, 2001 and revised on December 22, 2010, upon the completion of a construction project, the construction unit shall apply with the competent administrative department of environmental protection for inspection and acceptance of the completed environmental protection of the construction project.

Regulations on the Management of Medical Waste and its implementation measures

The Regulations on the Management of Medical Waste (醫療廢物管理條例), which were promulgated by the State Council on June 16, 2003, came into effect on the same day and amended on January 8, 2011, and the Implementation Measures of the Management of Medical Waste (醫療衛生機構醫療廢物管理辦法), which were promulgated by the NHFPC on October 15, 2003 and came into effect on the same day, stipulate that medical institutions shall deliver medical waste to a specially designated location for centralized disposal in a timely manner and categorize the medical waste in accordance with the Classified Catalogue of Medical Waste. High-risk waste shall be sterilized on the spot before disposal. Sewage generated by any medical institution and excretion of its patients of infectious diseases or patients suspected of infectious diseases shall be sterilized in accordance with the relevant laws, rules and regulations, and shall not be discharged into sewage until the relevant standards are met.

Measures for the Administration of Licenses for Urban Sewage Discharge into Drainage Networks

The Measures for the Administration of Licenses for Urban Sewage Discharge into Drainage Networks (城鎮污水排入排水管網許可管理辦法), which were promulgated by the Ministry of Housing and Urban-rural Development on January 22, 2015 and came into effect on March 1, 2015, provide that enterprises engaging in industry, construction, catering industry, medical industry and discharging sewage into the urban drainage network shall apply for and obtain a License for Urban Drainage (排水許可證).

Regulations on Pharmaceutical Management and Procurement

Administrative Measures on the Supervision of the Distribution of Pharmaceutical Products

The Administrative Measures on the Supervision of the Distribution of Pharmaceutical Products (藥品流通監督管理辦法), which were promulgated by the CFDA on January 31, 2007 and came into effect on May 1, 2007, govern the procurement and sales of pharmaceutical products by pharmaceutical manufacturers and distribution enterprises as well as the procurement and storage of pharmaceutical products by medical institutions.

Regulations on Centralized Pharmaceutical Procurement by Medical Institutions

The Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions (進一步規範醫療機構藥品集中採購工作的意見) and the Interpretations of Issues Related to the Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions (關於進一步規範醫療機構藥品集中採購工作的意見有關問題的説明), which were jointly promulgated by the NHFPC and other five departments on January 17, 2009 and June 19, 2009, respectively, as well as the Standards of Centralized Pharmaceutical Procurement Work for Medical Institutions (醫療機構藥品集中採購工作規範) jointly promulgated by the NHFPC and other six departments on July 7, 2010, stipulate that Medical institutions of other forms, such as for-profit medical institutions, are encouraged to participate in the centralized pharmaceutical procurement system. All pharmaceuticals used by medical institutions are required to be listed in the catalog of centralized pharmaceutical procurement with the exception of (i) narcotic pharmaceuticals and Class I psychotropic pharmaceuticals, (ii) certain pharmaceuticals under the state's special control such as Class II psychotropic pharmaceuticals, toxic pharmaceuticals for medical uses and radioactive pharmaceuticals, and (iii) Chinese herbs and ready-for-use Chinese herbs. The price generated by the centralized procurement activities of provinces, autonomous regions and municipalities directly under the central government shall be the supply price for pharmaceutical products supplied by pharmaceutical enterprises to all the medical institutions under the centralized pharmaceutical procurement mechanism and medical institutions shall apply the retail price of the pharmaceuticals as determined by the competent pricing control authority. Pharmaceutical manufacturers shall directly participate in the bidding activities during centralized pharmaceutical procurement. Delivery expenses for the bid-winning pharmaceuticals shall also be included in the bid price. Bid-winning manufacturers are responsible for product delivery. They may choose to deliver the products either by themselves or through other qualified medical enterprises. If the commissioned enterprise fails to fulfill the delivery task and another medical enterprise needs to be commissioned, the bid-winning manufacturer shall lodge an application for review and approval by the competent provincial department of the medical procurement leading group, but the procurement prices of the bid-winning pharmaceuticals may not be increased under such circumstances.

According to the Notice on Further Improving the "Sunshine Procurement" of Pharmaceuticals by the Medical Institutions in Shanghai (關於進一步做好本市醫藥機構藥品"陽光採購"有關事項的通知), which was promulgated and implemented on December 9, 2014, Medical Insurance Designated Institutions shall procure pharmaceuticals and medical consumables through public tendering conducted using the centralized pharmaceutical platforms.

Laws and Regulations on Medical Advertising in the PRC

Advertisement Law of the PRC

The Advertisement Law of the PRC (中華人民共和國廣告法), which was promulgated by the Standing Committee of the NPC on October 27, 1994, revised on April 24, 2015 and came into effect on September 1, 2015, provides that advertisements shall not contain false statements and be deceitful or misleading to consumers. Advertisements subject to censorship, including those relating to medical services, pharmaceuticals and medical devices, shall be reviewed by relevant authorities in accordance with relevant rules before being distributed.

Administrative Measures on Medical Advertisement

The Administrative Measures on Medical Advertisements (醫療廣告管理辦法), which were jointly promulgated by the State Administration for Industry and Commerce and the Ministry of Health on November 10, 2006 and came into effect on January 1, 2007, require that medical advertisements shall be reviewed by relevant health authorities and obtain a Medical Advertisement Review Certificate (醫療廣告審查證明) before being released by a medical institution. A Medical Advertisement Review Certificate has an effective term of one year and may be renewed upon application.

Laws and Regulations on Prices of Medical Services, Pharmaceuticals and Medical Devices

Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Medical Institutions

The Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Medical Institutions (關於非公立醫療機構醫療服務實行市場調節價有關問題的通知), which was promulgated and implemented on March 25, 2014 by the NDRC, the NHFPC and the Ministry of Human Resources and Social Security, provides that the prices of medical services provided by non-public medical institutions shall be subject to market price adjustment scheme. Private for-profit medical institutions may set their own price projects for medical services but the reasonable prices shall be formulated under the principles of fairness, lawfulness and faithfulness and maintained the relatively stable price level within a specific period. Private not-for-profit medical institutions may set their price projects for medical services in accordance with the National Medical Services Price Project Standardization (全國醫療服務價格項目規範). The system of explicitly specifying the price and the breakdown list of medicine costs shall be executed as required. The prices of medical services and medicine shall be displayed to patients publicly through various means. Medical institutions shall take the initiative to accept social supervision. Non-public medical institutions in compliance with the relevant stipulations of Medical Insurance Designated Medical Institutions shall be included in the designated scope of services for the social insurances such as employees' medical insurance, urban and rural residents' medical insurance, new rural cooperative medical insurance, work-related injury insurance and maternity insurance in accordance with relevant procedures, and shall carry out the payment policy same as the public hospitals. The institutions handling the medical insurance shall, in compliance with the requirements of the reform on the means of payment for medical insurance, determine the specific means and standard of payment with the designated non-public medical institutions through negotiation to increase the application efficiency of the fund.

Guiding Price Catalog for Medical Services

The Notice Concerning the Standardization of Price Management for Medical Services and Related Issues (關於規範醫療服務價格管理及有關問題的通知) and National Medical Services Price Project Standardization (2012 Version) (全國醫療服務價格項目規範(2012年版)), which was promulgated by the NDRC, the NHFPC and the SATCM on May 4, 2012, provides that the price projects of medical services announced by the project standardization shall be the basis of the items charged by the various classes and types of not-for profit medical institutions for their medical services. Those project charges requiring merger or combination or the new medical service price projects shall be examined and approved by the provincial competent price department together with the departments including the health administration at the same grade.

The Code of Medical Services and Prices for Medical Institutions in Shanghai (2014) (上海市醫療機構醫療服務項目和價格彙編(2014年)), which was promulgated by the Shanghai Municipal Price Bureau, the Shanghai Municipal Commission of Health and Family Planning, and the Office of Medical Insurance of Shanghai, specifies the maximum price standard for the medical services provided by not-for-profit medical institutions in Shanghai.

Notice on Further Regulating the Administration of VIP Medical Service and Pricing of Not-for-Profit Medical Institution in Shanghai

According to the Notice on the Further Regulating the Administration of VIP Medical Service and Pricing of Not-for-Profit Medical Institution in Shanghai (關於進一步規範本市非營利性醫療機構特需醫療服務項目和價格管理的通知), which was promulgated by the Shanghai Pricing Bureau and the Shanghai Municipal Health Bureau on May 4, 2012, the VIP medical services shall be decided by the hospitals at their own discretion. However, the VIP medical service items and the prices shall be filed with the Shanghai Municipal Health Bureau and Shanghai Pricing Bureau.

Circular on the Issuance of the Reform of the Pharmaceutical and Healthcare Services Price Formulation Mechanism

The Circular on the Issuance of the Reform of the Pharmaceutical and Healthcare Services Price Formulation Mechanism (關於印發改革藥品和醫療服務價格形成機制的意見), was promulgated by the NDRC, the NHFPC, and the Ministry of Human Resources and Social Security, and came into effect on November 9, 2009. It provides that government-directed price and market-based price shall apply to the provision of healthcare services: Price for basic healthcare services provided by non-profit medical institutions shall be directed by government-directed pricing guidelines, while price for healthcare services provided by for-profit medical institutions and certain special categories of healthcare services provided by non-profit medical institutions can be determined by the market.

Regulations for the Implementation of the Pharmaceutical Administration Law

The Regulations for the Implementation of the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法實施條例), which were promulgated by the State Council on August 4, 2002, came into effect on September 15, 2002 and revised on February 6, 2016, provide that for drugs listed in the directory of drugs for national basic medical insurance and drugs not listed in the directory but monopolistically manufactured and distributed, their prices shall be fixed or guided by the government.

Opinions on Promoting the Reform of the Price of Pharmaceuticals

The Opinions on Promoting the Reform of the Price of Pharmaceuticals (推進藥品價格改革的意見), which was promulgated by the NDRC and other relevant departments on May 4, 2015 and came into effect on June 1, 2015, stipulate that the government pricing scheme shall be abolished with respect to the sale of pharmaceuticals other than narcotic drugs and Class I psychotropic substances. The actual transaction price shall be determined through market competition. As pointed out in the Opinions, the Medical Insurance Department and the related departments shall jointly draw up the procedure, basis and methods and other rules for formulating the payment standard for the medicine covered by medical insurance, explore and establish the mechanism to guide the reasonable price formation for the medicine paid by the Medical Insurance Fund.

Opinions on Further Regulating the Price of Pharmaceuticals and Healthcare Services

The Opinions on Further Regulating the Price of Pharmaceuticals and Healthcare Services (關於進一步整頓藥品和醫療服務市場價格秩序的意見), which were jointly promulgated by the NDRC and other relevant departments on May 19, 2006, stipulate that the profit margin of the pharmaceuticals subject to government pricing sold by medical institutions shall not exceed 15% of the actual procurement cost of such pharmaceuticals, and the profit margin of ready-for-use Chinese herbs shall not exceed 25%.

Medicine Catalog for Medical Insurance and Payment Requirements

According to the Interim Measures for the Management of Medicine within the Scope of Basic Medical Insurance for Urban Employee (城鎮職工基本醫療保險用藥範圍管理暫行辦法), promulgated and implemented on May 12, 1999 by the Ministry of Human Resources and Social Security, the NDRC, the MOFCOM, the MOF, the NHFPC, the CFDA, and the SATCM, the scope of essential medicine covered by medical insurance shall be managed through formulating the Essential Medicine Catalog for Medical Insurance (the "**Essential Medicine Catalog**"). The medicine listed in the Essential Medicine Catalog includes western medicine, Chinese traditional medicine (including ethnic drug), ready-for-use Chinese herbs (including ethnic drug), with the western medicine and the Chinese traditional medicine listed in the medical catalog approved for payment by the basic medical insurance funds, and the ready-for-use Chinese herbs listed in the medical catalog disapproved for payment by the basic medical insurance funds. In the Essential Medicine Catalog, western medicine and Chinese traditional medicine are divided into "Class A Catalog" and "Class B Catalog". The formulation of "Class A Catalog" shall be unified by the State and not be subject to local adjustment.

The "Class B Catalog" formulated by the State may be subject to appropriate adjustment by various provinces, autonomous regions and municipalities directly under the central government. The sum for the increase and decrease of the varieties shall not exceed 15% of the total number of medicine varieties in the "Class B Catalog" formulated by the State.

On the basis of the above-mentioned stipulations, the Ministry of Human Resources and Social Security promulgated and implemented the Notice on the Medicine Catalog for the National Basic Medical Insurance, the Work-Related Injury Insurance and the Maternity Insurance (2009 Version) (關於印發國家基本醫療保險、工傷保險和生育保險藥品目錄的通知) on November 27, 2009. The said medicine catalog shall be the basis and standard for paying the insured personnel the medicine costs of the basic medical insurance ("**BMI**"), work-related injury insurance and maternity insurance as well as for enhancing the management of medical treatment under medical insurance. The Ministry of Human Resources and Social Security shall adjust the specifications of medicine in such medicine catalog from time to time.

On November 17, 2010, the Shanghai Bureau of Human Resources and Social Security, the Office of Medical Insurance of Shanghai, the Shanghai Municipal Commission of Health and Family Planning, the Shanghai Bureau of Food and Drug Administration promulgated the Shanghai Medicine Catalog for the Basic Medical Insurance, the Work-Related Injury Insurance and the Maternity Insurance (2010 version) (上海市基本醫療保險、工傷保險和生育保險藥品目錄(2010年版)) and its amendments (the "**Shanghai Medicine Catalog**"). The Shanghai Medicine Catalog is the standard for paying the medicine costs by BMI, work-related injury insurance and maternity insurance fund in Shanghai. Class A Medicine shall be paid according to the stipulations of BMI. A certain portion of Class B Medicine may be borne by the insured.

Opinions on Promoting the Reform regarding the Pricing of Pharmaceuticals

The NDRC, the NHFPC, the Ministry of Human Resources and Social Security, the Ministry of Industry and Information Technology, the MOF, the MOFCOM and the CFDA promulgated the Opinions on Promoting the Reform regarding the Pricing of Pharmaceuticals (推進藥品價格改革的意見) on May 4, 2015, according to which, the pricing scheme of pharmaceuticals shall be reformed from the following perspectives: 1. Abolish the government pricing scheme and retail price ceilings with respect to the sale of pharmaceuticals other than narcotic drugs and Class I psychotropic substances, improve the pharmaceutical procurement mechanism, and bring out the price-controlling function of BMI, so that the actual price of pharmaceuticals can be determined through market competition. 2. Pharmaceuticals within the coverage of BMI. The authority in charge of BMI shall, together with relevant governmental departments, formulate regulations with respect to the procedures, standards and methods for the formulation of the payment standards for pharmaceuticals within the coverage of BMI and explore an effective price formation mechanism therefor. 3. Patent pharmaceuticals and pharmaceuticals of exclusive production. A transparent, fair and multilateral negotiation mechanism for the price formation shall be established. 4. Blood products not included in the national Reimbursed Drug List and pharmaceuticals for planned immunization of centralized procurement by the government, national AIDS antiviral treatment drugs, and contraceptives. The price shall be formed through bidding or negotiation. 5. Narcotic drugs and Class I psychotropic substances. The producer price ceiling and the retail price ceiling shall still apply. 6. Other pharmaceuticals. The producer and operator of pharmaceuticals other than the above-mentioned may determine the price by itself.

Notice on Further Regulating the Price of Medical Devices of Public and Other Medical Institutions of Shanghai

The Shanghai Municipal Price Bureau, the Shanghai Municipal Commission of Health and Family Planning, and the Office of Medical Insurance of Shanghai promulgated the Notice on Further Regulating the Price of Medical Devices of Public and Other Medical Institutions of Shanghai (關於進一步規範本市公立醫療機構等醫療器械價格行為的通知) on June 9, 2015. It provides that the prices of the medical devices sold in Shanghai shall be formed by the market competition. The units engaged in the business of selling medical devices shall further regulate their business activities, publicize the prices, display the product information noticeably, and list the names, specifications, models, registration numbers, brands, manufacturers, sales agents, valuation units and prices.

Law on Maternal and Infant Healthcare and Its Implementation Measures

The Law of the People's Republic of China on Maternal and Infant Healthcare (中華人民共和國母嬰保健法), which was promulgated by the Standing Committee of the National People's Congress (NPC) on October 27, 1994 and came into effect on June 1, 1995 and amended on August 27, 2009, and the Implementation Measures of the Law of the People's Republic of China on Maternal and Infant Health Care (中華人民共和國母嬰保健法實施辦法), which were promulgated by the State Council on June 20, 2001 and came into effect on the same day, stipulate that medical institutions engaged in (i) genetic disease diagnosis and prenatal diagnosis, (ii) pre-marital medical examinations, or (iii) midwifery services, ligature operations or operations for termination of gestation, must be licensed by the public health administrative authorities of different levels to obtain the corresponding qualification certificates.

Regulations Related to Foreign Investment in China

Company Law of the PRC

The Company Law of the PRC (中華人民共和國公司法), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and came into effect on July 1, 1994 (subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013), provides that companies established in China may take the form of limited liability company or a company limited by shares. Each company has the status of a legal person and owns its assets in its own name. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

Wholly Foreign-Owned Enterprise Law of the PRC and its implementation measures

The Wholly Foreign-Owned Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated by the Standing Committee of the NPC on October 31, 2000 and came into effect on the same day and amended on September 3, 2016, and the Implementation Measures for the Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法實施細則), which were amended by the State Council on April 12, 2001, came into effect on the same day and was further amended on

February 19, 2014, stipulate foreign enterprises and other economic organizations or individuals may establish wholly foreign-owned enterprises ("**WFOEs**") in China. The establishment of a WFOE is subject to the examination and approval by the competent department of commerce which shall issue an Approval Certificate upon approval.

Sino-Foreign Equity Joint Venture Enterprise Law of the PRC and its implementation measures

Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中外合資經營企業法), which was amended by the NPC on March 15, 2001 and came into effect on the same day and amended on September 3, 2016, and the Implementing Measures for the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中外合資經營企業法實施條例), which were amended by the State Council on February 19, 2014 and came into effect on March 1, 2014, stipulate that the agreement, contract, or article of association of a joint venture enterprise entered into by the parties thereto shall be submitted to the competent department of commerce for approval, which shall issue an Approval Certificate upon approval.

Interim Provisions on Investment Made by Foreign-Invested Enterprises in China

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (關於外商投資企業境內投資的暫行規定), which were jointly promulgated by the MOFCOM and the SAIC on July 25, 2000 and subsequently amended on May 26, 2006 and October 28, 2015 stipulate that the provisions of the Interim Provisions Guiding Foreign Investment Direction and the Industry Catalogue for Guiding Foreign Investment (外商投資產業指導目錄) will govern foreign-invested enterprises' investment in China. Foreign-invested enterprises are not permitted to invest in any sector prohibited to foreign investment. Where a foreign-invested enterprise makes investment in a restricted sector, the foreign-invested enterprise shall file an application with the provincial commercial department of the place where the invested company is located. The relevant company registration authority will, in accordance with the relevant provisions of the Company Law and the Regulations on the Administration of Company Registration of the People's Republic China (公司登記管理條例), decide whether to approve the registration or not. If the registration is approved, a Business License will be issued with the designation "Invested by a Foreign-Invested Enterprise". The foreign-invested enterprise is required to report the establishment of the investee company within 30 days of the date of its establishment to the original examination and approval authority for record-filing.

Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定), which were jointly promulgated by the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the China Securities Regulatory Commission and the SAFE on August 8, 2006, came into effect on September 8, 2006 and subsequently amended on June 22, 2009, require that foreign investors acquiring domestic companies by means of asset acquisition or equity acquisition shall comply with relevant foreign investment industry policies and shall be subject to approval by relevant commerce authorities.

The Industry Catalogue for Guiding Foreign Investment and Interim Provisions Guiding Foreign Investment Direction

The current Industry Catalogue for Guiding Foreign Investment (外商投資產業指導目錄) (the "**Foreign Investment Catalogue**") was jointly promulgated by the NDRC and the MOFCOM on March 10, 2015 and came into effect on April 10, 2015, and the Provisions Guiding Foreign Investment Direction (指導外商投資方向的規定), which were promulgated by the State Council on February 11, 2002 and came into effect on April 1, 2002, classify all foreign investment projects into four categories: (1) encouraged projects, (2) permitted projects, (3) restricted projects, and (4) prohibited projects. If the industry in which the investment falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed. According to the current Foreign Investment Catalogue, foreign investment in medical institutions shall be restricted to the form of sino-foreign cooperation or joint venture. Prior to the promulgation of the current Foreign Investment Catalogue, foreign investment in medical institutions is categorized as a permitted project.

Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises

The Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by the MOFCOM on October 8, 2016 and came into effect on the same day, regulate that the record-filing administration shall be applicable to the establishment and change of foreign-invested enterprises, as long as the special market entry management measures prescribed by the State are not involved. The relevant foreign-invested enterprises shall arrange to fill out and submit online the application form for record-filing of the changes of foreign-invested enterprises and relevant documents via the comprehensive management system to go through the procedures for record-filing of changes, within 30 days after the change occurs. For the establishment of a foreign-invested enterprise, the investors of the foreign-invested enterprises shall, before the issuance of the business license, or the foreign-invested enterprises shall, within 30 days after the issuance of the business license, arrange to fill out and submit online the application form and relevant documents. According to the Announcement [2016] No. 22 of the NDRC and the MOFCOM (國家發展和改革委員會，商務部公告2016年第22號) promulgated on October 8, 2016, the special entry administration measures for foreign investment shall be applied according to the provisions on restricted and prohibited categories specified in the Industry Catalogue for Guiding Foreign Investment (2015 Revision), and encouraged category therein on which equity or senior management related requirements are imposed. Relevant existing provisions remain applicable to the establishment and change of enterprises incorporated through merger or acquisition by foreign investor.

Regulations Related to Labor Protection In China

Labor Law of the PRC

The Labor Law of the PRC (中華人民共和國勞動法), which was promulgated by the Standing Committee of the NPC on July 5, 1994, came into effect on January 1, 1995, and was amended on August 27, 2009, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities shall comply with relevant national standards. An employer shall provide workers with the necessary labor protection equipment that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

Labor Contract Law of the PRC and its implementation regulations

The Labor Contract Law of the PRC (中華人民共和國勞動合同法), which was promulgated by the Standing Committee of the NPC on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例) which were promulgated on September 18, 2008 and came into effect on the same day, regulate the employer and employee relations and contain specific provisions involving the terms of a labor contract. Labor contracts shall be made in writing. An employer may legally terminate a labor contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

Law of PRC on Prevention and Control of Occupational Diseases

The Law of PRC on Prevention and Control of Occupational Diseases (職業病防治法), which was amended by the Standing Committee of the NPC and became effective on December 31, 2011 and amended on July 2, 2016, provides that employers shall establish and improve the responsibility system for the prevention and control of occupational diseases, in order to enhance management and raise the level in this field, and bear responsibility for the occupational disease hazards produced in the unit.

Regulations on the Supervision over Social Security and Housing Funds

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in China shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. An enterprise shall provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (社會保險法), which was promulgated on October 28, 2010 and came into effect on July 1, 2011, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which were promulgated and came into effect on April 3, 1999, and were amended on March 24, 2002, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee.

Regulations Related to Taxation in China

Enterprise Income Tax

According to the EIT Law, which was promulgated by the NPC on March 16, 2007 and came into effect on January 1, 2008, and the Implementation Regulations on the EIT Law (企業所得稅法實施條例), which were promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, a uniform income tax rate of 25% shall be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in China. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not established institutions in the PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, enterprise income tax is set at a rate of 10%. The EIT Law also provides that certain eligible income of non-profit organizations shall be exempted from income tax.

The Notice on the Issue of Income Exempted from the Enterprise Income Tax of Non-profit Organizations (關於非營利組織企業所得稅免稅收入問題的通知) which was promulgated by the MOF and the SAT on November 11, 2009 and came into effect on January 1, 2008, provides that the following income of non-profit organizations shall be tax-exempt income: (1) the income from the acceptance of donation from other entities or individuals; (2) the income from government subsidies other than the financial provision prescribed by Article 7 of the EIT Law, but which shall not include the income generated from the purchase of services by the PRC Government; (3) membership fees collected in accordance with the provisions of civil affairs and/or financial departments above the provincial level; (4) the income generated from bank deposit interests of non-taxable income and tax-exempt income; (5) other income prescribed by the MOF and/or the SAT.

The Notice on Issues Concerning the Confirmation and Administration of Tax-exemption Qualification of Non-profit Organizations (關於非營利組織免税資格認定管理有關問題的通知) which was promulgated by of the MOF and the SAT on January 29, 2014 with retroactive effect from January 1, 2013, provides that non-profit organizations shall apply to the competent tax authorities for tax-exemption qualification in order to enjoy the tax exemption with respect to non-profit organizations.

According to the Notice on Strengthening the Administration of Enterprises Income Tax on Income From Transfers of Equity Interests by Non-resident Enterprises (國家税務總局關於加強非居民企業股權轉讓所得企業所得税管理的通知) which was promulgated by the SAT on December 10, 2009 with retroactive effect from January 1, 2008, and revised on December 12, 2013 and February 3, 2015, and the Announcement of the SAT on Several Issues concerning the Administration of Income Tax on Non-Resident Enterprises (國家税務總局關於非居民企業所得税管理若干問題的公告), which was promulgated by the SAT on March 28, 2011 and revised on February 3, 2015 by the Announcement of the State Administration of Taxation on Certain Issues Concerning the Enterprise Income Tax on the Indirect Transfer of Properties by Non-resident Enterprises (《國家税務局關於非居民企業間接轉讓財產企業所得税若干問題的公告》), in the event that a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through disposing of the equity interests of an overseas holding company without reasonable commercial purposes but to evade the enterprise income tax, under the substance over form principle, PRC tax departments may disregard the existence of the overseas holding company. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of 10% and the foreign investor may be subject to penalty for any late tax payment.

Withholding Tax and International Tax Treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排), which was promulgated by the SAT and Hong Kong on August 21, 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities. The determination of beneficial ownership is clarified under the Notice on Understanding and Determining Beneficial Owners (國家税務總局關於如何理解和認定税收協定中"受益所有人"的通知) issued by the SAT on October 27, 2009, which expressly excludes from the definition of a beneficial owner any company not engaged in actual operations such as manufacturing, sales or management but that is established for the purpose of avoiding or reducing tax obligations or transferring or accumulating profits.

Pursuant to the Notice on the Several Issues of the Implementation of Dividend Clauses of Tax Treaty (國家税務總局關於執行税收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on February 20, 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

Pursuant to the Administrative Measures on Non-residents to Enjoy the Treatment Under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法), which were promulgated by the SAT on August 27, 2015 and came into effect on November 1, 2015, a non-resident tax payer subject to taxation shall enjoy the tax treatment under a tax treaty automatically during the tax declaration after submission of corresponding documents and be subject to the post supervision of the tax bureaus.

Business Tax

The Temporary Regulations on Business Tax (營業稅暫行條例), which were promulgated by the State Council on December 13, 1993, amended on November 10, 2008 and came into effect on January 1, 2009, provide that entities and individuals shall pay business tax if they are engaged in the provision of services as prescribed in Schedule of Items and Rates of Business Tax, transfer of intangible assets or sale of real estate. Healthcare services provided by hospitals, clinics and other medical institutions are exempt from business tax.

In accordance with the Measures of the PRC for the Administration of Invoices, the Detailed Implementing Rules for the Measures of the PRC for the Administration of Invoices, and the prevailing guidelines issued by the Shanghai National Tax Bureau and the Shanghai Local Tax Bureau, the relevant tax bureau shall determine the maximum amount of the tax invoices based on the business scope of the relevant PRC company (the taxpayer). Where a PRC company applies for tax invoices beyond the earlier approved maximum invoice amount, such PRC company shall submit the requisite documents to the relevant tax bureau, including the Application Letter to Purchase Tax Invoices beyond Approved Amount, documents to evidence the change of its business scope (such as sales and service contracts executed by such PRC company) and other requisite supporting materials. The relevant tax bureau shall examine the application documents upon receipt and decide whether to approve or not at its discretion.

Value-added Tax

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which were promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, amended on November 10, 2008 and revised on February 6, 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which were promulgated by the MOF and became effective on December 25, 1993, and were amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated. For taxpayers selling goods or providing taxable services, the output tax shall be the VAT calculated on the basis of the revenue and the tax rates prescribed in the Temporary Regulations on Value-added Tax and collected from the purchasers.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (營業稅改徵增值稅試點方案), which were promulgated by the MOF and the SAT, the government launched gradual taxation reforms starting from January 1, 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), all business tax payers in the consumer service industry shall pay value-added tax instead of business tax from 1 May 2016. If the taxpayer of the pilot project has already enjoyed tax incentives of business tax according to relevant policies and regulations before the application of the pilot collection of VAT in lieu of business tax, he may, in the remaining period of tax incentives, enjoy tax incentives of VAT in accordance with the relevant provisions.

Regulations Related to Supervision over Foreign Exchange in China

The Regulations on the Control of Foreign Exchange (外匯管理條例), which were promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and amended on January 14, 1997 and August 5, 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to China or deposited abroad and that the SAFE shall specify the conditions for transfer to China or overseas and other requirements in accordance with the international receipts, payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or sale of valuable securities or derivative products overseas should register according to SAFE regulations. Such institutions or individuals subject to prior approval of or record-filing with other competent authorities shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

On July 4, 2014, the SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), or Circular 37, which has replaced Circular 75, and states that (i) a PRC resident, including a PRC resident natural person or a PRC legal person, shall register with the local branch of the SAFE before it contributes its assets or equity interest to a special purpose vehicle for the purpose of investment and financing, and (ii) when the special purpose vehicle undergoes change of basic information, such as change of a PRC resident natural person shareholder, name or operating period, or a material event, such as change in share capital of a PRC resident natural person, merger or split, the PRC resident shall register such change with the local branch of the SAFE in a timely manner.

According to the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), which was promulgated by the SAFE on February 13, 2015 and came into effect on June 1, 2015, the banks shall directly examine and handle foreign exchange registration under domestic direct investment and the SAFE shall conduct indirect regulation of foreign exchange registration of direct investment through banks.

Laws and Regulations Anti-corruption and Anti-commercial Bribery in the PRC

Anti-Unfair Competition Law of the PRC

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which became effective on December 1, 1993, a business operator who bribes by giving property or using any other method in order to sell or purchase the commodities in violation of the Criminal Law of the PRC (《中華人民共和國刑法》), which became effective on 1 October 1997, shall be investigated in accordance with the Criminal Law of the PRC; even if the acts mentioned above do not constitute violation of the Criminal Law of the PRC, such business operator may be subject to a fine in the range of RMB10,000 to RMB200,000 in accordance with the facts and the illegal income shall be confiscated.

Interim Provisions on Banning Commercial Bribery

The Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) ("Interim Provisions"), which became effective on November 15, 1996, provides a detailed scope of "property or using any other method". As defined in the Interim Provisions, the term ''property'' refers to cash and material objects, including property given by a business operator to another entity or individual in the form of promotion fees, publicity fees, sponsorship fees, research fees, service charges, consulting fees, commissions or reimbursements, in order to sell or purchase commodities, and the term "other method" refers to any means other than giving property, such as offering domestic or international tours or site visits in various forms. In addition, the Interim Provisions also made it clear that commercial bribery committed by any employee of a business operator for selling or purchasing commodities for the business operator shall be regarded as the business operator's act.

Pharmaceutical Administration Law

Pursuant to the Pharmaceutical Administration Law (《藥品管理法》) of the PRC, which was promulgated on February 28, 2001 and revised on December 28, 2013 and April 24, 2015, responsible persons, pharmaceutical purchasers, physicians or other related persons of medical institutions who accept money or valuable items or other benefits offered by pharmaceutical manufacturers, pharmaceutical distributors or their agents shall be given sanctions by the administrative department of health or the institutions to which they belong, and the illegal gains shall be confiscated. With regard to licensed physicians who seriously violate laws, the administrative department for health shall revoke their licenses for medical practice. If a crime is constituted, criminal liabilities shall be investigated in accordance with law.

Opinions of the Supreme People's Court and the Supreme People's Procuratorate on Certain Issues Concerning the Application of Law in Handling Criminal Cases of Commercial Bribery

According to the Opinions of the Supreme People's Court and the Supreme People's Procuratorate on Certain Issues Concerning the Application of Law in Handling Criminal Cases of Commercial Bribery (《最高人民法院、最高人民檢察院關於辦理商業賄賂刑事案件適用法律若干問題的意見》), which was promulgated on November 20, 2008, where the employees in medical institutions are involved in the activities of purchasing medical products such as medicines, medical equipment and medical consumables, and take advantage of his or her position to extort money or property from the seller, or illegally accept the seller's money or property in return for benefits to the seller, which constitutes a crime, he or she shall be punished in accordance with the Criminal Law of the PRC. Where any of the medical staff take advantage of his or her position of prescribing under various names, and illegally accepts money or property from the seller of medicines, medical equipment, medical consumables, or other medical products in return for securing benefits for the seller of medical products, with the amount being relatively large, he or she shall be punished in accordance with the provisions of the Criminal Law of the PRC.

OVERVIEW

Our Company was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability. In preparation for the Listing, our Company became the ultimate holding company of our various subsidiaries, including Weikang Investment, our main operating subsidiary, following the acquisition of 80% equity interest in Weikang Investment by our indirect wholly-owned subsidiary, New Pride. Please refer to the paragraph headed "—Weikang Acquisition" below for further details.

HISTORY AND DEVELOPMENT

Our history can be traced back to April 2002, when our main operating subsidiary, Weikang Investment, was established by Mr. Chen Zhixiong, Ms. Hu Jianlian, Ms. Zhang Wanzhen (張婉珍), and Mr. Wang Jianjun with their personal funds. Except for Mr. Chen Zhixiong, who holds a position as the supervisor at Fuhua Hospital, all the other then existing shareholders of Weikang Investment are Independent Third Parties. Please refer to the paragraph headed "—Our Operating Subsidiaries—Weikang Investment and Fuhua Hospital" below for further details of the change in the shareholding structure of Weikang Investment.

Since then, Weikang Investment commenced the planning of establishment of Yangsi Hospital, a not-for-profit hospital located in Pudong New District of Shanghai. In January 2007, Weikang Investment successfully registered itself as the founder of Yangsi Hospital.

In January 2014, in order to expand the hospital management business, Weikang Investment acquired the entire equity interest in Fuhua Hospital, a for-profit hospital also located in Pudong New District of Shanghai and established on October 17, 2007, from Ms. Zheng Guilan (鄭桂蘭) and Mr. Chen Ruifang (陳瑞芳), each an Independent Third Party. Please refer to the paragraph headed "—Our Operating Subsidiaries—Weikang Investment and Fuhua Hospital" below for further details.

In September 2014, New Pride, an indirect wholly-owned subsidiary of HCCL, acquired 80% equity interest in Weikang Investment from the Weikang Investment Minority Shareholders (as defined below) and further developed the hospital management business with Yangsi Hospital through our ownership of Weikang Investment. Please refer to the paragraph headed "—Weikang Acquisition" below for further details.

Set out below are the key milestones in our development:

Year	Milestones
April 2002	Weikang Investment was established.
January 2007	Shanghai Civil Affairs Bureau and Shanghai Administration Bureau of Non-government Organizations approved Yangsi Hospital to be registered as a Privately-funded Non-enterprise Entity, following which, Weikang Investment commenced to manage Yangsi Hospital.

Year	Milestones
August 2009	Yangsi Hospital was ranked as a 5A entity (5A級單位) in Shanghai by Shanghai Administration Bureau of NGOs (上海市社會團體管理局).
February 2010..................	Yangsi Hospital was ranked as a National Advanced Social Organization (全國先進社會組織) by the Ministry of Civil Affairs of the PRC (中國民政部).
November 2013................	Yangsi Hospital was ranked as a 4-star medical institution (四星級示範單位) by Shanghai Association for Non-government Medical Institutions (上海市社會醫療機構協會).
January 2014....................	Weikang Investment acquired the entire equity interest in Fuhua Hospital and Fuhua Hospital became the second hospital managed by Weikang Investment.
September 2014	We acquired 80% equity interest in Weikang Investment.
December 2014................	Yangsi Hospital was ranked No. 1 among the privately-funded medical institutions in Shanghai in terms of revenue of 2014.
December 2014	Honghe Ruixin was established.
January 2015....................	Honghe Ruixin started to provide the hospital management service to Yangsi Hospital.

OUR OPERATING SUBSIDIARIES

Our Group has three operating subsidiaries, namely, Weikang Investment, Fuhua Hospital, and Honghe Ruixin, and the other subsidiaries of our Group, incorporated in the PRC or overseas, are all investment holding vehicles and have not conducted any operating activities since incorporation.

Weikang Investment and Fuhua Hospital

Weikang Investment, our main operating subsidiary which made material contribution to our Group's results during the Track Record Period, was established in the PRC on April 15, 2002 with an initial registered capital of RMB30 million and a principal business of corporate investment and management. Each of Mr. Chen Zhixiong, Ms. Hu Jianlian and Ms. Zhang Wanzhen contributed RMB6 million and Mr. Wang Jianjun contributed RMB12 million to the initial registered capital of Weikang Investment, respectively. Accordingly, upon its establishment, the equity interest of Weikang Investment was owned as to 20% by Mr. Chen Zhixiong, 20% by Ms. Hu Jianlian, 20% by Ms. Zhang Wanzhen and 40% by Mr. Wang Jianjun, respectively.

In July 2006, Ms. Zhang Wanzhen and Ms. Lu Jingping, the daughter of our executive Director, Mr. Lu Wenzuo, entered into an equity transfer agreement, pursuant to which Ms. Lu Jingping acquired 20% equity interest in Weikang Investment from Ms. Zhang Wanzhen for the consideration of RMB6 million, which was equal to the initial registered capital of Weikang Investment corresponding to the equity interest being transferred. Upon completion of this transfer, Weikang Investment was owned as to 20% by Mr. Chen Zhixiong, 20% by Ms. Hu Jianlian, 20% by Ms. Lu Jingping and 40% by Mr. Wang Jianjun, respectively.

Immediately after subsequent transfers between the family members of Mr. Wang Jianjun from 2008 to 2010, each of the Weikang Investment Minority Shareholders owned 20% equity interest in Weikang Investment. Mr. Wang A'Mao and Mr. Wang Zhejun are also Independent Third Parties.

In January 2014, to diversify and extend its hospital operation business, Weikang Investment acquired the entire equity interest in Fuhua Hospital from Ms. Zheng Guilan and Mr. Chen Ruifang, each an Independent Third Party, for a total consideration of RMB17 million, which was based on an arm's length negotiation and with reference to the valuation of comparable hospitals (the "**Fuhua Hospital Acquisition**"). Following the completion of the Fuhua Hospital Acquisition on January 15, 2014, Fuhua Hospital became a wholly-owned subsidiary of Weikang Investment. Fuhua Hospital, a non-public for-profit general hospital registered in the form of a limited liability company, is a medical institution providing general hospital services integrating clinical care and rehabilitation services. Fuhua Hospital was originally established by Shanghai Hengming Hospital Investment Management Company Limited (上海恒明醫院投資管理有限公司), Shanghai Kangke Elevator Company Limited (上海康科電梯有限公司) and Shanghai Chiao Kuang Communication Electronic Engineering Limited (上海僑光通訊電子工程有限公司), which are all PRC incorporated companies and Independent Third Parties, on October 17, 2007. Fuhua Hospital had an initial registered capital of RMB1 million. After subsequent sales and purchases of equity interests in Fuhua Hospital and immediately before the Fuhua Hospital Acquisition, Fuhua Hospital was held as to 80% by Ms. Zheng Guilan and 20% by Mr. Chen Ruifang.

As confirmed by our PRC Legal Advisors, the Fuhua Hospital Acquisition has been properly and legally completed and settled in compliance with the applicable PRC laws and regulations in all material aspects.

In September 2014, we, through our indirect wholly-owned subsidiary, New Pride, acquired 80% equity interest in Weikang Investment from the Weikang Investment Minority Shareholders. Immediately before the Weikang Acquisition, Weikang Investment was the founder of Yangsi Hospital, which was managed and operated by Weikang Investment pursuant to hospital management agreements, and the sole shareholder of Fuhua Hospital. Please refer to the paragraph headed "—Weikang Acquisition" in this section for further details.

Weikang Investment and the Hospitals have been operated or managed collectively by the core management team of our Group (which is comprised of Mr. Zhang Xiaopeng, Mr. Lu Wenzuo and the senior management team as set out in the section headed "Directors and Senior Management – Senior Management"). Mr. Jiang Zhenlin was appointed as the legal representative of Weikang Investment (the "**Position**") and was effectively a non-executive director from December 2011 to May 2014. Mr. Jiang was investigated for embezzlement from January 2013 and has been held in custody since September 17, 2013. Mr. Jiang does not exert significant influence on our Company's operation or management given that (i) our core management team has the skill, expertise and experience in hospital management and operation, and is collectively responsible for the daily management and operations of Weikang Investment and the Hospitals; (ii) our core management team has been delegated decision-making authority to perform their respective roles and functions to operate or manage the Hospitals; (iii) none of our core management team worked with Mr. Jiang in relation to Weikang Investment or the Hospitals; and (iv) Mr. Jiang was not involved in the management, operation or decision-making process in relation to Weikang Investment or the Hospitals when he was in the Position. Mr. Chen Zhixiong took over the Position in May 2014 and was also effectively a non-executive director. After we acquired Weikang Investment in September 2014, Mr. Zhang Xiaopeng took over the Position. To the knowledge of our Directors, during the period when Mr. Jiang Zhenlin held the Position, he was primarily serving as the secretary of the branch office of the CPC in Lianfeng Village of Sanlin Town.

Honghe Ruixin

On December 23, 2014, Honghe Ruixin, a subsidiary owned indirectly as to 80% by our Company, was established in the PRC with a registered capital of RMB500,000. As at the Latest Practicable Date, the registered capital of Honghe Ruixin remained unpaid. The principal business of Honghe Ruixin is provision of management and consultancy services to hospitals.

On December 25, 2014, Honghe Zhiyuan, a subsidiary wholly-owned by our Company, transferred 20% equity interest in Honghe Ruixin to Ms. Hu Jianlian, Ms. Sun Meiyun (孫美雲), Mr. Wang Jianjun, Mr. Wang Zhejun and Mr. Chen Zhixiong (the "**Honghe Ruixin Minority Shareholders**"). Upon completion of the transfer, Honghe Zhiyuan, Ms. Hu Jianlian, Ms. Sun Meiyun, Mr. Wang Jianjun, Mr. Wang Zhejun and Mr. Chen Zhixiong held 80%, 4%, 4%, 4%, 4% and 4% equity interest in Honghe Ruixin, respectively. No consideration was payable by the Honghe Ruixin Minority Shareholders to Honghe Zhiyuan for this transfer given that the registered capital of Honghe Ruixin remained unpaid. Each of Honghe Ruixin and the Honghe Ruixin Minority Shareholders is obliged to make the contribution to the registered capital of Honghe Ruixin corresponding to their respective equity interests in Honghe Ruixin within 30 years following the incorporation of Honghe Ruixin on December 23, 2014 in accordance with the articles of association of Honghe Ruixin, which is in compliance with the applicable PRC laws. Currently, there is no statutory requirement or commercial arrangement for Honghe Ruixin to partly or fully pay up the registered capital of Honghe Ruixin before Listing. Such arrangement is based on an arm's length negotiation among the parties. Among the Honghe Ruixin Minority Shareholders, Ms. Sun Meiyun is the spouse of Mr. Lu Wenzuo, our executive Director, and Mr. Chen Zhixiong is the supervisor of Fuhua Hospital. The other Honghe Ruixin Minority Shareholders are either the Weikang Investment Minority Shareholders or their family members.

The aforementioned transfer was completed on January 28, 2016, and as confirmed by our PRC Legal Advisors, the aforementioned transfer of equity interests of Honghe Ruixin has been properly and legally completed in compliance with the applicable PRC laws and regulations in all material aspects.

WEIKANG ACQUISITION

In order to capture the business opportunity in China's hospital management industry, HCCL, a hospital operation and management group established by Hony Capital, identified Weikang Investment as its potential acquisition target. Accordingly, New Pride, an indirect wholly-owned subsidiary of HCCL, entered into an equity transfer agreement dated May 7, 2014 with the Weikang Investment Minority Shareholders in relation to the Weikang Acquisition for a total consideration of RMB1,038,400,000 (the "**Consideration**").

Determination of the Consideration

The Consideration was determined based on an arm's length negotiation between the Weikang Investment Minority Shareholders and us after taking into account a number of major factors (as described below) and with reference to the valuation of Weikang Investment of RMB1,269,751,030.77 as at January 31, 2014, as set out in the valuation report issued by Shanghai Hongda Xinyu Asset Appraisal Company Limited (上海宏大信宇資產評估有限公司) on March 28, 2014 (the "**PRC Valuation Report**"). The PRC Valuation Report was provided by Weikang Investment Minority Shareholders to serve only as a point of reference but not a major factor for HCCL in determining the Consideration given that the PRC Valuation Report was substantially different in purpose and approach from the investment evaluation done by HCCL in making the Weikang Acquisition. The PRC Valuation Report was produced to satisfy the formalities in respect of the Weikang Acquisition pursuant to the requirements under the applicable PRC law and was prepared in accordance with the applicable PRC asset assessment rules, guidelines and practices, rather than the international valuation standards, and contained limited disclosure in relation to valuation assumptions adopted. In accordance with the PRC Valuation Report, the buildings sitting on Land 28 (excluding land use rights) were valued at RMB39,118,700 as at January 31, 2014 based on the cost approach. The PRC Valuation Report does not provide the underlying reasons for which the value of land use rights in respect of Land 28 was not included or recognized under the applicable PRC asset assessment rules.

When making the Weikang Acquisition, we did not consider the potential value of Land 28 and Land 32 (the "Lands") in determining the Consideration, given that (i) we purchased the 80% equity interest in Weikang Investment, together with its principal businesses, as a going concern with an aim to establish and develop a regional medical service center and core platform for our hospital operation and management business, and (ii) the permitted usage of the Lands is for the operation of hospital and medical services, which restricts the Lands or the buildings thereon from being sold on an open market, and we have no intention to dispose of the Lands or the buildings thereon.

Major factors attributable to the acquisition cost

HCCL considered the following major factors when determining the Consideration:

- HCCL identified Shanghai as its first strategic step in establishing a regional medical service center, and the Weikang Acquisition would give HCCL an immediate access to a profitable hospital operation and management business. HCCL considered that the Weikang Acquisition would enable it to break the significant entry barriers to entering into China's healthcare services industry in a time-efficient way. The major significant entry barriers for

HCCL included, among other things, stringent requirements on licensing and branding for operations in China, availability of experienced medical professionals and extensive hospital management experience. In particular, HCCL considers the branding of non-public hospitals as an essential factor closely linked to a hospital's operational ability. HCCL also considered the complicated and lengthy process required to obtain a license to establish a non-public hospital in China, with only a small number of non-public hospitals having obtained such approvals.

- Weikang Investment is the founder of Yangsi Hospital and it has the ability to continue procuring hospital management agreements with Yangsi Hospital and exercise its influence over the operational and managerial decisions of Yangsi Hospital. Weikang Investment is able to do this through its management rights under the Hospital Management Agreements and its right to nominate a majority of the members in the executive committee of Yangsi Hospital under the hospital's rules of procedure for its executive committee.

- Weikang Investment's business model can be replicated by application to other hospitals that the Group owns or manages from time to time. In particular, with a view to becoming a professional and large-scale hospital operation and management group, HCCL envisioned that it could promote synergies between the management and investment expertise of HCCL and the professional and management team that had been operating Yangsi Hospital by centralizing strategic planning and development at the group-level and provide the sufficient support and the necessary investment strategies to enhance Yangsi Hospital's existing operations and materialize future plans to replicate this business model in other hospitals that HCCL will manage or own from time to time. As such, the Weikang Acquisition provides synergistic effects by combining (i) the strengths and capabilities of Yangsi Hospital; (ii) the expertise of Weikang Investment's management team that had been operating Yangsi Hospital; (iii) Weikang Investment's then-existing hospital operation and management model; and (iv) our Company's visionary management team with more extensive knowledge and experience in hospital management and with investment capabilities and resources. For more details of the governance structure and business of Yangsi Hospital, please see the paragraphs headed "Business—Our Business Model—Our Hospital Management Business" and "Business—The Hospitals—Yangsi Hospital".

- Weikang Investment has a group of high quality hospital management professionals, which is equipped with a profound understanding of China's healthcare industry and experience in coordinating across various medical departments and managing medical professionals.

- Yangsi Hospital, as a non-public not-for-profit general hospital in Shanghai with a market-leading position and brand recognition in Shanghai, has developed a standardized and streamlined hospital management structure and an advanced quality control and development system.

- HCCL believed that Yangsi Hospital's financial information provided by Weikang Investment, its operational metrics and revenue, and its growth potential, driven by population (in particular, relatively high aging population) in the area where Yangsi Hospital is located, presented it with an opportunity to receive a reasonable return from the Weikang Acquisition. HCCL also considered the growth potential of non-public general hospitals in China and its ability to capture the benefits and investment returns from future expansion and the optimization of Weikang Investment's organizational structure and the hospitals it owns or manages from time to time. HCCL envisaged that, along with China's economic transformation and the increasing importance of the consumer and service industries in driving China's economic growth, the growth of non-public hospitals in China could be further driven by people's growing demands for better living standards and high-end medical services. Furthermore, there is expected to be a notable increase in China's potential for healthcare spending, given (i) China's currently low healthcare spending as percentage of its GDP; (ii) expected growth of its healthcare market; (iii) continued support for healthcare reform from the PRC Government; (iv) the inability of public hospitals to meet the rapid growth in demand for healthcare services; and (v) disproportionate allocation of medical resources, particularly in emerging urban and suburban areas of cities.

- Scenario analysis

  HCCL conducted an exit scenario analysis to ascertain the estimated range of its investment return. The analysis was made based on the following key assumptions:

  - main drivers for Weikang Investment's revenue include the following improvements in Yangsi Hospital: (a) decreasing the length of hospital stay; (b) increasing profitability by raising medical service fees by leveraging technological advances, improvement in service quality and expansion of VIP patient services; (c) focusing on specific medical departments and specialized practices (including stomatology department, anorectal department, liver surgery department and oncology department) that offer greater opportunities for growth or profitability; and (d) focusing on developing new medical departments and specializations, such as physical examination services and medical cosmetology department that offer greater opportunities for growth or profitability;

  - key investments include (a) increasing number of nursing staff; (b) investment in ancillary departments (in relation to hospital infection-control and management, information technology systems, laboratory tests, etc.); and (c) renovation and interior design (including expansion of VIP service facilities and hospital infrastructure upgrades); and

  - additional expansion plans including, among other things, completion and full utilization of general geriatric care.

  Based on the above, HCCL believed that it could receive reasonable returns from the Weikang Acquisition.

- The then-market comparables

HCCL also made reference to the then unaudited pro forma net profit of Yangsi Hospital for the year ended December 31, 2013, being approximately RMB75 million, when determining the Consideration. Such unaudited pro forma net profit of Yangsi Hospital was arrived at based on the then net profit of Yangsi Hospital before deduction of the management fee payable to Weikang Investment for the year ended December 31, 2013, and after the adjustments in respect of, among other things, taxation and certain one-off expenses incurred by Yangsi Hospital for the year ended December 31, 2013.

HCCL also made reference to trading multiples of comparable peer companies, whereby HCCL sampled trading multiples of peer companies that were listed in the U.S., China and certain countries in Southeast Asia, and applied discount to the medium multiple having considered the scale of Weikang Investment (managing only one hospital at the time of investment and the liquidity discount typically applicable to private companies). The Consideration, representing an implied price-to-earnings multiple of 17.3x of the earnings of Yangsi Hospital for the year ended December 31, 2013 at the time of investment, was within the range of the then trading multiples of the companies that HCCL sampled and considered (including their P/E and EV/EBITDA and mainly on P/E) in April 2014, the details of which are set out in the table below.

Region	**Listed Company Name**	**P/E**	
		2013	**2014 (estimate)**
United States	HCA Holdings, Inc. (NYSE: HCA)	Highest: 15.6x	Highest: 14.0x
		Mean: 14.3x	Mean: 12.1x
	Universal Health Services, Inc. (NYSE: UHS)	Median: 14.4x	Median: 12.5x
	Community Health Systems, Inc. (NYSE: CYH)	Lowest: 12.8x	Lowest: 9.5x
	Select Medical Holdings Corporation (NYSE: SEM)		

Region	Listed Company Name	P/E	
		2013	2014 (estimate)
Southeast Asia	IHH Healthcare Berhad (KLSE: IHH) Bangkok Dusit Medical Services Public Company Limited (SET: BDMS) Bumrungrad Hospital Public Company Limited (SET: BH) China Resources Phoenix Healthcare Holdings Company Limited (SEHK: 1515) Raffles Medical Group Ltd. (SGX: R01)	Highest: 43.0x Mean: 34.0x Median: 32.7x Lowest: 25.9x	Highest: 35.0x Mean: 28.6x Median: 27.8x Lowest: 22.6x
China	Aier Eye Hospital Group Co., Ltd. (300015) Topchoice Medical Investment Corporation (600763)	Highest: 51.2x Mean: 49.1x Median: 49.1x Lowest: 46.9x	Highest: 37.2x Mean: 36.6x Median: 36.6x Lowest: 36.0x

Note: based on sources from S&P Capital IQ

As a result of the Weikang Acquisition, we recorded goodwill of RMB958.9 million as of December 31, 2014 and 2015 and September 30, 2016, accounting for 74.8%, 73.6% and 74.0% of our total assets as of the same dates. For details, please refer to the sections headed "Risk Factors—Risks Relating to Our Business and Industry—We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it would adversely affect our results of operations and financial position" and "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheets—Intangible Assets".

Upon completion of the Weikang Acquisition, the equity interest of Weikang Investment is owned as to 80% by New Pride and as to 20% by the Weikang Investment Minority Shareholders collectively. The Weikang Acquisition was completed on September 30, 2014, and as confirmed by our PRC Legal Advisors, the Weikang Acquisition has been legally completed and settled in compliance with the applicable PRC laws and regulations in all material aspects and the requisite approvals for the acquisition have been obtained from the relevant competent authorities. Among such requisite approvals, the Approval by the Shanghai Municipal Commission of Commerce in relation to the Mergers and Acquisitions by Foreign Investors for Shanghai Weikang Investment Management Co., Ltd. (certificate no. Hu Shang Wai Zi Pi [2014]2852)《市商務委關於同意外資併購上海維康投資管理有限公司的批覆》(滬商外資批[2014]2852號)) was granted by the Shanghai Municipal Commission of Commerce (the competent local MOFCOM at the provincial level administering approval of mergers and acquisitions by foreign investors) on August 1, 2014 and the Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC (certificate no. Shang Wai Zi Hu He Zi Zi [2014]1913) (《中華人民共和國台港澳僑投資企業批准證書》(批准號：商外資滬合資字[2014]1913號)) was granted by the People's Government of Shanghai which is a provincial level government body of the PRC, on August 11, 2014.

New Pride also entered into a joint venture agreement with the Weikang Investment Minority Shareholders on May 7, 2014 (the "**Joint Venture Agreement**"), in relation to the management and operation of Weikang Investment. The term of the Joint Venture Agreement shall be 30 years, commencing from September 10, 2014. The investment amount of Weikang Investment shall be RMB60 million and the registered capital of Weikang Investment shall be RMB30 million. The Weikang Investment Minority Shareholders agreed to waive their right of first refusal in the event that New Pride transfers its equity interests in Weikang Investment to its associated companies. Set out below is a summary of the principal special rights granted to New Pride pursuant to the Joint Venture Agreement:

Board appointment rights...........................	:	The board of directors of Weikang Investment shall comprise of five directors, four of whom shall be appointed by New Pride and one of whom shall be appointed by the Weikang Investment Minority Shareholders. The chairman of the board of directors of Weikang Investment shall be a director appointed by New Pride. The term of a director is three years, during which the Weikang Investment Minority Shareholders and New Pride may replace the respective directors nominated by them at any time.
Rights to appoint senior management	:	New Pride is entitled to nominate candidates to serve as the general manager and financial controller of Weikang Investment, subject to the approval of the board of directors of Weikang Investment.
Rights to appoint supervisor....................	:	Weikang Investment shall have a supervisor appointed by New Pride. The term of such supervisor shall be three years, renewable if New Pride continues to appoint such person to serve as the supervisor of Weikang Investment.
Matters that require unanimous consent of the board of directors of Weikang Investment...................	:	Matters that require unanimous consent of the board of directors of Weikang Investment include increase or decrease in the registered capital of Weikang Investment, amendment of the articles of association of Weikang Investment, deregistration or dissolution of Weikang Investment, and merger or spin-off of Weikang Investment.

MANAGEMENT SUBSCRIPTION

Subscription by Management and Financing Arrangement

For the benefit and long-term development of our Group following the Weikang Acquisition, our Company entered into a subscription agreement (the "**Subscription Agreement**") (which was subsequently amended by the amendment agreements to the Subscription Agreement dated December 4, 2016 and January 23, 2017 (the "**Amendment Agreements**", together with the Subscription Agreement, the "**Management Subscription Agreements**")) with Mr. Zhang Xiaopeng ("**Mr. Zhang**"), our executive Director and chief executive officer, Ms. Xia Yuanqing ("**Ms. Xia**"), the former deputy general manager of our Company, Mr. Zang Chuanbo, the deputy general manager of our Company, Ms. Ding Yue, the chief nursing officer of our Company, Ms. Kan Ruihan, the senior financial manager of our Company (Mr. Zang Chuanbo, Ms. Ding Yue and Ms. Kan Ruihan collectively referred to as the "**Management Subscribers**"), the respective investment holding companies wholly owned by Mr. Zhang, Ms. Xia and the Management Subscribers (collectively, the "**Management SPVs**" or each a "**Management SPV**"), Midpoint Honour, which was collectively owned by the Management SPVs, Hony Capital 2008 Management Limited ("**Hony Management**"), a management company established by Hony Capital, and Vanguard Glory, the direct Shareholder of our Company, on March 31, 2016. Pursuant to the Subscription Agreement, our Company allotted and issued 300 new ordinary shares to Midpoint Honour (the "**Subscription Shares**"), representing 3% of our then issued ordinary shares upon completion of the Subscription Agreement, for a total consideration of RMB31,152,000. The subscription price payable by Midpoint Honour as subscriber in relation to the Subscription Shares was determined on an arm's length basis as a result of negotiations among the parties with reference to the price paid by New Pride for the acquisition of 80% equity interest in Weikang Investment.

Ms. Xia ceased to be a member of the senior management team of our Company for personal reasons from August 2016. On September 14, 2016, Ms. Xia transferred 14 ordinary shares in our Company indirectly held by Ms. Xia through Midpoint Honour and Han Prestige Limited ("**Han Prestige**") to Vanguard Glory pursuant to the provisions of the Subscription Agreement. On December 4, 2016, our Company repurchased the 14 ordinary shares from Vanguard Glory at a price of HK$1,787,495.50 (equal to a sum of (a) the original subscription price of the 14 ordinary shares paid by Ms. Xia, being HK$1,729,498.08, and (b) an interest amount of HK$57,997.42, which is calculated based on a proportional interest rate of 3.35% with reference to the corresponding period from the date of the Subscription Agreement to the effective resignation date of Ms. Xia in accordance with the terms of the Management Subscription Agreements), and subsequently cancelled these shares. Upon completion of the transfer and repurchase, Vanguard Glory and Midpoint Honour held 97.14% and 2.86% equity interest in our Company, respectively.

Pursuant to the loan agreements entered into between Mr. Zhang and Hony Management, and between Mr. Zhang and Midpoint Honour (the "**Loan Agreements**", together with the Management Subscription Agreements, the "**Transaction Agreements**"), Hony Management agreed to grant Mr. Zhang a loan in the principal amount of US$3,200,000 with a simple interest rate of 4% per annum and shall be repaid in full before the fifth anniversary of the date of the drawdown or such other time as the parties may agree upon ("**Hony Management's Loan**") and the proceeds of the Hony Management's Loan were used for subscription of the Subscription Shares attributable to Mr. Zhang, and Mr. Zhang agreed to grant Midpoint Honour an interest-free loan in the principal amount of

RMB25,960,000 for the purpose of subscription of the Subscription Shares by Midpoint Honour attributable by Mr. Zhang ("**Mr. Zhang's Loan**", together with Hony Management's Loan, the "**Loans**"). As security for the Loans, Midpoint Honour charged all the shares in our Company attributable to Mr. Zhang, representing approximately 2.5% of the issued share capital of our Company as at the Latest Practicable Date and immediately prior to the Global Offering, Grand Roc Holdings Limited ("**Grand Roc**"), the Management SPV owned by Mr. Zhang, charged 8,333 shares of Midpoint Honour, representing approximately 83.33% of issued share capital of Midpoint Honour as at the Latest Practicable Date, held by Grand Roc in Midpoint Honour, and Mr. Zhang charged all the issued shares in Grand Roc, in favor of Hony Management (collectively, the "**Share Charges**"). In the event that Mr. Zhang defaults his payment obligation under the Hony Management's Loan, all or any part of the Share Charges become enforceable, whereby Hony Management is entitled to exercise all the rights attached to the charged shares thereunder, and by giving notice to the chargors under the relevant Share Charges, is entitled to dispose or forfeit all or part of the charged shares to discharge Mr. Zhang's outstanding payment obligation under the Hony Management's Loan.

Details of the Management Subscription Agreements are set out below:

Amount of consideration paid	**Payment date**	**Cost per Subscription Share**	**Discount to the Offer Price**[(Note 2)]	**Use of proceeds (fully utilized)**	**Shareholding in our Company immediately after the subscription**	**Shareholding in our Company upon Listing (assuming Over-allotment Option is not exercised)**	**Strategic benefits to our Company**
(RMB)		**(RMB)**					
RMB29,698,240 [(Note 1)]	March 31, 2016	103,840	25.29%	used to pay the listing expenses and the cost of the daily operations of our Group	2.86%	2.15%	provision of equity incentives to management and benefit for the stable long-term development of our Group

Notes:

(1) Excluding the consideration paid by Ms. Xia to subscribe for the 14 ordinary shares of the Company pursuant to the Subscription Agreement.

(2) Assuming the Offer Price is fixed at HK$13.90, being the mid-point of the indicative Offer Price range.

Set forth below is a summary of the remaining principal terms of the Transaction Agreements:

Lock-up restrictions

Midpoint Honour undertakes that, unless obtaining a written consent from Vanguard Glory, (i) within the first 12 months following the Listing Date (the "**First Year**"), it shall not dispose of any of the Shares held by it; (ii) within the 12 months following expiration of the First Year (the "**Second Year**"), Midpoint Honour shall not dispose of more than 50% of the Shares held by it; and (iii) after expiration of the Second Year, Midpoint Honour is free to dispose of any of the Shares held by it.

Upon expiration of the applicable lock-up restrictions, the relevant Shares are not subject to the exit mechanism provisions as disclosed below.

Exit mechanism

The Management Subscription Agreements provide for an exit mechanism upon occurrence of, among other things, the following events during the period from the date of the Subscription Agreement to the expiration of the periods for the relevant lock-up restrictions applicable to the Shares held by Midpoint Honour:

In respect of Mr. Zhang:

(a) in the event that Mr. Zhang resigns with our consent, our Company shall have the right to repurchase:

(i) the Shares attributable to Mr. Zhang and subscribed for by Mr. Zhang through Midpoint Honour and Grand Roc with the proceeds of Hony Management's Loan at a price equal to the consideration for the relevant Subscription Shares paid by Mr. Zhang using the proceeds of the Hony Management's Loan, which amounted to US$3,200,000 (equivalent to approximately RMB20,768,000); and

(ii) the remaining portion of the Shares attributable to Mr. Zhang through Midpoint Honour and Grand Roc at a price equal to the monetary contributions made and self-funded by Mr. Zhang for subscription of such Shares (which amounted to RMB5,192,000) plus a simple interest at a rate of 8% per annum;

(b) in the event that Mr. Zhang resigns due to his gross negligence, fraud or wilful misconduct, our Company shall have the right to repurchase:

   (i) the Shares attributable to Mr. Zhang and subscribed for by Mr. Zhang through Midpoint Honour and Grand Roc with the proceeds of Hony Management's Loan at a price equal to the consideration for the relevant Subscription Shares paid by Mr. Zhang using the proceeds of the Hony Management's Loan; and

   (ii) the remaining portion of the Shares attributable to Mr. Zhang through Midpoint Honour and Grand Roc at a price equal to the monetary contributions made and self-funded by Mr. Zhang for subscription of such Shares;

in both events, Mr. Zhang shall have the obligation to repay the Hony Management's Loan and the interest accrued thereon in full in accordance with the relevant loan agreement in relation to the Hony Management's Loan.

In respect of each of the Management Subscribers:

(a) in the event that a Management Subscriber resigns with our consent, our Company shall have the right to repurchase all the Shares attributable to the Management Subscriber through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contributions made by such Management Subscriber plus a simple interest at a rate of 8% per annum; and

(b) in the event that a Management Subscriber resigns due to gross negligence, fraud or wilful misconduct, our Company shall have the right to repurchase all the Shares attributable to the Management Subscriber through his or her respective Management SPV and Midpoint Honour at a price equal to the monetary contributions made by them;

Voting rights

In the events that the ownership of the respective Management SPV is transferred to the successor of Mr. Zhang or any of the Management Subscribers as a result of the death of Mr. Zhang or any of the Management Subscribers or the Company unilaterally terminates the engagement with Mr. Zhang or any of the Management Subscribers not due to gross negligence, fraud or wilful misconduct but on the other grounds as set out under the respective service contract (including, among other things, being incapable of performing duties thereunder due to disease or injury or failure to be re-elected or re-appointed as a Director or management of the Company at the general meetings or board meetings of the Company), Midpoint Honour is obliged to execute proxy in relation to exercise of the voting rights attached to such Shares in favor of Vanguard Glory.

With a view to aligning the Company's interest with its executive management, the Company issued the Subscription Shares as a form of equity incentive to the management of the Company, who are under fiduciary duty and/or obliged to act in the best interest of the Company. As such, in the case of death or departure of Mr. Zhang or any of the Management Subscribers and if any of the successors of the incentivized management or departing management intends to continue to hold the Shares attributable to him or her, the voting arrangement is designed to avoid the exceptional circumstances, where such successor or departing management exercises the voting rights attached thereto, in a manner which is not in the best interest and benefit of the Company and its Shareholders as a whole, or even likely to cause potential negative impact on the Company.

To the extent the relevant Shares are retained by a successor of the incentivized management or the departing management, such voting right provision will apply.

Transfer restriction

To minimize the potential negative impact that may be caused by disposal of Shares by the management of the Company on the share price of the Company after Listing, and in the interest of the Company and the Shareholders as a whole, Mr. Zhang and the Management Subscribers undertake that, unless obtaining a written consent (which shall not be unreasonably withheld or delayed) from Vanguard Glory, the shares of each of the Management SPVs and Midpoint Honour held by any of them shall not be transferred to any third parties.

If the relevant Shares are held by Mr. Zhang and the Management Subscribers, respectively, such transfer restrictions remain effective after the expiration of the lock-up periods.

Public Float

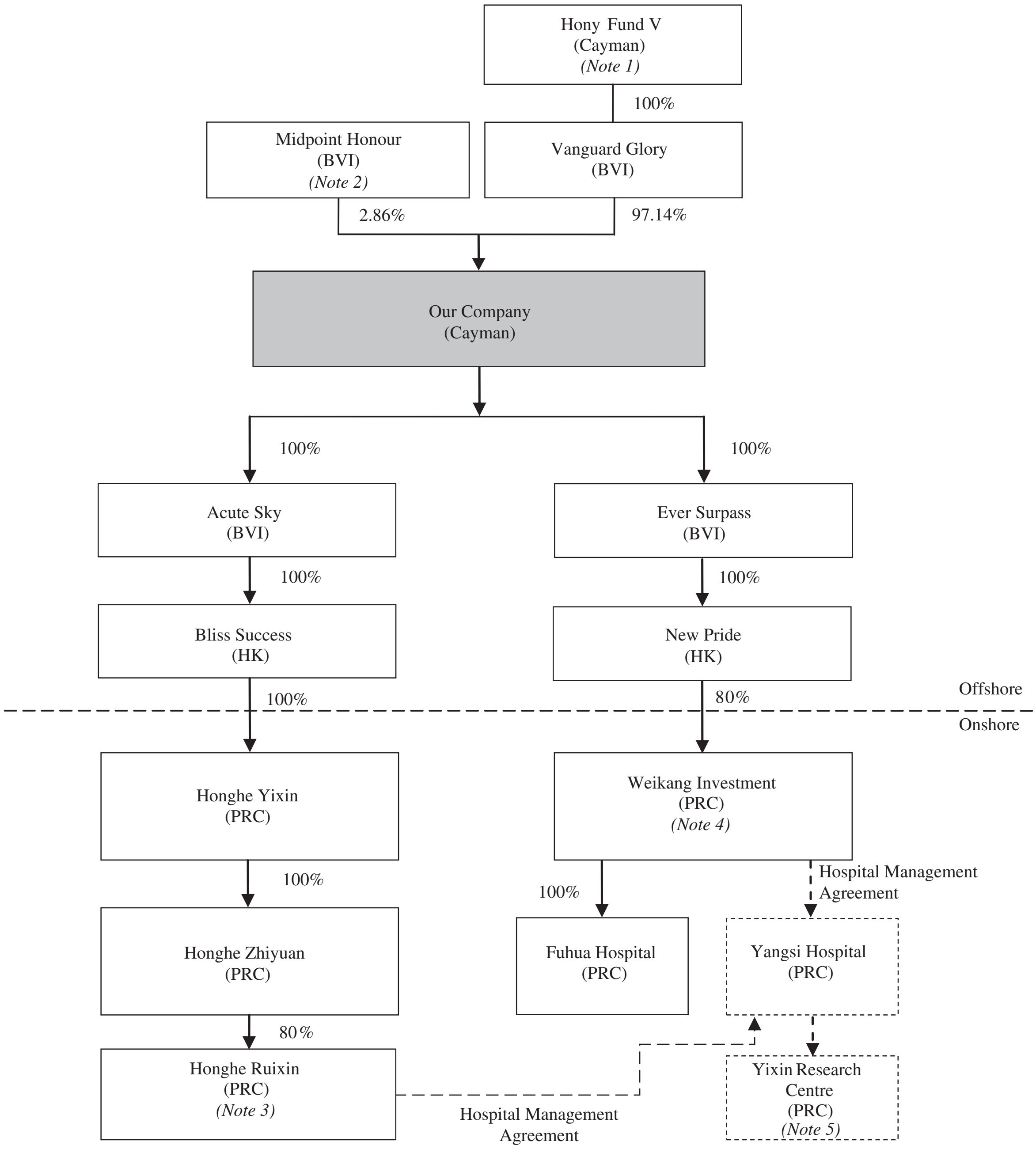
As Midpoint Honour is indirectly owned as to 83.33% by Mr. Zhang through Grand Roc, a connected person (as defined in Rule 1.01 of the Listing Rules) of our Company, the Shares held by Midpoint Honour will not be counted towards the public float after the Listing.

THE CAPITALIZATION ISSUE

Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the Offer Shares pursuant to the Global Offering, our Directors shall be authorized to allot and issue a total of 99,850,014 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as they may direct) in proportion to their respective shareholdings in the Company (as nearly as possible without fractions) by way of capitalization of the sum of HK$99,850.014 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

Our corporate and shareholding structure immediately before the completion of the Capitalization Issue and the Global Offering and, as at the Latest Practicable Date:



Notes:

1. Hony Fund V is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Fund V is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group is held as to 49% by Mr. Zhao John Huan, the Chairman and a non-executive Director of the Company, as to 25.50% each by Mr. Cao Yonggang and Mr. Xu Minsheng, each an Independent Third Party, respectively.

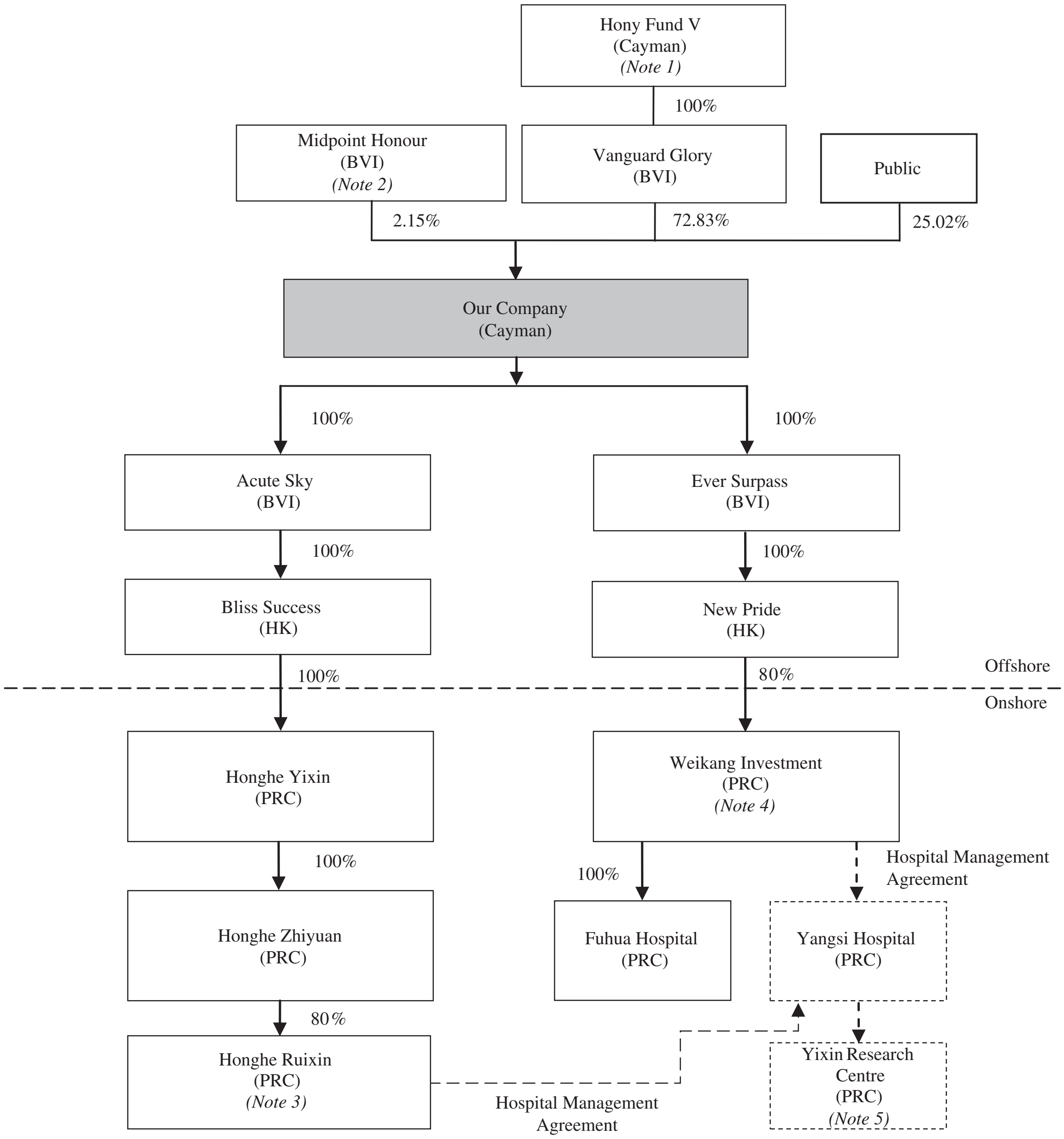
2. As at the Latest Practicable Date, Midpoint Honour is indirectly held as to 83.33% by Mr. Zhang, as to 4.67% by Mr. Zang Chuanbo, as to 4% by Ms. Ding Yue, as to 3.33% by Ms. Kan Ruihan, through his or her respective Management SPV, and as to 4.67% by Vanguard Glory through Han Prestige, respectively. Mr. Zhang, our executive Director and chief executive officer, and Vanguard Glory, our Controlling Shareholder, are connected persons and other shareholders of Midpoint Honour are all members of our management team.

3. As at the Latest Practicable Date, 20% equity interest in Honghe Ruixin is held as to 4% by each of Ms. Hu Jianlian, Ms. Sun Meiyun, Mr. Wang Jianjun, Mr. Wang Zhejun and Mr. Chen Zhixiong, respectively. Ms. Sun Meiyun is the spouse of our executive Director, Mr. Lu Wenzuo, and Mr. Chen Zhixiong is the supervisor of Fuhua Hospital. The other Honghe Ruixin Minority Shareholders are either the Weikang Investment Minority Shareholders or their family members.

4. As at the Latest Practicable Date, 20% equity interest in Weikang Investment is held as to 4% by each of Mr. Chen Zhixiong, Ms. Hu Jianlian, Ms. Lu Jingping, Mr. Wang A'Mao and Mr. Wang Zhejun, respectively. Ms. Lu Jingping is the daughter of our executive Director, Mr. Lu Wenzuo, and Mr. Chen Zhixiong is the supervisor of Fuhua Hospital. The other Weikang Investment Minority Shareholders are Independent Third Parties.

5. Yangsi Hospital is the founder of Yixin Research Centre, which is a Privately-funded Non-enterprise Entity and was established on July 18, 2014 under the laws of the PRC with start-up funds of RMB3 million. The principal business of Yixin Research Centre is in the direction of biology and research on andrology and reproduction as well as research on its science and technology. However, Yixin Research Centre has not conducted any operating activities since incorporation up to the Latest Practicable Date.

Our corporate and shareholding structure immediately upon the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) is as follows:



Notes:

1. Hony Fund V is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Fund V is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group is held as to 49% by Mr. Zhao John Huan, the Chairman and a non-executive Director of the Company, as to 25.50% each by Mr. Cao Yonggang and Mr. Xu Minsheng, each an Independent Third Party, respectively.

2. As at the Latest Practicable Date, Midpoint Honour is indirectly held as to 83.33% by Mr. Zhang, as to 4.67% by Mr. Zang Chuanbo, as to 4% by Ms. Ding Yue, as to 3.33% by Ms. Kan Ruihan, through his or her respective Management SPV, and as to 4.67% by Vanguard Glory through Han Prestige. Mr. Zhang, our executive Director and chief executive officer, and Vanguard Glory, our Controlling Shareholder, are connected persons and other shareholders of Midpoint Honour are all members of our management team.

3. As at the Latest Practicable Date, 20% equity interest in Honghe Ruixin is held as to 4% by each of Ms. Hu Jianlian, Ms. Sun Meiyun, Mr. Wang Jianjun, Mr. Wang Zhejun and Mr. Chen Zhixiong, respectively. Ms. Sun Meiyun is the spouse of our executive Director, Mr. Lu Wenzuo, and Mr. Chen Zhixiong is the supervisor of Fuhua Hospital. The other Honghe Ruixin Minority Shareholders are either the Weikang Investment Minority Shareholders or their family members.

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COMPLIANCE WITH PRC LAWS AND REGULATIONS

Under the newly amended Foreign Investment Catalogue (2015), which was promulgated on March 10, 2015 and came into effect on April 10, 2015 (the "**Effective Date**"), foreign investment in medical institutions is restricted to the form of sino-foreign equity joint venture or cooperative joint venture. As advised by our PRC Legal Advisors, this restriction effectively means that any medical institutions established or acquired on or after April 10, 2015 cannot be wholly foreign owned. However, the Foreign Investment Catalogue (2015) does not stipulate any upper limit on the permitted percentage the foreign investors can hold or enjoy in the joint venture and no national regulations or rules have been promulgated to specify any upper limit of the percentage a PRC-incorporated subsidiary of a foreign investor can hold or enjoy in a PRC medical institution. As such, the exact percentage of interests that a foreign investor can indirectly hold in a PRC medical institution remains a matter of discretion by the local authorities. However, prior to the effectuation of the current Foreign Investment Catalogue (2015), according to the then effective Foreign Investment Catalogue (2011) at the time of the Weikang Acquisition, foreign investment in medical institutions is categorized as a permitted project, pursuant to which foreign investment in medical institutions can be 100%. As confirmed by our PRC Legal Advisors, the Weikang Acquisition has been completed and settled in compliance with the applicable PRC laws and regulations in all material aspects and the requisite approvals for the Weikang Acquisition have been obtained from the relevant competent authorities at the provincial level, including the Shanghai Municipal Commission of Commerce and the People's Government of Shanghai. Our PRC Legal Advisors have further confirmed that the revisions on the Foreign Investment Catalogue (2015) do not have any retrospective effect, nor does the promulgation and adoption of the Foreign Investment Catalogue (2015) invalidate, revoke, or result in any variation of, any approvals, permits and authorizations which have been issued in connection with the Weikang Acquisition prior to the Effective Date.

As for foreign investment directly in PRC medical institutions, according to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法) (the "**JV Interim Measures**"), which were promulgated by the MOFCOM and the NHFPC and have been in effect since 2000, the equity percentage of the foreign partner in such sino-foreign joint venture shall not exceed 70%.

Upon the completion of Weikang Acquisition, our Company has held over 70% equity interest in Weikang Investment since September 2014, which is the sole shareholder of Fuhua Hospital and founder of Yangsi Hospital. With respect to the acquisition of Weikang Investment, we obtained the Approval by the Shanghai Municipal Commission of Commerce in relation to the Mergers and Acquisitions by Foreign Investors for Shanghai Weikang Investment Management Co., Ltd. (certificate no. Hu Shang Wai Zi Pi [2014]2852) on August 1, 2014 and received the Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC (certificate no. Shang Wai Zi Hu He Zi Zi [2014]1913) from the People's Government of Shanghai on August 11, 2014 and then completed the registration with competent administration of industry and commerce. As confirmed by our PRC Legal Advisors, the legal formalities carried out for such acquisition are legal and valid and our acquisition of Weikang Investment does not constitute any violation of or non-compliance with relevant provisions of the JV Interim Measures. In addition, as confirmed by our PRC Legal Advisors, (i) since we completed the acquisition of Weikang Investment prior to April 10, 2015, the new restriction on foreign ownership set out in the Foreign Investment Catalogue (2015) will not have retrospective effect on the validity and effectiveness of our current corporate structure; (ii) neither Fuhua Hospital nor Yangsi Hospital is directly foreign-invested, and as such neither Fuhua Hospital nor Yangsi Hospital comes within the definition of "sino-foreign joint venture or joint cooperative medical institution" as provided in the JV Interim Measures; and (iii) the JV Interim Measures do not restrict the equity ownership percentage of a medical institution that can be held indirectly by a non-PRC entity through its subsidiary in the PRC.

Therefore, as confirmed by our PRC Legal Advisors, the Weikang Acquisition has been legally completed and settled in compliance with the then applicable PRC laws and regulations in all material aspects and the requisite approvals for the acquisition were obtained from the relevant competent authorities.

In implementing our future expansion plans, we will ensure that we comply with relevant foreign investment rules under the PRC laws and regulations when establishing or acquiring new for-profit hospitals. In the event that the indirect shareholding of the Company in this type of medical institution exceeds 70%, we will consult the competent MOFCOM and the relevant health authorities, which shall be requested or suggested by the competent MOFCOM on a case-by-case basis. In particular, as advised by our PRC Legal Advisors, for the direct establishment or acquisition of new for-profit hospitals by any non-PRC entities within our Group, our shareholding in the new for-profit hospital will not exceed 70%; while for the establishment or acquisition of new for-profit hospitals through any PRC-incorporated entities within our Group, our shareholding in the new for-profit hospital will not be 100% to ensure our compliance with the amended Foreign Investment Catalogue (2015). Therefore, we plan to work with domestic business partners to jointly establish or acquire new for-profit hospitals with us. Given these plans, we do not expect the amended Foreign Investment Catalogue (2015) to have any material adverse impact on our current or future business.

Under the M&A Rules, a foreign investor is required to obtain necessary approvals from the relevant branches of the MOFCOM when (i) a foreign investor acquires equity interests in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity interests in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

Our PRC Legal Advisors have confirmed to us that the transfers of equity interests in our PRC subsidiaries during the Track Record Period were carried out in accordance with the M&A Rules.

The SAFE promulgated Circular 37 on July 4, 2014 which rescinded Circular 75. Subject to Circular 37, domestic residents, individuals or institutions are required to register with the relevant bureau of foreign exchange administration before they could invest in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC. Registration formalities of initial registration under Circular 37 has been streamlined and delegated to local banks in June 2015. Failure to comply with the registration procedures set forth in Circular 37 may result in restrictions imposed on the subsequent foreign exchange activities of the relevant domestic residents, including the remitting back of dividends and profits. Domestic residents who invest in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC prior to the implementation of Circular 37, but fail to conduct the foreign exchange registration of overseas investments, shall submit an explanatory statement stating the reasons to the relevant bureau of foreign exchange administration. The relevant bureau of foreign exchange administration may allow complementary registration under the principles of legality and legitimacy. In the event of any violation of foreign exchange regulations by domestic residents who apply for the aforesaid complementary registration, administrative penalty would be imposed in accordance with the relevant laws.

As advised by our PRC Legal Advisors, all necessary approvals, permits and licenses required under the PRC laws and regulations in connection with the transfers of equity interests in our PRC subsidiaries during the Track Record Period have been obtained, and all such transfers have complied with all applicable laws and regulations of the PRC in all material aspects.

OVERVIEW

We are a hospital operation and management group, led by a professional team with extensive hospital management experience. Through our operation and management of hospitals, we plan to consolidate medical resources in the regions where our hospitals are located and establish regional medical service centers providing consistent, systematic, easy-to-access, high-quality and comprehensive medical services to residents of these regions.

We serve as the core platform for the hospital operation and management business of Hony Capital. To capture the business opportunities arising from healthcare reforms and structural transformation of the Chinese economy, we focus on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. We have entered the healthcare services industry and achieved favorable economic benefit and fulfilled social responsibilities by leveraging our sophisticated medical techniques, our ability to provide high-quality healthcare services and our differentiated competitive strengths. We target Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have demonstrated advanced performance in medical specialties and are located in areas with sizeable populations and attractive economic conditions. Our ultimate goal is to create a nationwide medical services network through mergers and acquisitions across China.

We have a dedicated management team with extensive experience and strong execution skills, in particular comprehensive experience in hospital management. Our core management team primarily includes members with experience in Class III hospitals as well as key medical professionals of the hospitals under our management with extensive hospital management experience. With our profound understanding of the industry and comprehensive experience in hospital management, we have improved the performance of the hospitals we own or manage. Notably, to enhance the core competitiveness of the hospitals, we have established a management system that integrates fundamental medical ethics and principles with a modern corporate management system. We implement our standardized and streamlined management system, taking into consideration the background and circumstances of each individual hospital, to improve the hospitals' overall management, capabilities and operational efficiency, through various key measures including incentive and decision-making mechanisms, strategies planning and implementation, financial control and employee training.

We identified Shanghai as the first strategic step in our plan and have embarked on establishing a regional medical service center there. In developing this plan, we have taken into account various factors, including the location, market positioning, branding, medical specialties and the existing teams of medical professionals. Through this process, we have identified our management of Yangsi Hospital as the core component of our strategic plan with our operation of Fuhua Hospital as an extension of this plan.

Yangsi Hospital is a non-public not-for-profit general hospital with Class II hospital-equivalent scale, while Fuhua Hospital is a non-public for-profit general hospital with Class I hospital-equivalent scale. According to Frost & Sullivan, Class II and Class III are classifications of hospitals authorized by the PRC government and are determined by a number of criteria such as medical specialties, medical staff of hospitals, work efficiency and clinical skill. According to the same source, hospitals with Class II and Class III-equivalent scale are hospitals that are similar in size and level of service quality to those of Class II and Class III hospitals but have not been rated by the PRC government due to the complexities of China's hospital level evaluation procedures. For more details on classifications of hospitals in China, please see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on the Administration and Classification of Medical Institutions—Categories of Healthcare Institutions in China" of this prospectus.

According to the Frost & Sullivan Report, Yangsi Hospital is Shanghai's largest non-public hospital in terms of revenue in 2015. It provides medical services in Shanghai's Yangsi area, which has a population of approximately 300,000. The total number of out-patient visits and in-patient visits of Yangsi Hospital in 2015 accounted for 14.7% and 10.7% of the total number of out-patient visits and in-patient visits of all non-public hospitals in Shanghai, respectively. The number of annual out-patient visits of Yangsi Hospital exceeded the average annual number of out-patient visits of Class III hospitals in China in 2015, according to the Frost & Sullivan Report. Fuhua Hospital is a general hospital that extends the coverage of medical services offered by Yangsi Hospital. Yangsi Hospital and Fuhua Hospital together constitute the foundation of our regional strategic development plan in Shanghai.

Although both Yangsi Hospital and Fuhua Hospital are general hospitals, Yangsi Hospital provides comprehensive medical services and focuses on the treatment of common diseases, frequently re-occurring diseases and chronic diseases; while Fuhua Hospital provides general hospital services integrating clinical care and rehabilitation services. Given that Yangsi Hospital is a non-public not-for-profit general hospital, its medical services and retail prices of the pharmaceuticals are subject to guidelines and regulations set by relevant local authorities. Yangsi Hospital also offers VIP services, which Fuhua Hospital does not provide, to patients who are willing to pay higher prices for premium medical services. As Yangsi Hospital has filed the proposed pricing for VIP services with relevant local authorities, the medical service fees it charges for VIP services are not subject to the pricing guidelines. On the other hand, since Fuhua Hospital is a non-public for-profit general hospital, it is entitled to set the prices of its medical services at its own discretion, though the pharmaceuticals and medical devices that it sells are also subject to relevant government controls. Yangsi Hospital and Fuhua Hospital, each a Medical Insurance Designated Medical Institution, may be subject to the price ceiling controls over its pharmaceuticals, medical services, medical devices and medical consumables when charging for items covered by the medical insurance programs. Although both Yangsi Hospital and Fuhua Hospital are located in Pudong New District of Shanghai, given that (i) Yangsi Hospital is a hospital with Class II hospital-equivalent scale and Fuhua Hospital is a hospital with Class I hospital-equivalent scale and (ii) the distance between the two hospitals is approximately 40 kilometers, they are serving different patient groups, with Yangsi Hospital covering patients from other provinces as well as within the Yangsi area and Fuhua Hospital mainly covering patients in local communities. Therefore, we believe that there is no significant competition between the two hospitals; instead, the operations of these two hospitals in Shanghai complement each other, and we will further consolidate medical resources in the region to gradually establish a regional medical service center.

During the Track Record Period, the Hospitals achieved remarkable results. In particular, the revenue generated by Yangsi Hospital was RMB538.0 million for the year ended December 31, 2015, representing an increase of 16.5% compared to 2014. The revenue generated by Yangsi Hospital was RMB443.6 million for the nine months ended September 30, 2016, representing an increase of 14.3% compared to the same period of 2015. Yangsi Hospital recorded stable growth in 2015, with approximately 1.5 million out-patient visits and approximately 19,000 in-patient visits. In addition, in 2015, Yangsi Hospital's revenue structure and the quality of its medical services and treatments improved and the in-patient satisfaction increased by 13% according to a survey conducted by Independent Third Parties. Fuhua Hospital has undergone structural adjustments in its development strategies and business operations, leading to significant improvement in its performance indicators. For the year ended December 31, 2015, Fuhua Hospital recorded a 60% increase in revenue, a 77% increase in the total number of out-patient visits and a 164% increase in the total number of in-patient visits, each as compared to 2014. In the nine months ended September 30, 2016, Fuhua Hospital recorded a 32.8% increase in revenue, a 29.9% increase in the total number of out-patient visits and a 16.6% increase in the total number of in-patient visits, each as compared to the same period of 2015. Through the operations of the Hospitals, we have demonstrated our outstanding ability in hospital management. We will continue to utilize our competitive strengths to ensure effective execution of our strategic plans.

OUR COMPETITIVE STRENGTHS

We have an experienced management team with strong execution capabilities encompassing the ability to enhance the value of hospitals under our management.

Our core management team comprises key medical professionals from many distinguished Class III hospitals across China, including a former vice hospital administrator at Beijing Cancer Hospital (北京大學腫瘤醫院), a former deputy director of the medical department at the Chinese People's Liberation Army General Hospital's Hainan Branch (中國人民解放軍總醫院海南分院), a former nursing supervisor (主任護師) of the hospital management office of Peking University Health Science Center (北京大學醫學部醫院管理處) and the current hospital administrator of Yangsi Hospital, who previously served as the deputy hospital administrator of two public hospitals. Our management team members have over 20 years of experience in China's healthcare services industry. In addition, they are familiar with the operation and management of hospitals, which enables them to implement an advanced management system at the Hospitals. Furthermore, we have a team of professionals with extensive experience in coordinating across various medical departments, managing medical professionals, and hospital investment and financial management, which enables us to smoothly carry out the management of and investment in hospitals. Leveraging the professional background and seamless cooperation of our management team and their outstanding execution capabilities, we are able to implement our strategies efficiently to ensure rapid and sound development of our Group. We have offered, and plan to continue to offer, our management team a wide range of incentives, including ordinary shares, share awards, share appreciation rights and cash bonuses, to motivate our management team to improve our financial performance and increase shareholder value.

Through our professional hospital management team, we have implemented standardized and streamlined management systems at the hospitals we own or manage with the aim of enhancing areas such as the incentive and decision-making mechanisms, strategy formulation and implementation, financial control and staff training. As a result, Yangsi Hospital and Fuhua Hospital have both achieved remarkable results in their operations.

We plan to use our existing management team to support the future expansion of our hospital management business and generate synergies among the hospitals in our network. Currently, we manage Yangsi Hospital through Honghe Ruixin and Weikang Investment. We plan that, going forward, Honghe Ruixin will develop strategies and goals for the hospitals, including Yangsi Hospital and the hospitals that we will manage in the future, and formulate the plans on how to grow the businesses of these hospitals; Weikang Investment will manage the daily operations and performance of these hospitals and focus on administrative and functional areas, including scope and quality of medical services, personnel, purchasing, marketing and technology.

We seize opportunities arising from China's economic restructuring and healthcare reforms and focus on the regional healthcare services market using an innovative operation model.

We capitalize on China's current healthcare system reform being undertaken as part of the structural transformation of the Chinese economy. We focus on the market of common diseases, frequently re-occurring diseases and chronic diseases, and enter the healthcare services industry to build innovative regional medical service centers.

According to the Frost & Sullivan Report, the aggregate medical expenditures for common diseases, frequently re-occurring diseases and chronic diseases amounted to over 70% of China's total medical expenditures, which indicates that these medical services are highly in-demand. However, the medical resources available for the treatment of these diseases are not sufficient. Hospitals in China are categorized into three different classes, of which Class III hospitals account for only 7.7% of the total number of hospitals, taking up over 48.3% of the service volume nationwide in 2015, according to the Frost & Sullivan Report. Class III hospitals are structured and built to treat critical and complex diseases and to conduct medical research and development, hence the medical resources allocation mechanism of Class III hospitals limits the resources they can make available to fulfill the high demand for the treatment of common diseases, frequently re-occurring diseases and chronic diseases. Most of China's non-public hospitals are often smaller in scale, and their levels of medical technology and medical services quality are relatively limited. Given the limitation of resources, China's healthcare services industry lacks quality medical services, in particular in the treatment of common diseases, frequently re-occurring diseases and chronic diseases.

Based on our observation and research in the international healthcare services industry, we have identified these market conditions as a promising opportunity and in response introduced our regional medical service centers initiative. We pioneered in providing regional healthcare services with a team of high-quality medical management professionals from Class III hospitals and efficient operation management mechanism, and are able to deliver consistent, systematic, easy-to-access and high-quality medical services for the treatment of common diseases, frequently re-occurring diseases and chronic diseases, achieving economic benefits and fulfilling social responsibilities. Yangsi Hospital and Fuhua Hospital's favorable track record is both a reflection and a result of the implementation of our strategies.

We provide management and consultancy services to Shanghai's largest non-public hospital, as the pillar to establish a regional medical service center.

We strategically chose Shanghai as our starting point to enter into the healthcare services industry. Based on the location, market positioning, branding, medical specialties and the team of medical professionals, we chose Yangsi Hospital as the first step in our investment and management of hospitals.

We manage Shanghai's largest non-public hospital, Yangsi Hospital, in terms of revenue in 2015. It is a general hospital focusing on the treatment of common diseases, frequently re-occurring diseases and chronic diseases and is located in the Yangsi area, which covered a population of approximately 300,000. According to the Frost & Sullivan Report, among the 161 non-public hospitals in Shanghai as of December 31, 2015, the number of out-patient visits and in-patient visits of Yangsi Hospital accounted for 14.7% and 10.7% of the total number of out-patient visits and in-patient visits of all non-public hospitals in Shanghai in 2015, respectively. The number of annual out-patient visits of Yangsi Hospital exceeded the number of average annual out-patient visits of Class III hospitals in China in 2015, according to the same report. We have leveraged our management of Yangsi Hospital as the core component of our strategic plans to establish a regional medical service center in Shanghai, where Yangsi Hospital serves as the foundation of our regional medical service center with Fuhua Hospital as an extension to cover community healthcare services. We will further consolidate medical resources in the surrounding region and will actively foster our businesses on integration of geriatric care and medical services, in-home medical and healthcare services, as well as health management services.

Yangsi Hospital has become a solid foundation of our hospital operation and management business in the healthcare services industry, which enables us to capture additional opportunities in the healthcare services industry in Shanghai and other cities and therefore further solidifies our medical and healthcare services in China. We strive to build on this foundation to expand across China and develop into a nationwide hospital operation and management group.

We have strong support from our Controlling Shareholders, which will assist us in establishing a hospital operation and management group with a cohesive platform and branding.

Hony Capital, which primarily focuses on investments in consumer sectors, advanced manufacturing, healthcare and service, has invested in nearly 80 companies in various areas including pharmaceutical and healthcare services. Hony Capital's standardized, efficient and professional value-added services have won a high degree of recognition from the invested enterprises and local governments. As the key hospital operation and management platform of Hony Capital, we receive strong support from Hony Capital in terms of resources and premium branding capabilities.

Leveraging Hony Capital's extensive and in-depth investment experience, business connections and resources, together with our internal investment capabilities and our management team's profound understanding of China's healthcare services industry, we are able to assess the value and risks in relation to our investment targets, and strengthen our risk control and management. With such support, our expansion can be rapidly achieved through the consolidation of our respective resources. Our investment in Yangsi Hospital fully reflects our vision and philosophy in hospital investments, while our investment in Fuhua Hospital reflects our vision for vertical integration within the region. With the strong support from Hony Capital in respect of development strategies, brand building, marketing events and internal control, we enjoy a competitive strength in establishing and expanding our healthcare business and improving our performances. Going forward, we will invest nationwide to establish a hospital operation and management group with a cohesive platform. Hony Capital's brand image in the healthcare industry provides an endorsement of the regional healthcare services centers we establish.

OUR STRATEGIES

We aim to become a trustworthy and respected hospital operation and management group in pursuit of excellence in the services we provide, and to leverage our professional management experience to enhance the value of the hospitals. We also intend to ensure that the hospitals we own or manage will continue to provide systematic and quality medical services to satisfy the general public's healthcare needs in every aspect and during every stage of treatment for all age groups.

We will implement the following strategies to realize our vision and achieve our objectives:

Implement strategy of multi-dimensional development to establish regional medical service centers

We will implement a standardized and streamlined management system in the hospitals we acquire, which involves adjusting their development strategies, improving their corporate governance structure and incentive mechanisms, reinforcing the training of medical professionals with a view to improving the quality of the medical services they provide and enhancing the value of the hospitals. We will develop a medical service platform with an extensive geographic coverage focused on the diagnosis and treatment of common diseases, frequently re-occurring diseases and chronic diseases, supported by our efficient hospital management mechanism, to realize economic benefits.

We aim to form regional medical service centers, using the acquired hospitals as the core of the services platform to consolidate hospitals of lower classes and community healthcare stations in the surrounding areas to further extend coverage. We also intend to develop telemedicine and mobile technology to provide comprehensive and high-quality medical services for residents in the region and to further penetrate into the regional healthcare market.

In addition, based on the resources and coverage of our medical services platforms, we will further extend our scope of healthcare services by developing and forming a business model driven by residents' healthcare needs. In this regard, we plan to expand our services scope to include health management services, rehabilitation services and geriatric services.

Consolidate medical resources to form a nationwide healthcare services network

We intend to form a nationwide medical services network leveraging our highly replicable business model. We will focus on the treatment of common diseases, frequently re-occurring diseases and chronic diseases, and further explore expansion opportunities by leveraging our past experience and advanced hospital management abilities. According to the Frost & Sullivan Report, there were 2,123 Class III hospitals and 7,494 Class II hospitals in China as of the end of 2015. This presents huge investment opportunities in relation to both non-public hospital acquisitions and potential reforms in relation to public hospitals, including enterprise-affiliated hospitals. We will focus our expansion in regions with sizeable populations and attractive economic conditions, including Yangtze River Delta, Bohai Rim and Pearl Delta regions, and select hospitals that have demonstrated advanced performance in medical specialties, as we believe these criteria will ensure rapid growth and facilitate our establishment of a nationwide healthcare services network. We plan to acquire or invest in Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale located in the regions mentioned above. We target to acquire or invest in one or two hospitals that are comparable to Yangsi Hospital in terms of factors including profitability, medical skills, number of patient visits and growth potential in each year subsequent to our Listing. For more details, please see "—Expansion and Management of Our Hospital Network—Identifying Potential Hospital Targets."

In implementing this strategy, we have conducted market research and potential target analysis, communicated with relevant local governmental authorities and had preliminary contact with a number of potential target hospitals for acquisitions or management arrangements. We have also proactively searched and will continue to search for potential targets through our management's extended networks and resources and/or recommendations from our business partners and financial advisors. In addition, we have conducted preliminary due diligence and on-site visits and evaluation on prioritized target hospitals located in Beijing, Shanghai, Shandong province, Hebei province, Zhejiang province, Jiangshu province and Guangdong province.

Enhance intra-group synergy to optimize resources allocation

Following China's healthcare sector policy reforms, we aim to become a professional and large-scale hospital operation and management group. While we promote synergies within our Group, we centralize strategic planning and development at the Group level and enhance brand management, with an aim to establishing a unified investment and financing platform, supply chain platform and personnel training platform to enable us to benefit from the economies of scale and brand recognition, as well as to enhance our ability to consolidate resources through mergers and acquisitions.

Intra-group synergy promotes cost effectiveness and helps us to generate a higher profit margin. We will encourage and facilitate intra-group synergy by sharing data, resources and medical training and facilitations, effective communication and co-operation among the medical service centers within our Group. Consequently, resources can be allocated to hospitals for the development of specialties divisions based on their needs and demands.

In accordance with our business strategies and expansion plans, we identify the strengths and weakness of the hospitals that we now or in the future will own or manage and adapt action plans to solidify the competitive advantages of these hospitals based on their key strengths. We believe that we will be able to materialize and achieve intra-group synergies through:

- *Shared information, combined talent and technology*. We will encourage and facilitate the hospitals to share operational and financial best practices, technology, data, resources, medical professionals, training and market knowledge across our platform. For example, resources can be allocated to the hospitals for the development of specialties divisions based on their strengths, needs and demands. We intend to utilize our existing management team providing hospital management services to Yangsi Hospital in the hospitals that we acquire or invest in.

- *Effective economies of scale*. We target hospitals in the same region with different competitive advantages in order to create a greater share of the local market and offer a wider range of medical services to patients within that region on a cost-effective basis. We leverage our hospital management team's investment experience, business relationships and resources in our business expansion.

- *General and administrative leverage*. We plan to integrate back-office and management systems and implement a comprehensive business support system among the hospitals we own or manage.

- *Reduction in operating costs and increase in revenue and profitability*. We expect the increase in economies of scale and enhancements in our management systems will streamline our business operations and reduce our operating costs.

- *Big data*. As the population covered by our hospital network increases, we can further utilize the big data of the patients of the hospitals we own or manage, which will support greater efficiency.

We endeavor to become the leading hospital operation and management group in China by applying our advanced hospital management system, quality medical services and trustworthy branding and through achievement of our intra-group synergy.

ACQUISITION OF WEIKANG INVESTMENT

Our Company was established to be Hony Capital's core platform for its hospital operation and management business. We identified Shanghai as our first step in entering China's healthcare service industry. In September 2014, we acquired an aggregate of 80% equity interest in Weikang Investment from the Weikang Investment Minority Shareholders at a consideration of RMB1,038.4 million (the "**Consideration**").

When making the investment assessment and evaluation of the Weikang Acquisition, we considered a number of intangible factors and business potential. Our commercial rationale primarily included (i) Weikang Investment's ability to operate and manage Yangsi Hospital under a hospital management model offered us an opportunity to immediately begin operating in China's healthcare service industry; (ii) Weikang Investment had an attractive business model and an experienced management team operating Yangsi Hospital; we believed we could leverage these factors in expanding our hospital management business by replicating this model in other attractive Chinese markets; (iii) Yangsi Hospital's market-leading position and reputation in Shanghai; and (iv) we believed that our management team, with extensive knowledge and experience in hospital management, could enhance Yangsi Hospital's existing operations and generate synergies for us.

At the time of the Weikang Acquisition, we agreed on the Consideration based on our assessment of the overall value that this investment would have for our overall business strategy, but did not consider, evaluate or allocate the Consideration to each tangible asset and intangible benefit associated with the acquisition (including the parcel of land owned by Weikang Investment). In performing our analysis we considered the unaudited pro forma net profit of Yangsi Hospital for the year ended December 31, 2013, and the trading multiples (including P/E and EV/EBITDA) of certain comparable peer companies that were listed in the U.S., China and certain countries in Southeast Asia. Please see the section headed "History, Development and Corporate Structure—Weikang Acquisition—Major factors attributable to the acquisition cost" starting on page 138 of this prospectus for a more complete discussion of the Consideration and the factors we considered in making the Weikang Acquisition.

We recognized a considerable amount of goodwill when we made the Weikang Acquisition and we continue to recognize this goodwill on our balance sheet. The Weikang Acquisition was accounted for under IFRS 3, and the Consideration was assigned to various identifiable tangible and intangible components (including contractual rights to provide management services); the value of these identifiable tangible and intangible components was significantly less than the Consideration we paid, and the residual amount was accounted for as goodwill. No other tangible or intangible assets associated with the Weikang Acquisition could be recognized as identifiable assets at the time of acquisition under the relevant accounting standards. In particular, in accordance with the definition of fair value under the International Valuation Standards Framework, because there were title defects in the land owned by Weikang Investment and there was no established market for the transfer of land with title defects, the fair value of the land cannot be assessed in the purchase price allocation upon completion of the Weikang Acquisition. The parcel of land owned by Yangsi Hospital instead of Weikang Investment was not taken into account in the purchase price allocation in accordance with IFRS 10 'Consolidated Financial Statements', because we do not control and thus do not consolidate Yangsi Hospital. Please see the sections headed "History, Development and Corporate Structure—Weikang Acquisition—Determination of the Consideration" starting on page 138, "Financial Information—Basis of Presentation" starting on page 253 and Note 6 "Property, Plant and Equipment" to the Accountant's Report starting on page IA-39 of this prospectus for more details. For more details regarding the composition of the Consideration recognized at the acquisition date, please see Note 32 to the Accountant's Report included in Appendix IA starting on page IA-76 of this prospectus. In addition, please see the section headed "Financial Information—Discussion of Certain Items From The Consolidated Balance Sheets—Intangible Assets" starting on page 312 of this prospectus for more details about the assets that were not identifiable as of the acquisition date.

In assigning the Consideration, we assigned a fair value of RMB116.0 million (approximately 10% of the Consideration) to Weikang Investment's contractual rights to provide management services to Yangsi Hospital. This amount was based on the valuation report of an independent valuer. The contractual rights accounted for a relatively low proportion of the Consideration, despite (i) Weikang Investment having the ability to exercise significant influence over Yangsi Hospital's operation and management and having the right to nominate a majority of the members of Yangsi Hospital's executive committee; and (ii) the significant economic benefits we expected to generate from the Weikang Acquisition, mainly due to the following reasons:

- Weikang Investment's rights over Yangsi Hospital did not meet the "control criteria" under the relevant accounting standards for Yangsi Hospital to be consolidated as a subsidiary; Weikang Investment obtained the contractual rights to provide management services through the Hospital Management Agreements and was entitled to receive performance-based management fees. Accordingly, only the then-existing contractual relationship between Weikang Investment and Yangsi Hospital was recognized as an identifiable asset as of the acquisition date; and

- the advanced strategic consultancy services that we began providing to Yangsi Hospital after the Weikang Acquisition (through Honghe Ruixin) were not recognized as an identifiable asset as of the acquisition date because, although they were within the general scope of services set out in the Hospital Management Agreements, the contractual relationship between Honghe Ruixin and Yangsi Hospital under which such advanced services were provided did not meet the relevant accounting standards to be identified as intangible assets arising from our acquisition of Weikang Investment, due to the reasons as explained in more details below; accordingly, they were instead deemed to be the synergistic effect of the acquisition.

The contractual rights associated with Honghe Ruixin's provision of advanced strategic consultancy services to Yangsi Hospital were not an identifiable asset as of the acquisition date because (i) the 51-year Letter of Intent and the Six-year Hospital Management Framework Agreement did not contemplate an obligation for Yangsi Hospital to engage an affiliate of Weikang Investment to provide services within the general service scope; (ii) Yangsi Hospital decided to engage Honghe Ruixin to provide strategic consultancy services based on negotiations with Honghe Ruixin other than the exclusivity clause under the Letter of Intent; and (iii) Yangsi Hospital operates under the rules of procedure for its executive committee and accordingly Weikang Investment does not have the right to override the decisions of the executive committee in determining the service scope, price or provider.

For more details regarding the accounting treatment of the Weikang Acquisition, the basis for the valuation of the contractual rights to provide management services to Yangsi Hospital and the relevant valuation methods, please see the section headed "Financial Information—Critical Accounting Policies, Judgments and Estimates—Critical Accounting Estimates and Judgments—Purchase Price Allocation" starting on page 274 of this prospectus.

Upon completion of the attribution to identifiable assets acquired and liabilities assumed, we recorded goodwill of RMB958.9 million (more than 90% of the Consideration) arising from the Weikang Acquisition. The large amount of goodwill represented the excess of (a) the Consideration over (b) the fair value of the net identifiable assets acquired as of the acquisition date which was determined under the relevant accounting and valuation standards. The goodwill was attributable to the benefits we gained from the acquisition other than those net identifiable assets. For details about the recognition of goodwill, please see the sections headed "Financial Information—Critical Accounting Policies, Judgments and Estimates—Intangible Assets—Goodwill" starting on page 264 of this prospectus and "Financial Information—Discussion of Certain Items From The Consolidated Balance Sheets—Intangible Assets" starting on page 312 of this prospectus. In addition, the Accountant's Report included in Appendix IA to this prospectus includes discussions of the relevant accounting policies and allocation results relevant to the purchase price allocation for the Weikang Investment in Note 4 (starting on page IA-32 of this prospectus) and Note 32 (starting on page IA-76 of this prospectus) to the financial information, respectively.

We conduct goodwill impairment reviews at least annually. We did not recognize any impairment losses in respect of goodwill during the Track Record Period. In performing goodwill impairment testing, we have selected the value-in-use model in accordance with the relevant accounting standards. However, the value-in-use model that we use for goodwill impairment assessment includes only the value of the our existing business (i.e. the general hospital services of Fuhua Hospital, and the hospital management services provided to Yangsi Hospital), which differs from our assessment of our commercial objectives of the Weikang Acquisition considering future expansion of hospital management business by replicating Weikang Investment's business model, which underlie the carrying amount of the goodwill. For details regarding the reasons for such difference and goodwill impairment testing (including the key assumptions we used and relevant sensitivity analysis), please see the section headed "Financial Information—Critical Accounting Policies, Judgments and Estimates—Critical Accounting Estimates and Judgments—Estimated Impairment of Goodwill" starting on page 267 of this prospectus.

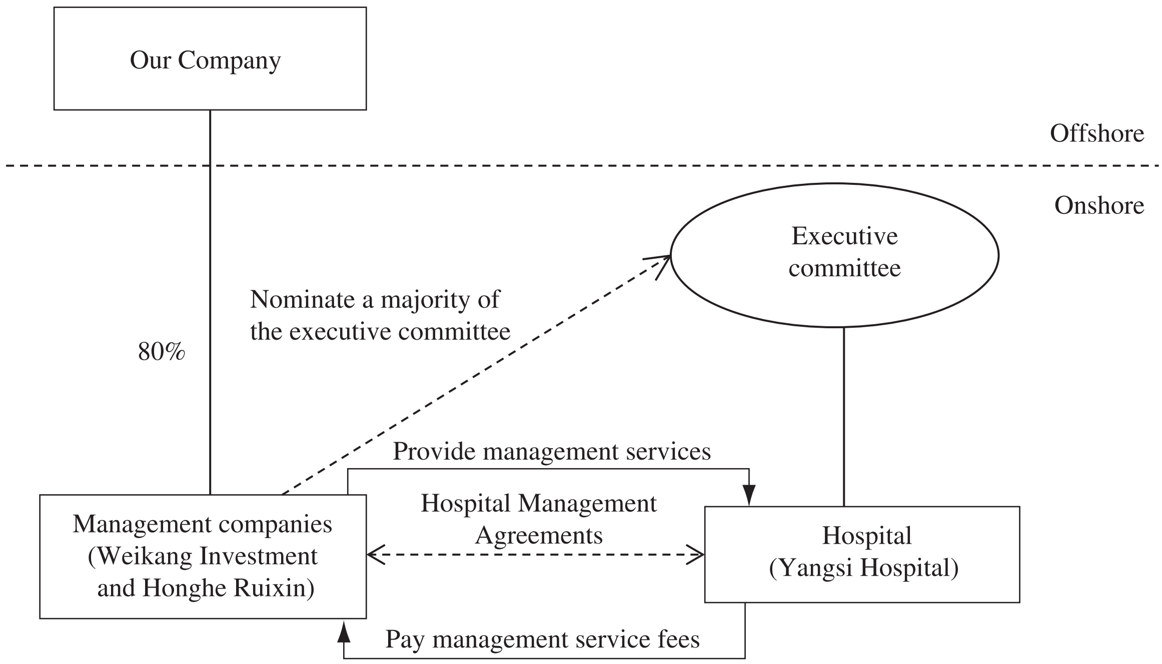
The Reporting Accountant has issued an unqualified opinion over our financial information included in the Accountant's Report concluding that the financial information gives a true and fair view to the financial position of the Group and the Company as of December 31, 2014 and 2015 and September 30, 2016 and of the Group's consolidated financial performance and cash flows for the relevant periods.

OUR BUSINESS MODEL

We believe that the key drivers of our hospital operation and management business include (i) China's universal public medical insurance coverage; (ii) China's aging population; (iii) the growth in per capita disposable income in China; and (iv) China's favorable policies for healthcare reform, in particular the initiatives to encourage private investments in the healthcare services industry and create a more favorable policy environment for the development of non-public hospitals. For more details, see the section headed "Industry Overview—China's Healthcare Service Market Overview—Drivers of the healthcare service market in China." Leveraging our industry knowledge and experience in operating hospitals, we select, acquire and invest in hospitals that meet our investment criteria, formulate customized business strategies for the acquired hospitals to achieve the growth targets, and provide these hospitals with management enhancement and other value-added support. We currently operate our business by (i) providing management and consultancy services to a hospital and (ii) operating a hospital we own. We manage a non-public not-for-profit general hospital, Yangsi Hospital, and receive management service fees under the Hospital Management Agreements, and own and operate Fuhua Hospital, which is a non-public for-profit general hospital. Both of the Hospitals are located in the Pudong New District of Shanghai.

Our Hospital Management Business

We operate our hospital management business through (i) our ownership of the management companies, Weikang Investment and Honghe Ruixin, and (ii) contractual arrangements between Yangsi Hospital and our subsidiaries. The chart below illustrates the structure of our hospital management business for Yangsi Hospital:



Yangsi Hospital is a general hospital established by Weikang Investment on January 5, 2007. Weikang Investment, which paid the start-up funds required for the establishment of Yangsi Hospital, is the founder (舉辦人) of Yangsi Hospital and has been providing management and consultancy services to Yangsi Hospital. We acquired an 80% equity interest in Weikang Investment in September 2014 for a total consideration of RMB1,038.4 million, including RMB116.0 million assigned to the fair value of its contractual rights to provide management services to Yangsi Hospital. See the section headed "History, Development and Corporate Structure—Weikang Acquisition" for additional information regarding our ownership of Weikang Investment and the underlying reasons for the amount of consideration we paid to acquire Weikang Investment. We established another subsidiary, Honghe Ruixin, in December 2014 and currently own 80% of its equity interests. In 2015, Honghe Ruixin began providing consultancy services to Yangsi Hospital by entering into annual hospital management and consultancy agreements with Yangsi Hospital, together with Weikang Investment.

Yangsi Hospital's corporate structure is governed by its articles of association, which provide for an executive committee, a supervisory committee and a hospital administrator. According to Yangsi Hospital's rules of procedure for the executive committee, Yangsi Hospital's executive committee has nine members, six of whom were nominated by Weikang Investment (and according to the Hospital Management Agreements, Weikang Investment's nomination of the executive committee members requires prior consent of Honghe Ruixin since 2015), currently including Mr. Zhang Xiaopeng, an executive Director and the chief executive officer of our Company, Mr. Lu Wenzuo, an executive Director of our Company and the hospital administrator of Yangsi Hospital, Mr. Yuan Bing and Mr. Lin Sheng, non-executive Directors of our Company, Ms. Kan Ruihan, the senior financial manager of our Company, and Mr. Luan Yizheng (欒依崢), an employee of Hony Capital; two of whom are Yangsi Hospital's employee representatives elected and appointed by the labor union of Yangsi Hospital, currently including Ms. Ye Lifang (葉莉芳), head of Yangsi Hospital's human resources department and labor union, and Mr. Shen Zhongpei (沈忠培), head of Yangsi Hospital's discipline of liver surgery; and an independent member, Ms. Li Xinyi (李新益), who is an independent third party from a government authority, social organization or non-profit organization and nominated by the executive committee of Yangsi Hospital. Each member of the executive committee is appointed for a term of four years and can serve consecutive terms upon re-appointment. The quorum for a meeting is two-thirds of the members, with each member having one vote. Passing a resolution in respect of the material matters specified in Yangsi Hospital's rules of procedure for the executive committee requires votes from at least two-thirds of the members present at the meeting of the executive committee, including at least one vote from an employee representative and the vote of the independent member. The executive committee has the right to decide material matters of Yangsi Hospital, which include formulating the hospital's development and working plans; formulating and revising its articles of association; establishing and abolishing functional departments; reviewing and approving the annual budget and final accounts; and appointing and removing the president and the vice-president of the executive committee, the hospital administrator and heads of functional departments. We, through the members of the executive committee nominated by Weikang Investment, have substantial influence on the decisions made by the executive committee in respect of these material matters. However, we do not consolidate the financial results of Yangsi Hospital, and Yangsi Hospital is not part of our Group. Under the applicable accounting standards, Yangsi Hospital is not consolidated in our Group because (1) no part of the earnings of Yangsi Hospital, a not-for-profit hospital registered as a Privately-funded Non-enterprise Entity in China, constitutes "distributable profits" under relevant Chinese law, and (2) we do not have control over material matters of Yangsi Hospital, which are subject to the approval of its executive committee, and are subject to veto rights of the employee representatives (as a group) and the independent member on the executive committee. See the section headed "Financial Information—Basis of Presentation." As advised by our PRC Legal Advisors, Yangsi Hospital is registered as an independent legal person under the Provisional Rules on the Administration over Registrations of Privately-Funded Non-Enterprise Entities (民辦非企業單位登記管理暫行條例) and is therefore fully responsible for its own actions under Chinese law, and because of this status, neither us nor our Directors are responsible for any liabilities, misconduct or regulatory breaches of Yangsi Hospital under PRC law merely because of our founding of Yangsi Hospital, our nomination of members on its executive committee or our provision of management services to it.

Our relationship with Yangsi Hospital has been governed by the Hospital Management Agreements:

(i) on January 1, 2013, Yangsi Hospital and Weikang Investment entered into a six-year Hospital Management Framework Agreement, which was originally intended to cover the period from January 1, 2013 to December 31, 2018. This agreement required Weikang Investment to provide management and consultancy services to Yangsi Hospital in relation to corporate management, consulting, and imaging and marketing strategy services;

(ii) to provide for greater certainty regarding this relationship, on October 8, 2014, Weikang Investment and Yangsi Hospital entered into a 51-year Letter of Intent for Weikang Investment to provide management and consultancy services to Yangsi Hospital;

(iii) to streamline the contractual arrangement between us and Yangsi Hospital, on January 1, 2016, Yangsi Hospital, Weikang Investment and Honghe Ruixin entered into a 10-year Long Term Hospital Management Agreement, which replaced the Hospital Management Framework Agreement. Under the Long Term Hospital Management Agreement, we, through Weikang Investment and Honghe Ruixin, now provide management and consultancy services to Yangsi Hospital, including assisting with the establishment of a modern management system, establishing a team of medical professionals, assisting in the hospital's daily operations, advising on purchases of pharmaceuticals, medical consumables and medical devices, and imaging and marketing services; and

(iv) pursuant to the Letter of Intent, the Hospital Management Framework Agreement (for 2013, 2014 and 2015) and the Long-Term Hospital Management Agreement (beginning from January 1, 2016), (a) Weikang Investment entered into one-year hospital management and consultancy agreements with Yangsi Hospital in each year from 2013 to 2016, and (b) Honghe Ruixin also entered into one-year hospital management and consultancy agreements with Yangsi Hospital in 2015 and 2016. These agreements provided for the specific terms for the management and consultancy services each of Weikang Investment and Honghe Ruixin provided to Yangsi Hospital in each year.

See the paragraph headed "—The Hospitals—Yangsi Hospital—Hospital Management Agreements" for more details about the Hospital Management Agreements.

Under the arrangements outlined above, Weikang Investment (in 2013, 2014, 2015 and the nine months ended September 30, 2016) and Honghe Ruixin (in 2015 and the nine months ended September 30, 2016) received management service fees equal to a percentage of Yangsi Hospital's annual revenue. In 2015 and 2016, these management service fees, which were payable to both Weikang Investment and Honghe Ruixin, were calculated using a fixed component and a performance-based floating component. In 2013 and 2014, the management fees were based only on a fixed percentage and were paid only to Weikang Investment. In aggregate, the management service fees that Weikang Investment (in 2013, 2014, 2015 and the nine months ended September 30, 2016) and Honghe Ruixin (in 2015 and the nine months ended September 30, 2016) charged Yangsi Hospital for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 were 11%, 14%, 22.5% and 22.1% of Yangsi Hospital's total revenue for these respective periods.

The terms of the Hospital Management Agreements, including the amount of the management service fees, were considered material matters of Yangsi Hospital under its articles of association and the rules of procedure for its executive committee and required the approval of its executive committee during the Track Record Period and are expected to continue to require executive committee approval going forward. We do not have control over the approval of material matters by Yangsi Hospital's executive committee, because approval of these matters requires votes — including the support from at least one employee representative and the independent member of the executive committee. As advised by our PRC Legal Advisors, (1) this practice is consistent with Yangsi Hospital's articles of association and the rules of procedure for the executive committee, (2) both Yangsi Hospital's articles of association and the rules of procedure are in compliance with Chinese laws and regulations, and (3) Yangsi Hospital's articles of association have been approved by Shanghai Municipal Civil Affairs Bureau (上海市民政局). We closely monitor the accuracy and reliability of Yangsi Hospital's financial reporting and its financial performance to ensure accurate fee calculation and a stable source of revenue from Yangsi Hospital. For more details, see the paragraphs headed "—The Hospitals—Yangsi Hospital—Risk management and internal control" in this section. Yangsi Hospital's revenue for each financial year and first six months of the relevant financial year will be disclosed in the management discussion and analysis section of the Company's annual and interim reports, respectively.

Our General Hospital Business

We own and operate Fuhua Hospital, a non-public for-profit general hospital registered in the form of a limited liability company. Fuhua Hospital is a medical institution providing extensive medical services integrating clinical care and rehabilitation services. Fuhua Hospital was established by Independent Third Parties on October 17, 2007. Weikang Investment acquired a 100% equity interest in Fuhua Hospital on January 15, 2014, and we currently own an 80% equity interest in Fuhua Hospital through our 80% equity interest in Weikang Investment.

EXPANSION AND MANAGEMENT OF OUR HOSPITAL NETWORK

China's deepening reform efforts in the healthcare services industry are providing us with opportunities to grow our business. We conduct our hospital operation and management business based on our core values of credibility, respect and care. We plan to improve the profitability of our business by investing in and managing more reputable hospitals. We believe that through strategic cooperation with hospitals and expansion by mergers and acquisitions, we can establish a high standard and quality healthcare service network that provides comprehensive medical and rehabilitation services to the community, which in turn can enhance our overall performance and ensure the integrity of our Company.

As advised by Frost & Sullivan, no corporation in China having a business model that is similar to ours is identified.

Identifying Potential Hospital Targets

We review and screen potential hospital targets in a systematic manner. To increase our economies of scale and leverage our capabilities, expertise and reputation, we strategically target hospitals with the following criteria:

- located in areas with sizeable populations and attractive economic conditions, such as Yangtze River Delta, Bohai Rim and Pearl Delta regions. These regions in aggregate had over 3,000 Class II and Class III hospitals and over 3,000 hospitals that had not been rated by the PRC government in 2015, according to the Frost & Sullivan Report;

- focused on common diseases, frequently re-occurring diseases or chronic disease as its principal business; and

- Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have been in operation for at least five or six years, with operating income comparable to hospitals of the same class in the local area, with positive future developments and with advanced performance in medical specialties.

When selecting and evaluating the target hospitals, we consider the following key factors:

- current operations and financial performance;

- initial investment amount required to improve the hospital's infrastructure and organizational structure;

- ongoing operating expenses and capital requirements;

- potential returns and estimated future value, including management service fees to be received from the hospital;

- reputation of the hospital;

- quality of the medical services provided by the hospital;

- capacity of the hospital, taking the medical professionals and medical departments of the hospital into consideration; and

- clientele, demographics and market.

Investing in Hospitals

We generally employ the following investment process:

- screening and identifying potential hospital targets;
- conducting due diligence and analysis on the targets;
- conducting assessment and valuation of the investment proposal, structuring the transaction and making investment decisions; and
- negotiation of terms, funding arrangements and closing.

When carrying out our expansion plans, we target hospitals with solid operational foundation and strong development potential. We achieve this by (i) utilizing our Group-level resources to effectively screen potential hospital targets; (ii) taking advantage of our strong investment background, industry knowledge and experience to effectively communicate with potential hospital targets and build trusting relationship with the owner or founder and management of the hospitals; and (iii) simultaneously conducting in-depth due diligence, assessment and business planning of the hospitals to identify investment highlights and potential risks in a timely manner. Taking advantage of these managerial, operational and financial resources, we believe that we are able to manage our future acquisition and growth. By carefully selecting investment opportunities, we strive to enhance the competitiveness of the hospitals we manage and create a high-quality hospital network.

We focus on business strategies, human resources, administrative management, technology, financial resources and brand value to maintain and fully leverage the competitive advantages of the hospitals. We have an internal investment department to assess and evaluate our potential investment targets as a key step for making our investment decisions. Our investment department is mainly responsible for identifying potential investment targets and conducting assessment and evaluation of these targets. With the assistance of our internal investment department, our Board of Directors makes final investment decisions. Through our non-executive directors who are designated by Hony Capital, we are also able to leverage the experience and investment expertise of Hony Capital when making our investment decisions.

Continuous Improvement of Hospitals

We have achieved and benefited from synergistic effects generated through the Weikang Acquisition by our continuous efforts to combine resources and opportunities afforded by the business combination. Please see the section headed "History, Development and Corporate Structure—Weikang Acquisition" for additional information regarding the synergistic effects we had expected to be provided by Weikang Acquisition at the time of acquisition. We achieved synergistic effects in the following aspects of our business:

- Restructuring the hospital management service business and strategic planning on the services provided by Honghe Ruixin and Weikang Investment;

- Establishing and implementing an optimized and advanced management system as well as standardized and streamlined procedures and policies for Yangsi Hospital; and

- Introducing the new Honghe Ruixin management team.

Please see "—The Hospitals—Yangsi Hospital—Hospital Management Agreements—Six-year Hospital Management Framework Agreement" for more details. As a result, Yangsi Hospital achieved substantially improved results after the Weikang Acquisition, which in turn has promoted our operations and development, including our hospital management service business.

Building on the existing relationships mentioned above, we intend to further enhance intra-group synergies to optimize resources allocation and continue to improve the hospitals in our network. Please see the section headed "—Our Strategies—Enhance intra-group synergy to optimize resources allocation" for more information.

To further realize synergies among the hospitals in our network, we focus on three main aspects: (i) identifying and developing business strategies for the hospitals; (ii) improving the hospitals' organizational structure, operational efficiency and financial performance; and (iii) attracting and retaining talented medical professionals. We achieve these by:

- establishing customized business strategies and models to promote sustainable development of the hospitals and our business;

- formulating procedures and policies to ensure compliance with regulatory requirements of the hospitals;

- implementing our comprehensive business support system to improve operational efficiency;

- providing ongoing training for medical professionals and administrative staff;

- aligning values among hospital employees and hospitals to encourage solidarity and motivate employees;

- controlling operational costs while providing high-quality medical services; and

- engaging in community efforts by providing affordable medical services to the public.

Implementation of Comprehensive Business Support System

Our professional hospital management team aims to implement a comprehensive business support system in the hospitals we manage. Our comprehensive business support system has been specifically designed to ensure effective and efficient management in the hospitals we manage. We intend to manage hospitals using a management system based on three key principles: (i) standardized policies and procedures for the daily operations across the hospitals we own or manage, including procurement, pricing, medical service quality control, medical safety, risk management, financial management, human resources and medical record maintenance; (ii) formulating major performance criteria and targets tailored for the hospitals; and (iii) centralizing key management functions at our headquarters, ensuring that the critical strategy level decisions are managed, approved and monitored by our Group-level management. In particular we plan to:

- adjust organizational structures by refining incentive and decision-making mechanisms of the hospital to ignite its potential, and establish a modern corporate management structure that is compatible with the medical ethical standards;

- assist the hospital in identifying its development strategies and market positioning;

- identify and evaluate the hospital's core competencies and capabilities to facilitate appropriate resources allocation;

- standardize financial and operational information systems to eliminate the discrepancies in accounting policies and data gathering procedures of the hospital;

- set out ambitious yet reasonable performance targets to drive management incentives;

- optimize operating systems, reinforce cost control and implement effective information management;

- assist the hospital in refining its quality control systems to improve the quality of medical services and reduce medical malpractice; and

- provide career development and training programs to the hospital's management team to improve their knowledge and management skills, and achieve sustainable development.

Yangsi Hospital and Fuhua Hospital have implemented the comprehensive business support system by:

- hiring experts with extensive corporate experience to support the hospital administrators to make effective management and daily operation decisions;

- establishing business and financial reporting systems that require the Hospitals to provide regular daily, monthly, quarterly and yearly reports to us for performance analysis;

- initiating doctors, medical professionals and hospital staff to (1) discover and report defects or problems at work and (2) suggest quality control plans to improve medical service quality and reduce medical malpractice; and

- regularly inviting healthcare experts to provide continuous professional training to the hospital staff to improve their skills and medical service quality.

Our management will carefully evaluate the qualifications and performances of hospital administrators and key senior management, including chief financial officers and other senior management. Hospital administrators must have strong academic and professional backgrounds and substantial hospital management experience. Based on our strategy and business objectives, we delegate the operations of the hospitals to the hospital administrators and senior management who are given decision-making authority in the hospitals' daily operating activities. The delegation includes the authority to implement the approved budget; hire, promote and discipline doctors and other hospital personnel with due authorization; determine compensation and incentive payments for hospital staff; establish and carry out specific policies and procedures at the hospital level to comply with applicable laws and regulations; and enforce our Group-wide policies and procedures.

Our headquarters actively participate in the review and approval of the annual budgets, final accounts, purchases of major assets, capital expenditure, and quarterly and monthly budget reports of the hospitals. Our headquarters' senior management periodically meet with hospital administrators and senior hospital management and regularly visit hospitals to inspect their operations, obtain updates on improvements in overall performance and evaluate whether our Group-wide policies and procedures have been implemented as planned. Our headquarters' senior management review quarterly management accounts of the hospitals, evaluates the financial performance and operating data of the hospitals, and discusses the business highlights and industry trends with the hospitals' management. Our internal governance department coordinates and supervises the management teams of the hospitals. This department is led by our deputy general manager, Mr. Zang Chuanbo, and it oversees and evaluates the management and operations of the hospitals to ensure that our performance goals and strategies are fulfilled. We implement internal performance reviews for hospital administrators and senior hospital management based on a range of performance indicators, including financial performance, efficiency, patient satisfaction and safety. In addition, we provide training and performance management sessions to the hospital management on our Group-wide strategies, policies and procedures to help achieve a Group-wide consensus on values, visions and culture.

THE HOSPITALS

Yangsi Hospital

Yangsi Hospital is a non-public not-for-profit general hospital registered as a Privately-funded Non-enterprise Entity. It is located in the Pudong New District of Shanghai. Yangsi Hospital provides comprehensive medical services and as of the Latest Practicable Date, had 26 medical departments including emergency care, medical checkup, general surgery, internal medicine and paediatrics. The department of internal medicine made the largest contribution to Yangsi Hospital's revenue during the Track Record Period. The hospital's departments/disciplines of gastroenterology, urology, orthopaedics, dentistry and endocrinology are accredited as advanced specialty departments by Shanghai Non-Government Medical Institutions (上海市社會醫療機構優勢專科), while the division of full mouth dental reconstruction in the dental department and the division of advanced hepatocellular carcinoma (interventional therapy) in the discipline of liver surgery are accredited as special disease divisions by Shanghai Non-Government Medical Institutions (上海市社會醫療機構特色專病科室). According to the Frost & Sullivan Report, Yangsi Hospital was the largest non-public hospital in Shanghai in terms of revenue in 2015.

As of the Latest Practicable Date, Yangsi Hospital's facilities occupied a gross floor area of over 27,000 sq.m. Yangsi Hospital had 808 employees, including 266 doctors and 346 other medical professionals, as of January 31, 2017. As of the same date, Yangsi Hospital also had 13 multi-site practice physicians, who principally practice at other hospitals. For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, Yangsi Hospital's revenue was RMB399.4 million, RMB461.7 million, RMB538.0 million and RMB443.6 million, respectively. The costs for the provision of management services to Yangsi Hospital that our Predecessor Entities incurred for the years ended December 31, 2013 and 2014 were RMB6.2 million and RMB7.9 million, respectively, accounting for 100.0% and 34.2% of our Predecessor Entities' cost of revenue in these respective years. The costs we incurred for the provision of management services to Yangsi Hospital for the year ended December 31, 2015 and the nine months ended September 30, 2016 were RMB19.8 million and RMB29.1 million, respectively, which accounted for 47.8% and 59.4% of our cost of revenue in the respective periods. For more details, please see the section headed "Financial Information—Description of Selected Income Statement Line Items."

The table below sets forth a breakdown of Yangsi Hospital's revenue by medical department (and by discipline for the internal medicine department) during the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB ('000)	**RMB ('000)**	**RMB ('000)**	**RMB ('000)**	**RMB ('000)**
Internal medicine	191,476	217,994	254,378	186,991	210,339
- General internal medicine	73,050	74,536	81,248	58,474	69,957
- Gastroenterology	25,364	32,924	42,089	31,093	32,695
- Cardiology	24,592	28,203	33,084	24,653	27,792
- Respiratory medicine	22,962	24,359	30,207	22,509	27,613
- Neurology	21,282	24,740	29,827	21,837	25,328
- Endocrinology	18,705	27,609	31,943	24,175	21,851
- Nephrology	4,617	4,596	4,675	3,341	3,677
- Anorectal	905	1,027	1,305	907	1,425
General surgery(1)	60,395	64,885	74,976	53,653	63,601
Obstetrics and gynecology	26,310	27,956	28,553	20,909	22,452
Chinese medicine	17,157	22,464	27,580	19,072	26,860
Emergency care	22,332	23,835	25,663	20,271	18,634
General medicine	21,122	20,632	23,655	17,068	19,160
Paediatrics	18,529	19,142	20,957	13,853	14,335
Dentistry	9,255	10,076	11,138	8,350	10,310
Others(2)	32,825	54,746	71,077	47,989	57,932
Total	399,401	461,730	537,977	388,155	443,623

Notes:

(1) Among the disciplines in this medical department, orthopaedics recorded revenue of RMB17.9 million, RMB21.3 million and RMB21.8 million in 2013, 2014 and 2015, respectively, and RMB15.2 million and RMB16.6 million in the nine months ended September 30, 2015 and 2016, respectively, and urology recorded revenue of RMB9.7 million, RMB10.2 million and RMB11.6 million in 2013, 2014 and 2015, respectively, and RMB7.8 million and RMB9.5 million in the nine months ended September 30, 2015 and 2016, respectively.

(2) Primarily includes revenue from other medical departments and revenue from services (such as VIP services, expert outpatient clinic services and specialist outpatient clinic services) that cannot be allocated to specific medical departments.

Hospital Management Agreements

Our relationship with Yangsi Hospital has been governed by the Hospital Management Agreements, including (i) the Hospital Management Framework Agreement, which was replaced by the Long Term Hospital Management Agreement on January 1, 2016, (ii) the Letter of Intent, (iii) the Long Term Hospital Management Agreement, which replaced the Hospital Management Framework Agreement on January 1, 2016, and (iv) the one-year hospital management and consultancy agreements entered into with Yangsi Hospital each year pursuant to the Letter of Intent, the Hospital Management Framework Agreement (for 2013, 2014 and 2015) and the Long-Term Hospital Management Agreement (beginning January 1, 2016).

(i) **Six-year Hospital Management Framework Agreement**

On January 1, 2013, Yangsi Hospital and Weikang Investment entered into a six-year Hospital Management Framework Agreement, which was originally intended to cover the period from January 1, 2013 to December 31, 2018. This Hospital Management Framework Agreement was replaced by the 10-year Long Term Hospital Management Agreement among Yangsi Hospital, Weikang Investment and Honghe Ruixin effective from January 1, 2016. The Long Term Hospital Management Agreement was entered into to streamline the contractual arrangement between us and Yangsi Hospital after our acquisition of Weikang Investment.

The Hospital Management Framework Agreement provided a high-level framework for the hospital management business relationship between Weikang Investment and Yangsi Hospital, and contemplated that more-detailed one-year hospital management and consultancy agreements be entered into under it. In accordance with the Hospital Management Framework Agreement, Weikang Investment entered into separate one-year hospital management and consultancy agreements with Yangsi Hospital in 2013, 2014, 2015 and 2016 that provided for specific terms for each respective year. In 2015 and 2016, Honghe Ruixin, together with Weikang Investment, entered into one-year hospital management and consultancy agreements with Yangsi Hospital to provide additional services to the hospital.

Our ultimate goal is to create a nationwide medical services network in China. The acquisition of Weikang Investment was the first step in establishing a regional medical service center in Shanghai. After we acquired Weikang Investment on September 30, 2014, in response to demand for further development of Yangsi Hospital, we anticipated a foreseeable decrease in Yangsi Hospital's reliance on Weikang Investment in respect with its day-to-day management and operation and decided to restructure our hospital management business by establishing Honghe Ruixin in December 2014. Our business strategy was completely different from Weikang Investment's then-existing business plan. Given Yangsi Hospital's growing demand for an optimized and advanced management system and the limitations of Weikang Investment in business planning and management knowledge and specialties, we established Honghe Ruixin to provide additional management and consulting services to Yangsi Hospital. The management and consulting services provided by Honghe Ruixin to Yangsi Hospital were substantially different from the services that Weikang Investment had been offering in both form and substance. Since 2015, Honghe Ruixin has provided strategic development consultancy services to Yangsi Hospital and will provide similar services to other hospitals that we may manage in the future. Honghe Ruixin develops strategies and goals for Yangsi Hospital, formulates plans on how to grow the business of the hospital, and assists the hospital in the implementation of an optimized and advanced management system and the establishment of standardized and streamlined procedures and policies to enhance Yangsi Hospital's operational efficiency. As part of our program to establish a regional medical service center, Yangsi Hospital increased its strategic cooperation with nursing homes and developed a new revenue growth-point from in-home care services. Weikang Investment focuses on providing management services in relation to the daily operations and performance of Yangsi Hospital with a focus on administrative and functional areas, including the scope and quality of medical services, personnel, purchasing, marketing and technology. To enhance the value of Yangsi Hospital, Honghe Ruixin introduced a visionary and experienced management team, which had more extensive knowledge and experience in respect of operating and managing hospitals, in particular, reputable Class III hospitals that have adopted more advanced and optimized management system and structure. This team is led by Mr. Zhang Xiaopeng, and is supervised by Mr. Zang Chuanbo and Ms. Ding Yue. Please see the section headed "Directors and Senior Management" for more information about these management team members. Honghe Ruixin's management team members have over 20 years of experience in China's healthcare services industry. In addition, they are familiar with the operation and management of hospitals, which enables them to implement an optimized and advanced management system at Yangsi Hospital. Furthermore, this team also includes a group of professionals who are experienced in hospital management and investment and financial management to efficiently implement the strategies formed by Honghe Ruixin.

When rendering hospital management and consultancy services, Honghe Ruixin provides guidance to Weikang Investment on Yangsi Hospital's development strategies and communicates with Weikang Investment on a regular basis to discuss and analyze Yangsi Hospital's operations and performance. These discussions and analysis include: (i) Honghe Ruixin meets with Weikang Investment's hospital management team quarterly to discuss and analyze Yangsi Hospital's overall performance during that quarter, including in respect of its results of operations, quality of medical services and facility expansion plans. These quarterly discussion and analysis enable Honghe Ruixin to share its hospital management experience with Weikang Investment and help Weikang Investment identify specific areas for improvement in Yangsi Hospital's daily operations and formulate its work plan accordingly, (ii) Weikang Investment updates Honghe Ruixin on various aspects of Yangsi Hospital's operations on a weekly or monthly basis, and (iii) in case of significant incidents, such as a material medical dispute, Weikang Investment reports to and closely collaborates with Honghe Ruixin to ensure that such incidents are efficiently and effectively addressed.

We established Honghe Ruixin in Tibet, where it is able to enjoy preferential tax treatments and government subsidies. For details of Weikang Investment's and Honghe Ruixin's respective scopes of services to Yangsi Hospital, see the summary of key terms of the one-year hospital management and consultancy agreements below.

Set forth below is a summary of the key terms of the Hospital Management Framework Agreement:

- *Duration:* Six years (from January 1, 2013 to December 31, 2018).
- *Scope of management services:* Weikang Investment provides management and consultancy services to Yangsi Hospital in relation to corporate management, consulting, and imaging and marketing strategy services.
- *Management service fee:* Weikang Investment receives a percentage of Yangsi Hospital's annual revenue as management service fees.
- *Financial information of Yangsi Hospital:* Yangsi Hospital is required to provide quarterly balance sheet, income statement and cash flow statement.
- *Specific terms for each year:* Yangsi Hospital and Weikang Investment agreed to enter into a separate agreement each year to provide for the specific terms, including the scope of services, management service fees and payment terms.
- *Exclusivity*: Without our written approval, Yangsi Hospital may not engage any third party to provide it with hospital management service or support, or establish any similar arrangement with any third party.

(ii) **51-year Letter of Intent**

Weikang Investment and Yangsi Hospital entered into the 51-year Letter of Intent to maintain a long-term hospital management business relationship. They agreed in the Letter of Intent that the parties would separately enter into hospital management agreements covering specific terms, such as scope of the services, extension of the service agreements, management service fee rates and payment terms. The key terms of the Letter of Intent include:

- *Duration*: 51 years (from January 1, 2014 to December 31, 2064).
- *Scope of management services*: Weikang Investment will provide management and consultancy services to Yangsi Hospital, including corporate management, consulting, and imaging and marketing strategy services.
- *Management service fee*: Weikang Investment will receive a percentage of Yangsi Hospital's annual revenue as management service fees.

- *Specific terms for each year:* The parties agree to enter into a separate management and consultancy agreement each year that will provide for the specific terms, including the scope of services, management service fees and payment terms, for that year.

- *Exclusivity*: Without Weikang Investment's written approval, Yangsi Hospital may not engage any third party to provide hospital management service and/or support, or establish any similar arrangement with any third party.

The 51-year Letter of Intent was intended to provide and govern, among other things, the general principles in relation to management and consulting service scope, pricing policy and payment terms, and the Six-year Hospital Management Framework Agreement was intended to provide a high-level framework for the hospital management business relationship between Weikang Investment and Yangsi Hospital to govern the annual agreements that are separately and subsequently entered into between Weikang Investment and Yangsi Hospital to determine, among other things, the detailed service scope and the corresponding service fee.

(iii) **10-year Long Term Hospital Management Agreement**

Under the 51-year Letter of Intent, Yangsi Hospital is obligated to engage Weikang Investment to provide management and consultancy services and seek prior consent from Weikang Investment where Yangsi Hospital intends to engage any other service provider. Yangsi Hospital is not, however, obliged to engage an affiliate of Weikang Investment (including Honghe Ruixin) to provide any services within the general service scope defined under the Letter of Intent. The specific service scope and management fee rates for the annual hospital management agreements are subject to subsequent negotiation between Weikang Investment and Yangsi Hospital and annual KPI (Key Performance Indicator) review of the management services provided by Weikang Investment by the executive committee of Yangsi Hospital. Even though Weikang Investment has significant influence over Yangsi Hospital, which arises from its right to nominate certain members of Yangsi Hospital's executive committee, it does not have the right to override the executive committee and determine the scope, price or providers of the management and consulting services. When determining the specific management and consulting services scope, service price as well as the service providers, Yangsi Hospital's executive committee, in particular the employee representatives and independent member, consider Yangsi Hospital's actual demand for such services and the competency of the service providers. Consistent with this framework and as agreed after negotiations between Honghe Ruixin and Yangsi Hospital (with the consent of Weikang Investment), taking into account, among other things, the strategic business plan and proposal formulated by Honghe Ruixin for further development of Yangsi Hospital and the expertise, competency and capacity of Honghe Ruixin's team, Yangsi Hospital engaged Honghe Ruixun to provide management and consulting services in addition to Weikang Investment's services. Yangsi Hospital's decision to engage Honghe Ruixin to provide services was not a result of the operation of the exclusivity clause under the 51-year Letter of Intent. In addition, the services provided by Honghe Ruixin are substantially different from the services that Weikang Investment had been offering to Yangsi Hospital as described in the paragraph "(i) Six-year Hospital Management Framework Agreement" above.

Following Yangsi Hospital's decision to engage Honghe Ruixin, Weikang Investment and Honghe Ruixin entered into the Long Term Hospital Management Agreement with Yangsi Hospital to streamline the contractual arrangement between us and Yangsi Hospital, including by replacing the 2013 Hospital Management Framework Agreement. This agreement provides the key commercial terms for our relationship with Yangsi Hospital (such as scope of services, management service fee calculation methods and payment terms). The Long Term Hospital Management Agreement contemplates that more-detailed one-year hospital management and consultancy agreements will be entered into under it to provide the specific terms, including the scope of management and consultancy services, the percentage of management service fees and performance criteria for each year. The Long Term Hospital Management Agreement provides that in the event of any conflicts between the Long Term Hospital Management Agreement and the one-year hospital management and consultancy agreements in relation to the scope of services, the terms of the one-year hospital management and consultancy agreements will prevail.

The key terms of the Long Term Hospital Management Agreement include:

- *Duration*: Ten years (from January 1, 2016 to December 31, 2025).

- *Scope of management services*: We, through Weikang Investment and Honghe Ruixin, provide management and consultancy services to Yangsi Hospital, including assisting with the establishment of a modern management system, establishing a team of medical professionals, assisting in the hospital's daily operations, advising on purchases of pharmaceuticals, medical consumables and medical devices, and imaging and marketing services.

- *Management service fee structure*: We receive management service fees in respect of the services provided. The management service fees for each year are calculated as a percentage of Yangsi Hospital's annual revenue, where the percentage is composed of a fixed component and a performance-based floating component. The fixed component is determined with reference to the common practices in the healthcare services industry. The performance-based floating component is prescribed by a cap rate and a floor rate. The fixed component, the cap rate and the floor rate for each year are determined in advance upon entering into the annual management and consultancy agreements for that year and are specified in the annual management and consultancy agreements. We recognize management service fees quarterly (or in any other way as agreed by the parties). In the first three quarters of each year, the management service fees are calculated by multiplying the sum of the fixed component and the floor rate of the floating component by the estimated quarterly revenue of Yangsi Hospital. Subsequent to receiving the audited financial statements and performance data of Yangsi Hospital for the relevant year, we determine the annual management service fees by multiplying the full year revenue (audited by a competent Chinese audit firm) by the sum of the fixed component and the floating component determined by the performance data for that year. For the management service fees of the fourth quarter, the amount payable to us is equal to the annual management service fees deducted by the management service fees recognized in the first three quarters. If the annual management service fees, which are calculated based on the audited full year revenue, are less than the management service fees paid for the first three quarters, we will refund this amount to Yangsi Hospital and make the relevant accounting adjustments.

- *Payment terms*: Yangsi Hospital is required to pay the management service fees within 10 business days upon receiving the invoice issued by us. See "—(iv) One-year Hospital Management and Consultancy Agreements—Payment terms" for more details.

- *Financial information of Yangsi Hospital*: Yangsi Hospital is required to provide us its audited financial statements for the immediately preceding financial year on or before March 31 of every financial year. The financial statements must be audited by a competent PRC audit firm. Yangsi Hospital is also required to provide us with its financial reports, ledgers and other financial-related information for the purpose of inspection upon three business days' prior written notice from us.

- *Exclusivity*: Without our written approval, Yangsi Hospital may not engage any third party to provide hospital management service and/or support, or establish any similar arrangement with any third party.

- *Investment amount*: We are under no obligation to make any investment in Yangsi Hospital.

- *Termination*: In the event (i) of a force majeure event, either party can terminate the agreement, or (ii) of a material breach of representations or warranties, or untrue representation or statement by one party, the other party can terminate the agreement, or (iii) that one party indicates its intention not to fulfill its obligations, the other party can terminate the agreement. Otherwise the agreement is only terminable by mutual agreement of the parties.

(iv) **One-year Hospital Management and Consultancy Agreements**

Pursuant to the Letter of Intent, the Hospital Management Framework Agreement (for 2013, 2014 and 2015) and the Long-Term Hospital Management Agreement (beginning January 1, 2016), (i) Weikang Investment entered into one-year hospital management and consultancy agreements with Yangsi Hospital in each year from 2013 to 2016, and (ii) Honghe Ruixin also entered into one-year hospital management and consultancy agreements with Yangsi Hospital in 2015 and 2016. These agreements provided for the specific terms for the management and consultancy services each of Weikang Investment and Honghe Ruixin provided to Yangsi Hospital in each year. Set forth below is a summary of the key terms of the one-year hospital management and consultancy agreements entered into from 2013 to 2016:

- *Duration:* One year.

- *Scope of management services:*

  In 2013, Weikang Investment provided management and consultancy services to Yangsi Hospital, including assisting with the establishment of a modern management system, establishing a team of medical professionals, assisting in the hospital's daily operations and logistics management; advising on procurement and management of pharmaceuticals, medical consumables and medical devices; and imaging and marketing strategy services.

  In 2014, in addition to the services provided in the prior year, Weikang Investment assisted Yangsi Hospital in setting up internal rules and policies; provided wider-ranging daily operational management services (such as inspections of additional medical licenses); provided wider-ranging pharmaceutical and medical consumable procurement consultancy services (such as assisting the hospital in establishing modern pharmacy and dispensary management systems, training and assessing its pharmacists, and optimizing its procurement plans to improve cost efficiency and patient satisfaction); and provided wider-ranging imaging and marketing strategy services (such as organizing team building activities, assisting the hospital in media reporting and advertising activities, and managing the hospital's website and communicating with relevant authorities). Weikang Investment also advised Yangsi Hospital in management of financial matters; advised the hospital in optimizing its service mix, including focusing more on in-home care, VIP in-patient and specialty clinic services; provided enhanced management and nursing training to its staff; and advised the hospital in enhancing its medical safety management.

  In 2015, through our subsidiaries, Weikang Investment and Honghe Ruixin, we provided comprehensive services to Yangsi Hospital. These services were more extensive than those provided by Weikang Investment in 2013 and 2014. Specifically, compared to 2014, Weikang Investment provided wider-ranging marketing strategy services, including promoting the hospital's new medical services and technologies to targeted potential customers; and assisting it in cooperating with nearby small-scale general hospitals, specialty hospitals, community healthcare service centers, nursing homes, maternity and toy stores, pharmacies and dental clinics to promote its medical services and technologies. It also assisted Yangsi Hospital in cooperating with large insurers for it to become the designated hospital for the customers of those insurers. In 2015, Weikang Investment did not provide consultancy services regarding procurement of pharmaceuticals, medical consumables and medical devices, as these were provided by Honghe Ruixin. Compared to the consultancy services that Weikang Investment provided in 2014, in 2015 Honghe Ruixin also provided consultancy services to Yangsi Hospital in respect of medical examination, radiological examination and laboratory tests. In 2015 we additionally introduced to the hospital professional medical-service-quality assessment tools and medical-service-quality experts to help improve medical service quality; advised the hospital in improving its financial management and control systems, including financial budget management and the application of total cost accounting for its medical departments; further advised the hospital in optimizing its medical service mix; and established periodic operational analysis meetings and key management performance assessment systems for the hospital.

In 2016, we provided comprehensive services to Yangsi Hospital through Weikang Investment and Honghe Ruixin. Compared to the prior year, in 2016 Weikang Investment no longer provide marketing strategy services but provided additional imaging strategy services to Yangsi Hospital. These imaging strategy services including assisting the hospital in conducting on-site medical service promotion and medical knowledge publicity activities and carrying out publicity activities on new media platforms such as Wechat and Weibo. Compared to the prior year, in 2016 Honghe Ruixin provided marketing strategy services to Yangsi Hospital, generally in line with those provided by Weikang Investment in 2015. In 2016, we also advised Yangsi Hospital on the application of single-disease cost accounting, the establishment of public relations crisis management and media monitoring systems, the implementation of information technology management systems, and improvements in the hospital's internal control systems.

- *Management service fees:* We, through Weikang Investment and Honghe Ruixin, receive management service fees for the services we provide to Yangsi Hospital. The management service fees that Weikang Investment (in 2013, 2014, 2015 and the nine months ended September 30, 2016) and Honghe Ruixin (in 2015 and the nine months ended September 30, 2016) charged Yangsi Hospital for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 were in aggregate 11%, 14%, 22.5% and 22.1% of Yangsi Hospital's total revenue for each of these respective periods. In 2013 and 2014, the fees were calculated based on a fixed percentage, namely 11% for 2013 and 14% for 2014, whereas in 2015 and the nine months ended September 30, 2016, the fees were calculated based on a percentage with a fixed component (which is determined with reference to the common practices in the healthcare services industry) and a performance-based floating component. This use of service fees based on a combined fixed-rate component and performance-based floating rate component is a common practice in China's healthcare services industry, according to the Frost & Sullivan Report. The floating component of the management service fees in 2015 and the nine months ended September 30, 2016 was determined based on performance criteria that included the number of out-patient visits, in-patient visits and surgeries performed; patient satisfaction; supplier satisfaction; and the hospital's employee satisfaction. Beginning in 2015, Honghe Ruixin began providing extensive consultancy services to Yangsi Hospital. In 2015 and the nine months ended September 30, 2016, Weikang Investment and Honghe Ruixin together provided more extensive management and consultancy services to Yangsi Hospital than were provided by Weikang Investment in prior years, and accordingly charged higher percentages of Yangsi Hospital's revenue as management service fees in 2015 and the nine months ended September 30, 2016.

- *Payment terms*: Following the end of a particular quarter, Yangsi Hospital is required to pay the quarterly management service fees within 10 business days upon receipt of invoice issued by us.

- *Provision of financial information*: Yangsi Hospital is required to provide us with (i) its quarterly balance sheet, income statement and cash flow statement, and (ii) on or before March 31 of every financial year, its financial statements of the immediately preceding financial year that are audited by a competent PRC audit firm. Using this financial information, we closely monitor the accuracy and reliability of Yangsi Hospital's financial reporting and its financial performance. Further, Yangsi Hospital is required to provide us with its financial reports, its ledgers and other financial-related information for the purpose of inspection, upon three business days' prior written notice from us.

- *Exclusivity*: Without our written approval, Yangsi Hospital may not engage any third party to provide hospital management service and/or support, or establish any similar arrangement with any third party.

- *Termination*: In the event of (i) a force majeure event, either party can terminate the agreement, (ii) a material breach of representations or warranties, or untrue representation or statement by one party, the other can terminate the agreement, or (iii) one party indicating its intention not to fulfill its obligations, the other party can terminate the agreement. Otherwise, the agreement is only terminable by mutual agreement of the parties.

The management service fees payable to Weikang Investment and, beginning from January 2015, to Honghe Ruixin for any period are calculated by multiplying Yangsi Hospital's total revenue by the applicable management service fee rate for the relevant period. The management service fee rate is generally based on the scope of management services provided by Weikang Investment or Honghe Ruixin (as the case may be) to Yangsi Hospital, with a reference to common market practice in China's healthcare services industry.

The following table sets forth a breakdown of the hospital management services segment's revenue, gross profit and gross profit margin by hospital management company for the periods indicated. The table below includes data from our Group's financial information for the year ended December 31, 2015 and for the nine months ended September 30, 2015 and 2016, while for the years ended December 31, 2013 and 2014 the table includes data from our Predecessor Entities' financial information. The cost of revenue of our Group's hospital management services segment includes the amortization of Weikang Investment's contractual rights to provide management services to Yangsi Hospital following our acquisition of the Predecessor Entities, while the cost of revenue of the Predecessor Entities' hospital management services segment does not include this amortization of contractual rights. Given these differences, the cost of revenue, gross profit and gross profit margin data for 2013 and 2014 are not comparable with the cost of revenue, gross profit and gross profit margin data for 2015 and 2016.

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
Revenue (RMB'000):					
Weikang Investment	46,443	65,734	65,787	45,768	42,718
Honghe Ruixin	—	—	53,290	36,252	51,560
Total	46,443	65,734	119,077	82,020	94,278
Cost of revenue (RMB'000):					
Weikang Investment	6,170	7,917	13,879	9,861	17,273
Honghe Ruixin	—	—	5,908	4,269	10,985
Total	6,170	7,917	19,787	14,130	28,259[1]
Gross profit (RMB'000):					
Weikang Investment	40,273	57,817	51,908	35,906	25,445
Honghe Ruixin	—	—	47,382	31,985	40,575
Total	40,273	57,817	99,290	67,891	66,020[1]
Gross profit margin:					
Weikang Investment	86.7%	88.0%	78.9%	78.5%	59.6%
Honghe Ruixin	N/A	N/A	88.9%	88.2%	78.7%
Total	86.7%	88.0%	83.4%	82.8%	70.0%[1]

Note:

(1) Amounts different from the cost of revenue/gross profit/gross profit margin of our hospital management services segment for the same period mainly due to the corporate expenses in relation to the employee benefit expenses of RMB0.9 million incurred by New Pride, a subsidiary of our Company, as a result of the cash bonus we have agreed to pay to Mr. Lu Wenzuo.

The data in the table above are derived from our Group's financial information for periods since 2015 and from our Predecessor Entities' financial information for prior periods. Because of these different sources, the cost of revenue, gross profit and gross profit margin data for periods since 2015 are not comparable with data for prior periods. We have, however, presented the data above and the following discussion to illustrate the performance of the hospital management services segment (inclusive of Weikang Investment and Honghe Ruixin) during the Track Record Period.

Revenue

Revenue from the hospital management services segment increased by 14.9% from RMB82.0 million in the nine months ended September 30, 2015 to RMB94.3 million in the same period of 2016. This increase was primarily because Yangsi Hospital's revenue increased by 14.3% from RMB388.2 million in the nine months ended September 30, 2015 to RMB443.6 million in the same period of 2016 and because the aggregate management service fee rate that Weikang Investment and Honghe Ruixin charged Yangsi Hospital increased from 21.5% in the nine months ended September 30, 2015 to 22.1% in the same period of 2016. These factors were offset in part by the fact that Weikang Investment became subject to a 6% value-added tax in May 2016, as opposed to the business tax that it was previously required to pay; this change in taxation reduced Weikang Investment's management service fees that we recognized as revenue because we report revenue net of value-added tax.

Revenue from the hospital management services segment increased by 81.1% from RMB65.7 million in 2014 to RMB119.1 million in 2015. This increase was primarily because the aggregate management service fee rate that Weikang Investment and Honghe Ruixin charged Yangsi Hospital was 22.5% in 2015, significantly higher than the 14% management service fee rate that Weikang Investment charged Yangsi Hospital in 2014. This fee rate increased because Honghe Ruixin began providing consultancy services to Yangsi Hospital in January 2015 and because the aggregate management and consultancy services that Weikang Investment and Honghe Ruixin provided to Yangsi Hospital in 2015 were considerably greater in scope compared to the services that Weikang Investment provided to Yangsi Hospital in 2014. The increase in the revenue was also due to a 16.5% increase in Yangsi Hospital's revenue from RMB461.7 million in 2014 to RMB538.0 million in 2015.

Revenue from the hospital management services segment increased by 41.5% from RMB46.4 million in 2013 to RMB65.7 million in 2014. This increase was primarily due to a 15.6% increase in Yangsi Hospital's revenue from RMB399.4 million in 2013 to RMB461.7 million in 2014 and an increase in Weikang Investment's management service fee rate from 11% in 2013 to 14% in 2014.

Cost of revenue

Cost of revenue for the hospital management services segment increased significantly from RMB14.1 million in the nine months ended September 30, 2015 to RMB29.1 million in the same period of 2016. This increase was primarily due to an increase in employee benefits expenses because (i) we granted share options, share appreciation rights and other share-based awards to certain senior management members who provided hospital management services at Honghe Ruixin and Weikang Investment (as a result of which the share-based compensation expenses are included in cost of revenue) and (ii) we increased average employee benefits for Honghe Ruixin and Weikang Investment to attract and retain quality personnel. For details with respect to the share-based compensation expenses, please see Note 16 to the Accountant's Report included in Appendix IA to this prospectus.

Cost of revenue for the hospital management services segment increased significantly from RMB7.9 million in 2014 to RMB19.8 million in 2015. This increase was primarily related to employee benefit expenses of Honghe Ruixin, which began providing consultancy services to Yangsi Hospital in January 2015, and an RMB4.1 million increase in employee benefit expenses of Weikang Investment as a result of our efforts to retain and attract quality personnel after we acquired the Predecessor Entities. This increase was also because our Group's hospital management service segment in 2015 included amortization of the contractual rights to provide management services to Yangsi Hospital, while the cost of revenue of the Predecessor Entities' hospital management services segment in 2014 did not include this amortization.

Cost of revenue for the hospital management services segment increased by 28.3% from RMB6.2 million in 2013 to RMB7.9 million in 2014, primarily due to an RMB1.0 million increase in Weikang Investment's business tax and tax surcharges in line with an increase in its revenue.

Gross profit and gross profit margin

Gross profit for the hospital management services segment decreased by 4.1% from RMB67.9 million in the nine months ended September 30, 2015 to RMB65.1 million in the same period of 2016. Gross profit margin for the hospital management services segment decreased to 69.1% in the nine months ended September 30, 2016 compared to 82.8% in the same period of 2015, primarily because (i) we granted share options, share appreciation rights and other share-based awards to certain senior management members who provided hospital management services at Honghe Ruixin and Weikang Investment and (ii) we increased average employee benefits for Honghe Ruixin and Weikang Investment to attract and retain quality personnel. For details with respect to the share-based compensation expenses, please see Note 16 to the Accountant's Report included in Appendix IA to this prospectus.

Gross profit for the hospital management services segment increased by 71.7% from RMB57.8 million in 2014 to RMB99.3 million in 2015. Gross profit margin for the hospital management services segment decreased from 88.0% in 2014 to 83.4% in 2015. This decrease in gross profit margin was primarily due to a decrease in the gross profit margin for services provided by Weikang Investment from 88.0% in 2014 to 78.9% in 2015, which was primarily due to an increase in employee benefit expenses, as well as the amortization at the Group level of Weikang Investment's contractual rights to provide management services to Yangsi Hospital.

Gross profit for the hospital management services segment increased by 43.6% from RMB40.3 million in 2013 to RMB57.8 million in 2014. Gross profit margin for the hospital management services segment increased from 86.7% in 2013 to 88.0% in 2014, primarily due to a 15.6% increase in Yangsi Hospital's revenue from RMB399.4 million in 2013 to RMB461.7 million in 2014 and an increase in Weikang Investment's management service fee rate from 11% in 2013 to 14% in 2014, while cost of revenue for this segment increased at a lower rate.

The increases in Weikang Investment and Honghe Ruixin's aggregate management service fee rate charged to Yangsi Hospital from 11% in 2013 to 14% in 2014 and further to 22.5% in 2015 and 22.1% in the nine months ended September 30, 2016 were primarily due to the increased scope of services they provided to the hospital. See the summary of key terms of the one-year hospital management and consultancy agreements above for details of the higher level of management and consultancy services provided from 2013 to 2016. In particular, in 2015, Weikang Investment and Honghe Ruixin together provided wider-ranging and more in-depth management and consultancy services to Yangsi Hospital than Weikang Investment previously provided. In 2015, Weikang Investment charged management service fees to Yangsi Hospital of RMB64.6 million while Honghe Ruixin charged fees (net of value-added tax) to Yangsi Hospital of RMB53.3 million. In the nine months ended September 30, 2016, Weikang Investment charged management service fees to Yangsi Hospital of RMB41.7 million while Honghe Ruixin charged fees to Yangsi Hospital of RMB51.6 million (both net of value-added tax). The management service fees in 2015 and the nine months ended September 30, 2016 included a performance-based floating rate component as an incentive to us, and the relatively higher management service fee rate reflected our contribution to Yangsi Hospital's improved performance. Due in part to the management and consultancy services Weikang Investment and Honghe Ruixin provided to the hospital, the number of in-patient visits and out-patient visits, average revenue per in-patient visit and average revenue per out-patient visit of the hospital all increased during the Track Record Period. Its revenue increased by 15.6% from 2013 to 2014, by 16.5% from 2014 to 2015 and by 14.3% from the nine months ended September 30, 2015 to the same period in 2016; and its net income (with management service fees added back) as a percentage of total revenue increased from 12.1% in 2013 to 14.5% in 2014, 23.0% in 2015 and 22.7% in the nine months ended September 30, 2016. In addition, in 2015 Yangsi Hospital's medical services quality and patient experience improved: its in-patient satisfaction rate increased by 13% in 2015, compared to 2014, according to a survey conducted by Independent Third Parties; and its minimally invasive operations increased by approximately 37% in 2015, compared to 2014.

Legality and Validity of Hospital Management Agreements

Our PRC Legal Advisors are of the view that the Hospital Management Agreements are legal, valid and enforceable under Chinese law (in particular, the Letter of Intent is a valid, legally binding and enforceable contract under Chinese law as further explained below), because (1) the Hospital Management Agreements were entered into between us (through Weikang Investment and Honghe Ruixin) and Yangsi Hospital on an arm's length basis, (2) the services underlying these management fees have commercial substance, given the professional capabilities of our personnel who provide consultancy and management services to Yangsi Hospital and the wide-ranging consultancy and management services that we provide to Yangsi Hospital, and (3) Chinese laws and regulations do not prohibit the payment of management fees by a Privately-funded Non-enterprise Entity for services it receives, nor do they provide that payment of such fees constitutes a distribution of dividends or other economic interests deemed as dividends. See the paragraph headed "—Hospital Management Agreements" for descriptions of these services. According to Frost & Sullivan, management fees typically account for 5%-30% of total revenue of hospitals that engage management companies. See the section headed "Industry Overview—China Hospital Market—Non-public Hospitals in China—Economic Benefits for Investors of Non-public Hospitals—Charging management fees" for more details.

Our PRC Legal Advisors are of the view that the Letter of Intent is a valid, legally binding and enforceable under PRC laws and regulations because: (i) according to the PRC Contract Law, a contract refers to an agreement on the establishment, modification or termination of a civil right and obligation relationship between natural persons and/or legal persons. The Letter of Intent, although named as a letter of intent, has prescribed the respective rights and obligations of two PRC legal persons, Weikang Investment and Yangsi Hospital, as parties to the Letter of Intent; (ii) in compliance with the PRC Contract Law, Weikang Investment and Yangsi Hospital agreed in the Letter of Intent that the Letter of Intent shall become effective upon execution by both parties, without attaching any conditions (including any governmental approval or registration) or time limit for it to become effective; and (iii) Weikang Investment and Yangsi Hospital entered into the Letter of Intent in good faith, and the Letter of Intent does not fall under the circumstances as stipulated in the Article 52 of the PRC Contract Law resulting in the invalidity of a contract.

To obtain further assurance on the legality of the Hospital Management Agreements, including the payment of the management service fees, we, together with our PRC Legal Advisors and the Sponsor and their PRC legal advisors, consulted certain officers of the Privately-funded Non-enterprise Entity Administrative Office of the Shanghai Administration Bureau of NGOs (上海市社會團體管理局民辦非企業單位管理處) (the "Administrative Office"), which is the competent registration authority for Yangsi Hospital, in August 2016. During these consultations, the Administrative Office confirmed that:

- Yangsi Hospital is permitted to enter into hospital management and consultancy agreements with service providers (which can either be its founder, Weikang Investment, or third-party service providers). These agreements, once approved by the hospital's executive committee if so required by its articles of association, will be valid and legally binding under Chinese law;

- under the relevant Chinese law, "distribution of dividends by Privately-funded Non-enterprise Entities" refers to the distribution of an entity's net balance after deduction of costs and expenses. Management service fees paid by a Privately-funded Non-enterprise Entity such as Yangsi Hospital for management services, which have commercial substance and are fair, reasonable and consistent with market practice, are recorded as the hospital's operating expenses (as opposed to its net balances subject to dividend distribution). As such, the payment of these management service fees does not constitute a distribution of dividends or other economic interests deemed as dividends, which are prohibited under the relevant Chinese law;

- relevant Chinese laws and regulations place no limitations on the rate or amount of Privately-funded Non-enterprise Entities' management service fees. As a Privately-funded Non-enterprise Entity, Yangsi Hospital is not prohibited from entering into hospital management and consultancy agreements with, or paying management service fees to, its founders;

- the Administrative Office is required by Chinese laws and regulations to conduct annual inspections of the private not-for-profit hospitals registered as Privately-Funded Non-enterprise Entities within its jurisdiction, including an examination of these hospitals' financials. Based on the Administrative Office's previous annual inspections of Yangsi Hospital, all of which the hospital passed, there were no circumstances indicating that Yangsi Hospital distributed dividends or other economic interests deemed as dividends, nor did the Administrative Office impose any administrative actions against Yangsi Hospital; and

- the Chinese government has formulated favorable policies encouraging non-public hospitals to procure professional management services, which are expected to improve the hospitals' management efficiency.

Key Information

The following table sets forth key information relating to Yangsi Hospital during the Track Record Period:

	As of or for the year ended December 31,			As of or for the nine months ended September 30,	
	2013	2014	2015	2015	2016
Revenue (RMB'000)[1*]	399,401	461,730	537,977	388,155	443,623
Cost of revenue (RMB'000)*	(347,125)	(368,957)	(403,561)	(287,629)	(331,614)
Gross profit (RMB'000)*	52,276	92,773	134,416	100,526	112,009
Gross profit margin*	13.1%	20.1%	25.0%	25.9%	25.2%
Management service fees (RMB'000)[2]	45,540	64,642	121,044	83,298	98,129
— Weikang Investment[2]	45,540	64,642	64,557	44,871	43,475
— Honghe Ruixin[2]	—	—	56,487	38,427	54,654
Number of hospital beds in operation as of the end of the relevant period	465	465	502	502	550
In-patients					
Occupancy rate of beds in operation[3]	113%	117%	118%	108%	109%
Number of in-patient visits	16,200	17,647	19,062	13,747	15,434
Total revenue from in-patient services (RMB'000)[1]	161,566	194,729	231,407	168,329	193,129
Average revenue per in-patient visit (RMB)	9,973	11,035	12,140	12,245	12,513
Out-patients					
Number of out-patient visits	1,427,802	1,471,857	1,501,416	1,086,795	1,089,420
Total revenue from out-patient services (RMB'000)[1]	237,835	267,001	306,570	219,826	250,494
Average revenue per out-patient visit (RMB)	167	181	204	202	230
Net income (RMB'000)[4*]	2,823	2,373	2,795	9,106	2,523
Net income margin[5*]	0.7%	0.5%	0.5%	2.3%	0.6%
Current ratio[6*]	1.07	1.03	1.00	1.03	0.99
Quick ratio[7*]	1.01	0.98	0.94	0.96	0.88
Debt ratio[8*]	80%	80%	84%	81%	77%

Notes:

1 Revenue of Yangsi Hospital consists of revenue from in-patient services and out-patient services. Revenue from out-patient services includes revenue generated from emergency care, out-patient clinic services, medical check-ups and medical services provided to local nursing homes.

2 Comprises the management service fees that Yangsi Hospital recognized in its administrative expenses. These management service fees include value-added tax payable by Honghe Ruixin since January 2015 (when it began providing consultancy services to Yangsi Hospital) and by Weikang Investment since May 2016 (when it changed from paying business tax to paying value-added tax in respect of the management services provided to Yangsi Hospital).

3 Occupancy rate exceeded 100% due to the addition of temporary beds to satisfy demand, which we believe was in line with the hospital's social responsibilities.

4 Refers to after-tax net income, not including other comprehensive income.

5 Equals net income for the period divided by revenue for the period and multiplied by 100%.

6 Equals current assets divided by current liabilities as at the respective financial period-end date.

7 Equals current assets less inventories and divided by current liabilities as at the respective financial period-end date.

8 Equals total liabilities divided by total assets as at the respective financial period-end date.

* Extracted or calculated from Yangsi Hospital's financial information as of and for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016, which was prepared in accordance with IFRS and was reviewed by the Reporting Accountant in accordance with the International Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the International Auditing and Assurance Standards Board.

Revenue

Yangsi Hospital's revenue increased by 15.6% from RMB399.4 million in 2013 to RMB461.7 million in 2014. This increase was primarily due to a 3.1% increase in out-patient visits and an 8.4% increase in average revenue per out-patient visit, combined with an 8.9% increase in in-patient visits and a 10.6% increase in average revenue per in-patient visit. The increases in out-patient and in-patient visits were primarily due to Yangsi Hospital's improved medical service quality as a result of strengthened on-the-job training, internal controls and attention to nursing services, application of new therapeutic treatments and enlarged scope of medical services in response to market demand, and a higher hospital bed turnover rate. The increases in average revenue per out-patient and in-patient visit were primarily due to changes in the mix of pharmaceuticals sold and increases in Yangsi Hospital's medical service fees, as a result of its increased attention to medical services to the elderly — the group of patients that typically have relatively more complicated and severe diseases — and increases in demand for Yangsi Hospital's VIP and other higher-priced medical services.

Yangsi Hospital's revenue increased by 16.5% to RMB538.0 million in 2015, compared to the prior year. This increase was primarily due to a 2.0% increase in out-patient visits and a 12.7% increase in average revenue per out-patient visit, combined with an 8.0% increase in in-patient visits and a 10.0% increase in average revenue per in-patient visit. These increases were driven by generally the same reasons discussed above for 2014. This increase in revenue was also attributable to higher revenue contribution from several medical specialties that were established in late 2014.

Yangsi Hospital's revenue increased by 14.3% from RMB388.2 million in the nine months ended September 30, 2015 to RMB443.6 million in the same period of 2016. This increase was primarily due to a slight increase in out-patient visits and a 13.7% increase in average revenue per out-patient visit, combined with a 12.3% increase in in-patient visits and a 2.2% increase in average revenue per in-patient visit. This increase was also due to higher revenue contribution from several medical specialties that were established in late 2014. In addition to reasons discussed above for 2015 and 2014, the increases in out-patient and in-patient visits were also a result of Yangsi Hospital's increased cooperation with nursing homes and increased attention to in-home care services. The increases in its average revenue per out-patient and in-patient visit were also due to the Shanghai pricing authority raising the guideline prices for certain basic pharmaceuticals.

Cost of revenue

Yangsi Hospital's cost of revenue increased by 6.3% from RMB347.1 million in 2013 to RMB369.0 million in 2014. Yangsi Hospital's cost of revenue increased by 9.4% to RMB403.6 million in 2015, compared to the prior year. Yangsi Hospital's cost of revenue increased by 15.3% from RMB287.6 million in the nine months ended September 30, 2015 to RMB331.6 million in the same period of 2016. These increases were driven primarily by revenue increases in these respective periods.

Gross profit and gross profit margin

Yangsi Hospital's gross profit increased by 77.5% from RMB52.3 million in 2013 to RMB92.8 million in 2014. Yangsi Hospital's gross profit margin increased from 13.1% in 2013 to 20.1% in 2014. This increase was primarily due to improvements in Yangsi Hospital's operating efficiency and medical service capabilities as a result of hospital management services that Weikang Investment provided to the hospital. This was demonstrated by increases in the higher-margin VIP and other medical services that Yangsi Hospital offered and a higher hospital bed turnover rate.

Yangsi Hospital's gross profit increased by 44.9% to RMB134.4 million in 2015, compared to the prior year. Yangsi Hospital's gross profit margin increased from 20.1% in 2014 to 25.0% in 2015. This increase was primarily due to continued improvements in Yangsi Hospital's operating efficiency and medical service capabilities as a result of hospital management services that Weikang Investment and Honghe Ruixin provided to the hospital. This was demonstrated by increases in the higher-margin VIP and other medical services that Yangsi Hospital offered and a higher hospital bed turnover rate.

Yangsi Hospital's gross profit increased by 11.4% from RMB100.5 million in the nine months ended September 30, 2015 to RMB112.0 million in the same period of 2016. Yangsi Hospital's gross profit margin remained relatively stable at 25.9% and 25.2% in the nine months ended September 30, 2015 and 2016, respectively.

Out-patient services

Yangsi Hospital operates through four main business lines, through which its out-patients gain access to the hospital and pay for services: (i) emergency care; (ii) out-patient clinic services; (iii) medical check-ups; and (iv) nursing home care. In 2013, 2014 and 2015, Yangsi Hospital recorded 1,427,802, 1,471,857 and 1,501,416 out-patient visits, respectively. In the nine months ended September 30, 2015 and 2016, Yangsi Hospital recorded 1,086,795 and 1,089,420 out-patient visits, respectively. The number of out-patient visits includes patients who visited the hospital for medical diagnosis and treatments, emergency care and medical check-ups, and patients from local nursing homes.

According to the Frost & Sullivan Report, Yangsi Hospital accounted for 14.7% of the total out-patients of all non-public hospitals in Shanghai in 2015. For the years ended December 31, 2013, 2014 and 2015, Yangsi Hospital's total revenue from out-patient services was RMB237.8 million, RMB267.0 million and RMB306.6 million, respectively and the average revenue per out-patient visit was RMB167, RMB181 and RMB204, respectively. For the nine months ended September 30, 2015 and 2016, Yangsi Hospital's total revenue from out-patient services was RMB219.8 million and RMB250.5 million, respectively and the average revenue per out-patient visit was RMB202 and RMB230 in these respective periods. The increase in total revenue from out-patient services during these periods was due to the increases in the number of out-patient visits and the average revenue per out-patient visit. Revenue from Yangsi Hospital's out-patient services mainly consists of registration and treatment fees, laboratory fees, sale of pharmaceuticals, medical consumables and devices, radiology service fees, ancillary equipment revenue and surgical fees.

Emergency care

Yangsi Hospital offers 24-hour emergency services including general surgery, internal medicine, gynecology and obstetrics, and paediatrics. Patients visiting the emergence service department usually arrive without an appointment and require immediate attention. Due to the unplanned nature of patient arrivals for emergency care, Yangsi Hospital has a dedicated area for its emergence services. The medical professionals in the emergency service department provide initial treatments for a broad spectrum of illnesses and injuries and are well-trained for the relevant treatments.

Out-patient clinic services

Yangsi Hospital provides a wide range of high-quality out-patient clinic services, including specialized treatments depending on the injuries and illnesses of the patients. Yangsi Hospital offers various out-patient specialties, such as cardiology, neurology, gastroenterology, endocrinology, urology, oncology and gynecology. It also provides delivery of traditional Chinese medicine to patients' homes. Yangsi Hospital's out-patient clinic services focus on patient safety and satisfaction. The hospital's out-patient clinic services are integrated with its in-patient services, as patients who are examined and given treatment as out-patients later may be admitted to the hospital as in-patients and doctors who consult out-patients also attend in-patients in the wards. Out-patient clinic services are Yangsi Hospital's largest entry point for patients, accounting for over 80% of its total patient visits during the Track Record Period.

Medical check-ups

Yangsi Hospital provides a full range of medical check-up programs utilizing modern diagnostic equipment and tests. These medical check-up programs include blood analysis, liver function screening, renal function screening, cardiovascular risk screening, bone mineral density tests, carcinoembryonic antigen testing, ultrasound tests of breasts and whole abdomen, prostatic-specific antigen tests and thyroid function screening.

Nursing home care

Yangsi Hospital has agreements with local nursing homes to provide medical services to the residents in these nursing homes. These nursing homes have designated approximately 1,100 beds under Yangsi Hospital's responsibility to provide medical care and treatment services.

In-patient services

Yangsi Hospital provides in-patient care to patients who have been admitted for further care requiring overnight stays after receiving emergency care, out-patient clinic services, medical check-ups and local nursing home care. For the years ended December 31, 2013, 2014 and 2015, Yangsi Hospital registered 16,200, 17,647 and 19,062 in-patient visits, respectively. The total revenue from the hospital's in-patient services was RMB161.6 million, RMB194.7 million and RMB231.4 million and the average revenue per in-patient visit was RMB9,973, RMB11,035 and RMB12,140 for these respective years. For the nine months ended September 30, 2015 and 2016, Yangsi Hospital registered 13,747 and 15,434 in-patient visits, respectively. The total revenue for the hospital's in-patient services was RMB168.3 million and RMB193.1 million and the average revenue per in-patient visit was RMB12,245 and RMB12,513 for these respective periods. The volume of in-patient visits is driven primarily by the number of out-patient clinic visits and emergency patients visits, while the average revenue per in-patient visit is primarily driven by the complexity of the medical treatments they receive or the type of wards the patients sign up for when they are admitted. Revenue from Yangsi Hospital's in-patient services mainly consists of treatment fees, room rates, laboratory fees, sales of pharmaceuticals, medical consumables and supplies, radiology service fees and surgical fees. In-patients are admitted into different wards according to the classes of beds and the types of medical treatment required.

The table below sets out the number of beds in operation (including beds for VIP services) at Yangsi Hospital classified by discipline during the Track Record Period:

	As of December 31,			As of September 30,
	2013	2014	2015	2016
Cardiology	53	53	53	60
Respiratory medicine	53	53	53	60
Neurology	53	53	53	60
Gastroenterology	53	53	53	60
Liver surgery	40	40	40	45
Endocrinology	40	40	40	45
Orthopaedics	40	40	40	45
General surgery	40	35	35	35
Urology	20	20	30	35
Nephrology	15	15	20	20
Oncology	—	5	20	20
Gynecology	20	20	20	20
Obstetrics	20	20	20	20
Anorectal	10	10	10	10
Ophthalmology, Otolaryngology and Stomatology	3	3	5	5
Breast Surgery	—	—	5	5
Emergency	5	5	5	5
Total:	465	465	502	550

Pricing and price controls

Yangsi Hospital, as a non-public not-for-profit general hospital and a Medical Insurance Designated Medical Institution, is subject to the pricing guidelines for medical services set by the Shanghai Municipal Price Bureau, Shanghai Municipal Commission of Health and Family Planning, Office of Medical Insurance of Shanghai and other relevant government authorities. The relevant authorities prescribe price ceilings for most medical services to regulate the prices charged by hospitals. In terms of medical services covered by public medical insurance programs, Yangsi Hospital may only charge fees in accordance with these pricing guidelines. For medical services not covered by public medical insurance programs, the fees charged by Yangsi Hospital are subject to these price ceilings. Yangsi Hospital usually charges the same prices for the same types of medical services it provides, whether or not covered by public medical insurance programs.

Yangsi Hospital offers VIP services (including VIP wards) to patients who are willing to pay higher prices for premium medical services. Offering these VIP services allows Yangsi Hospital to diversify the hospital's healthcare service offerings and explore alternative revenue sources. Prices for VIP services are generally set by Yangsi Hospital, taking into account doctors' work, operating costs, market demand for VIP services, competition and other factors. Upon filing of the proposed pricing for VIP services by the hospital with relevant local authorities, the medical service fees charged for VIP services are not subject to the pricing guidelines. Yangsi Hospital filed the proposed pricing with the relevant local authorities in 2012 and 2016. The filing is not subject to periodic review, but in the event of adjustments to the VIP medical service prices, Yangsi Hospital is required to file the adjustments to the proposed pricing with the relevant local authorities.

The retail prices of the pharmaceuticals sold at Yangsi Hospital are subject to a system of government regulations for both prices and profit margins. Please see the paragraph headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Laws and Regulations on Prices of Medical Services, Pharmaceuticals and Medical Devices" for more details. Yangsi Hospital's profit margin for selling pharmaceuticals may not exceed 15% or, for ready-for-use Chinese herbs, 25%, of their actual procurement costs. The retail prices of these pharmaceuticals are also subject to retail price ceiling guidelines promulgated by local pricing bureaus, healthcare authorities, local medical insurance offices and other relevant government authorities.

In 2015 and the nine months ended September 30, 2016, approximately 68% and 67% of the revenue of Yangsi Hospital was derived from patients covered by public medical insurance programs, respectively. Most of Yangsi Hospital's patients covered by the public medical insurance programs settle a portion of their medical fees immediately by cash, and during the Track Record Period the remainder of approximately 80% was covered by the public medical insurance programs. The specific percentage covered by different public medical insurance programs may vary based on criteria including the type of insurance program, age of the patient and type of treatment and pharmaceuticals.

According to the relevant medical insurance programs' payment practices, a Medical Insurance Designated Medical Institution in Shanghai is allowed to recover all of its medical service fees covered by the medical insurance programs within the first two years of being so designated. After this two-year period, the Medical Insurance Designated Medical Institution is subject to a government-approved annual quota under the Urban Employee Basic Medical Insurance Scheme ("**UEBMIS**") for the medical fees that it is allowed to recover from the UEBMIS, which accounted for a substantial majority of Yangsi Hospital's medical fees covered by public insurance programs during the Track Record Period. During the Track Record Period, as a Medical Insurance Designated Medical Institution, Yangsi Hospital was subject to the government-approved quota under UEBMIS. For the portion of the medical fees covered by the public medical insurance programs, Yangsi Hospital is typically reimbursed by the local medical insurance bureau for medical fees under the UEBMIS that are one twelfth of the annual quota in the following month, in addition to medical fees fully reimbursed by other medical insurance programs. Yangsi Hospital's annual quota under the UEBMIS increased from RMB206.4 million in 2013 to RMB237.1 million in 2014, RMB290.3 million in 2015 and further to RMB344.3 million in 2016. Increases in the annual quota under the UEBMIS are typically approved by the local medical insurance bureau in the middle of each year. In practice, Yangsi Hospital's monthly reimbursements under the UEBMIS from the local medical insurance bureau are typically equal to one twelfth of the old annual quota before the quota increase and one twelfth of the new annual quota after the quota increase. The difference between the old and the new quotas for the first few months of a year is typically reimbursed by the local medical insurance bureau to Yangsi Hospital by the end of the relevant year. For amounts in excess of the institution's government-approved quota, the local medical insurance bureau may, in its discretion, reimburse all or part of these amounts to the hospital, the payment of which depends on the budgets, allocations among medical institutions in this area and other factors. As of December 31, 2013, 2014 and 2015, Yangsi Hospital's medical fees under the UEBMIS that were in excess of the annual quota were RMB17.9 million, RMB18.9 million and RMB20.9 million, respectively. The excess amount under the UEBMIS as of December 31, 2013, 2014 and 2015 that was not reimbursed by the local medical insurance bureau was RMB7.2 million, RMB7.6 million and RMB8.3 million, respectively. Yangsi Hospital recognizes all of its medical service fees, including any excess amounts under the UEBMIS, in revenue. Before it receives notice from the local medical insurance bureau on what portion of the excess amount that the bureau will reimburse the hospital, Yangsi Hospital makes a provision for impairment of trade receivables equal to the portion of the excess amount that it estimates to be unrecoverable from the local medical insurance bureau. The amount of that provision is based primarily on its past experience. After receiving this notice, Yangsi Hospital writes off the portion of the excess amount that will not be reimbursed by the local medical insurance bureau.

Customers

Most of the patients who visit Yangsi Hospital are individuals living in districts near the hospital. Yangsi Hospital has focused on common diseases and frequently re-occurring diseases, and the vast majority of its patients rely on public medical insurance programs to pay for their treatments. For details in relation to patients of Yangsi Hospital during the Track Record Period, see the paragraph headed "—The Hospitals—Yangsi Hospital—Key Information" in this section.

In 2013, 2014 and 2015, Yangsi Hospital's out-patients who died while receiving emergency treatment represented approximately 0.0347%, 0.0398% and 0.0360% of the total number of out-patients admitted for emergency treatments, respectively, compared to approximately 0.09%, 0.09% and 0.09% for general hospitals in the PRC for these respective periods, according to the Frost & Sullivan Report. In 2013, 2014 and 2015, Yangsi Hospital's in-patient deaths represented approximately 5.43%, 5.77% and 5.47% of the total number of admitted in-patients, respectively, compared to approximately 0.47%, 0.50% and 0.50% for general hospitals in the PRC for these respective periods, according to the Frost & Sullivan Report. In 2013, 2014 and 2015, Yangsi Hospital recorded 926, 1,063 and 1,084 patient deaths (which included (i) deaths of out-patients receiving emergency treatment and (ii) in-patient deaths), respectively; these represented approximately 0.61%, 0.81% and 0.82% of its total number of out-patients admitted for emergency treatment and admitted in-patients for the respective periods. The increase in patient mortality rates from 2013 to 2014 was primarily a result of the increased number of death of patients aged over 65, which accounted for approximately 0.52% and 0.68% of the total numbers of Yangsi Hospital's out-patients receiving emergency treatment and in-patients for the respective periods. These patient mortality rates remained stable from 2014 to 2015.

In each of 2013, 2014 and 2015, the average age of Yangsi Hospital's out-patients receiving emergency treatment and in-patients that died was over 78. Many of Yangsi Hospital's patient deaths were due to severe illnesses or incurable diseases, which are inherent to the type of hospital service provided. For example, in 2015, approximately 38.1% of Yangsi Hospital's out-patients receiving emergency treatment and in-patients that died were terminally ill cancer patients.

Yangsi Hospital's higher-than-industry-average in-patient mortality rates for 2013, 2014 and 2015 were primarily due to:

(i) *Admission of elderly in-patients*. Yangsi Hospital's higher-than-industry-average in-patient mortality rates in 2013, 2014 and 2015 were primarily attributable to its admission of a relatively large number of elderly in-patients during these periods. These types of patients generally have higher mortality rates than in-patients of other age groups. In 2013, 2014 and 2015, 50.4%, 52.8% and 55.7% of Yangsi Hospital's in-patients were aged over 65, respectively, which, according to Frost & Sullivan, were higher than industry averages. According to Frost & Sullivan, in general, the higher the percentage of a hospital's elderly patients, the higher its patient mortality rate.

(ii) *Historical hospital admission procedures*. Unlike most general hospitals in China, until October 2016, Yangsi Hospital's emergency service department was not equipped with any hospital beds to accommodate out-patients. As a result, patients visiting Yangsi Hospital's emergency service department who required hospitalization, particularly those suffering from severe injuries or serious illness, were admitted as in-patients and were immediately directed to Yangsi Hospital's other medical departments. According to Frost & Sullivan, other general hospitals in China typically treat these types of patients in their emergency services departments and categorize them as out-patients. This difference in patient admission procedures has also contributed to Yangsi Hospital's higher-than-industry-average in-patient mortality rates.

In an effort to conform to industry practice, further improve the quality of its medical services and better accommodate out-patients seeking emergency care, Yangsi Hospital added over 30 hospital beds to its emergency service department in October 2016.

Suppliers

The supplies required in Yangsi Hospital's operations primarily include pharmaceuticals, medical devices and medical consumables. In 2013, 2014, 2015 and the nine months ended September 30, 2016, Yangsi Hospital's cost of pharmaceuticals, consumables and testing fees accounted for 48.0%, 48.4%, 47.8% and 49.7% of Yangsi Hospital's total revenue, respectively. The pharmaceuticals, medical devices and medical consumables are sourced mainly from China. Yangsi Hospital sources its major medical equipment primarily from prestigious brands such as Philips, through their distributors in China.

Chinese regulations require Medical Insurance Designated Medical Institutions like Yangsi Hospital to procure most pharmaceuticals and medical consumables through public tendering conducted using the centralized and online pharmaceutical platforms organized by the competent government authorities. Please see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on Pharmaceutical Management and Procurement" for more details.

Yangsi Hospital purchases almost all of its pharmaceuticals and medical consumables from suppliers through the Shanghai Sunshine Medical Purchasing Website (上海陽光醫藥採購網) (**www.smpaa.cn**) ("**Sunshine Medical Website**"), an online platform that allows suppliers registered with the website to sell their products. For pharmaceuticals that are not available on the Sunshine Medical Website, Yangsi Hospital procures them directly from manufacturers. Yangsi Hospital's procurement team is in charge of coordinating its medical supply and procuring supplies by placing orders through Sunshine Medical Website. The procurement team uses this platform to select specific (i) suppliers, (ii) types of the pharmaceuticals or medical consumables, (iii) specifications of the pharmaceuticals or medical consumables, and (iv) quantities required. The supplies are typically delivered to the hospital within ten days after an order has been placed. Upon delivery, the supplies are carefully inspected at three levels. First, a team of experienced pharmaceutical staff checks to determine if the name of the supplier, quantity, packing, expiry date and the specification are in order. Second, the procurement team double-checks the quantity and quality of the supplies in accordance with the orders. Finally, the medical professional who requests the supplies inspects and makes sure that the supplies meet the quality standards and confirms receipt of the supplies. Yangsi Hospital typically does not enter into supply contracts with the suppliers as purchases are conducted through Sunshine Medical Website. Instead, it enters into quality assurance agreements with its suppliers. Under these agreements, the suppliers undertake to ensure the quality of the supplies. Yangsi Hospital may return the supplies if they are defective, have expired or do not meet the standards of the hospital guidelines upon inspection after delivery. In general, payment is settled within around 60 days after delivery.

All the suppliers that have registered with Sunshine Medical Website must obtain the relevant certificates required by the local authorities, including business certificates, tax registration certificates, drug operation certificates, drug quality management specification certificates and medical device operation certificates. Because of these requirements, the suppliers of Yangsi Hospital have passed the stringent criteria set by the relevant local authorities, which help to ensure legality and quality of their supplies.

During the Track Record Period, Yangsi Hospital did not experience any shortage of supplies, any significant fluctuation in the prices of the supplies, or any quality issue or receive any defective supplies that could materially and adversely affect its business, financial condition or results of operations.

Inventory

Yangsi Hospital's inventory comprises primarily pharmaceuticals, medical devices and medical consumables. Yangsi Hospital generally maintains inventories of approximately 15 days of pharmaceuticals and medical consumables to meet the needs of its operations. Yangsi Hospital keeps its inventory at two storehouses of the hospital. It closely monitors inventory levels and identifies obsolete and slow-moving inventories. Yangsi Hospital deploys a computerized inventory management system to manage its inventory level. In addition, it also carries out regular physical inventory counts and shelf-life examinations for its medical supplies. When pharmaceuticals and medical consumables expire, or when medical devices have reached the end of their service lives, the hospital staff safely disposes of them in accordance with applicable laws and regulations.

Facilities and equipment

Yangsi Hospital's medical professionals are equipped with advanced equipment and diagnostic technology to provide patients with diagnosis and treatments that minimize pain, waiting time and the use of invasive procedures. The hospital's major equipment includes magnetic resonance imaging machines, CT scanners, digital subtraction angiography machines, digital endoscope systems, diagnostic ultrasound systems and senograph DS. The wards in Yangsi Hospital provide a safe and pleasant space for the patients and their families. Yangsi Hospital plans to continuously improve and upgrade its facilities and equipment to provide better services to its patients.

Risk management and internal control

Yangsi Hospital emphasizes the quality and safety of its operations. It has established comprehensive risk management systems and internal control procedures to minimize medical risks arising from its services and treatments, including management systems for medical service quality, medical safety, medical infection, laboratory safety and medical disputes. Yangsi Hospital's employees receive regular training on the relevant policies, standards, protocols and procedures and are required to strictly follow them in all aspects of the hospital's operations. Among the various risk management systems and internal control procedures, Yangsi Hospital focuses on two systems that are fundamental to hospital operations: (i) medical service quality management system and (ii) medical safety management system.

Medical service quality management system

Yangsi Hospital has implemented detailed policies to ensure that it provides consistent high-quality medical services to its patients and complies with the applicable regulatory requirements. The core medical systems that Yangsi Hospital has adopted include systems regulating (i) initial diagnosis; (ii) ward rounds; (iii) consultation; (iv) discussions of intractable cases; (v) preoperative discussions; (vi) maintenance of medical records; (vii) doctor-on-duty and shift relief system; and (viii) surgery classification.

Yangsi Hospital has implemented additional quality management policies to ensure the quality of its medical services, primarily including:

- *medical service quality management*. To ensure the quality of its medical services, Yangsi Hospital conducts performance evaluations on its medical staff regularly based on specific performance criteria, such as diagnosis accuracy, patient experience, patient rescue success rates and survival rates and training attendance;

- *medical records quality management*. Yangsi Hospital has formulated comprehensive policies and guidelines on medical records management, which set forth detailed procedures and standards to be followed by its medical staff in the creation, updating and archiving of patients' medical records, which include medication charts, diagnosis, prescriptions and other data. These policies and guidelines allow for Yangsi Hospital's patient information to be shared and utilized efficiently across departments;

- *drug prescription management.* Yangsi Hospital has implemented detailed rules and guidelines on drug prescription management that are designed to ensure that its prescription of drugs is reasonable and comply with all applicable laws and regulations; and

- *ward rounds quality management.* Yangsi Hospital has implemented various ward rounds policies and guidelines which are designed to ensure that its medical staff adequately participate in ward rounds and address patient needs, with clarity about individual roles and responsibilities during and after ward rounds.

To ensure that its medical service quality management systems are well monitored and effectively implemented, Yangsi Hospital has established committees that are responsible for supervising and examining medical quality issues. It has also established groups under some of the committees to strengthen the supervision of the standard of quality for its medical services. Yangsi Hospital's primary committees and groups to maintain and improve its medical quality include (i) medical service quality management committee; (ii) pharmaceutical management committee; (iii) medical records management committee; (iv) medical disputes management committee; (v) ethics committee; (vi) management group for clinical applications of medical technology; (vii) academic committee; (viii) medical incidents investigation committee; (ix) hospital safety management committee; and (x) hospital infection management committee.

A brief description of the key committees of the hospital is as follows:

- the hospital's medical service quality management committee is primarily responsible for the quality of medical services, including setting and revising service quality targets and policies, conducting periodic reviews of service quality, formulating medical contingency plans and arranging for the training of medical professionals. The medical service quality management committee comprises one chairman (the hospital administrator), three vice chairmen and 13 members (directors of various medical departments);

- the hospital's medical dispute committee is primarily responsible for the hospital's medical safety and dealing with medical disputes between Yangsi Hospital and its patients and/or their families, including making rectification suggestions, medical dispute liability determination, allocation of costs resulting from medical disputes, as well as analyzing and reporting each medical dispute case to the vice administrator of the hospital periodically. The medical dispute committee comprises one chairman (the hospital's vice administrator), one vice chairman and 11 members (directors of various medical departments); and

- the hospital's medical records management committee is primarily responsible for the hospital's medical records of out-patients and in-patients, including making periodic inspections on the hospital's medical records management, establishing and implementing standards on maintenance of medical records, and promoting the standardization of medical terms and forms in keeping medical records. The medical record quality committee comprises one chairman (the hospital's vice administrator), three vice chairmen and 11 members (directors of various medical departments).

Yangsi Hospital is subject to regular and unscheduled inspections by the relevant government authorities, including the Shanghai Municipal Commission of Health and Family Planning, which reviews its medical service management systems and the medical services it provides to determine the compliance status and areas that can be further improved. During the Track Record Period, Yangsi Hospital had not received any written notice or punishment for material non-compliance, violation, or recommendation of improvement with respect to medical service quality by the government authorities.

Medical safety management system

Yangsi Hospital has implemented various measures to ensure its doctors and other medical staff strictly follow laws, regulations, local authority requirements and industry standards on medical safety. Yangsi Hospital's primary measures to prevent potential safety risks associated with its operations include procedures and protocols in regulating (i) patient identity identification; (ii) doctor's advice; (iii) surgical site-mark; (iv) surgical safety check and risk assessment; (v) medical safety warning; (vi) medical adverse events reporting; and (vii) major medical negligence and medical incidents reporting. The hospital safety management committee of Yangsi Hospital is responsible for supervising and implementing these procedures and protocols.

Financial risk management

To ensure the accuracy and consistency of its financial information, Yangsi Hospital established a financial risk management system. The system has been designed to ensure the stable growth of its income and prevent potential risks associated with its financial affairs. The preventive measures that Yangsi Hospital has taken include:

- training for department heads and executives of the hospital in relation to financial knowledge;

- establishing financial management strategies and sound financial management systems to ensure the financial and accounting information systems and data are accurate and up-to-date; and

- building a financial management team that consists of professional management talents.

Information technology systems

Yangsi Hospital's information technology systems encompass a hospital information system (HIS), a laboratory information system (LIS), a picture archiving and communication systems (PACS), a radiology information system (RIS) and an office automation system (OA):

- *HIS*: a comprehensive system that supports Yangsi Hospital's daily operations by managing all medical, financial and administrative information, such as the management of patient records and billing history, customer service and the staffing of doctors and other medical professionals. All of the healthcare facilities are interconnected by the HIS network, allowing real time data-sharing among the departments and with the medical insurance center and Shanghai Pharmaceutical Administration Bureau.

- *LIS*: a laboratory information system that performs various functions for laboratory examinations, including sample collection and data processing.

- *PACS:* an integrated application system for archiving digital images and maintaining a communication system, such as filing ultrasound images.

- *RIS:* a radiology information system including a radiation reporting system, an electrocardiogram reporting system and a pathology reporting system.

- *OA*: an office automation system including file-sending and -receiving of each department and delivery of notices.

Health, safety and environmental matters

Yangsi Hospital is subject to various PRC laws, rules and regulations with respect to health, safety and environmental matters. It is committed to complying with the relevant regulatory requirements, preventing and reducing hazards and risks associated with its operations, and ensuring the health and safety of its patients, employees and surrounding communities. Yangsi Hospital has also implemented written procedures and guidelines for health and safety-related requirements, in particular in relation to the handling of medical equipment, needles, sharp objects and medical waste, reduction of occupational hazards in hospitals and prevention of medical accidents. The relevant written procedures and guidelines are handed out to its medical professionals. It also conducts regular training for its employees on the relevant internal policies. For more details, please see the paragraph headed "—The Hospitals—Yangsi Hospital—Risk management and internal control" in this section.

Yangsi Hospital was in compliance with the health and safety mandatory requirements during the Track Record Period. During the Track Record Period, patients and employees of Yangsi Hospital did not experience any material accidents in the course of its business operations.

Environmental protection

Yangsi Hospital's operations are subject to various PRC laws, rules and regulations with respect to environmental matters, including those applicable to the disposal of medical waste and the discharge of wastewater, pollutants and radioactive substances. For details of the relevant laws, rules and regulations, see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on Environmental Protection related to Medical Institutions." Yangsi Hospital has implemented internal policies and procedures with respect to environmental protection and has engaged qualified third-party service providers to dispose of medical waste and radioactive substances.

During the Track Record Period, save as disclosed in this prospectus, Yangsi Hospital did not encounter any material non-compliance or complaints in relation to environmental protection. See the section headed "—Legal proceedings and compliance—Non-compliance incidents."

Intellectual property

As of the Latest Practicable Date, Yangsi Hospital held one registered domain name in China. Yangsi Hospital was not engaged in or threatened by any claim for any material infringement of any intellectual property rights, whether as a claimant or as a defendant.

Employees

As of January 31, 2017, Yangsi Hospital had 808 employees, including 266 doctors and 346 other medical professionals. Its 266 doctors consisted of 31 chief doctors, 58 associate-chief doctors, 111 attending doctors, 63 resident doctors and 3 assistant doctors. The hospital's other medical professionals include nurses and medical technicians. The following table provides a breakdown of the employees by function at Yangsi Hospital as of January 31, 2017:

Function	**Number of employees**
Medical professionals	612
Management staff	7
Financial staff	38
Administrative staff	54
Supporting staff	97
Total	808

Yangsi Hospital enters into employment contracts with its employees. It independently manages its recruitment of medical professionals and other staff, provides wages and employee benefits within the approved annual budget, and conducts employee performance reviews. Remuneration packages for the employees consist mainly of base salary, welfare and bonus. See the paragraphs headed "—Legal proceedings and compliance—Non-compliance incidents" for Yangsi Hospital's contributions to social insurance and housing accumulation funds for its employees during the Track Record Period.

The qualifications and experience of its doctors and other medical professionals are critical to the quality of medical services provided at Yangsi Hospital. Yangsi Hospital verifies the qualifications and past practice experience of its professionals before they are hired. It maintains high standards and stringent procedures in recruiting medical professionals and provides competitive remuneration and benefit packages to attract and retain quality employees. Yangsi Hospital also provides continuing education and training for its medical professionals and other employees. The doctors and other medical professionals at Yangsi Hospital receive regular technical training on the operation of medical devices, treatment procedures and the latest technologies and developments in their relevant fields. The administrative, financial and management staff receive training on management skills, financial and accounting procedures and systems, and risk management.

During the Track Record Period, Yangsi Hospital did not experience any significant staff turnover or any disruption to its business operations due to labor disputes. Save as disclosed in this prospectus, Yangsi Hospital complied with applicable laws and regulations related to labor and employee benefit plans in all material aspects throughout the Track Record Period. Yangsi Hospital has established its labor union in accordance with the applicable Chinese law. It is not subject to any collective bargaining agreements. During the Track Record Period and up to the Latest Practicable Date, it had not experienced any material labor disputes or claims.

Licenses, permits and certificates

China's healthcare services industry is heavily regulated. Under these regulations, Yangsi Hospital is required to obtain various licenses, permits and approvals for its operations. For details of the relevant requirements, see the section headed "Regulatory Overview—Laws and Regulations related to the Healthcare Services Sector in China." As advised by our PRC Legal Advisors, save as disclosed in this prospectus, Yangsi Hospital had obtained all material requisite licenses, permits and approvals for its business operations as of the Latest Practicable Date.

The following table sets forth the material requisite licenses and permits for Yangsi Hospital as of the Latest Practicable Date:

License/Permit	Issuing Authority	Effective Date	Expiration Date
Maternal and Child Healthcare Technical Services Practicing License (母嬰保健技術服務執業許可證)	Shanghai Pudong New District Health and Family Planning Commission (上海市浦東新區衛生和計劃生育委員會)	October 1, 2014	September 30, 2017
Medical Institution Practicing License (醫療機構執業許可證)	Shanghai Municipal Commission of Health and Family Planning (上海市衛生和計劃生育委員會)	October 11, 2014	December 31, 2025
Radiation Treatment License (放射診療許可證)	Shanghai Municipal Commission of Health and Family Planning (上海市衛生和計劃生育委員會)	November 17, 2014	n/a
Radiation Safety License (輻射安全許可證)	Shanghai Environmental Protection Bureau (上海市環境保護局)	June 18, 2015	June 17, 2020

License/Permit	Issuing Authority	Effective Date	Expiration Date
Narcotic Drugs, Type 1 Psychotropic Drugs Purchase Seal (麻醉藥品、第一類精神藥品購用印鑑卡)	Shanghai Pudong New District Health and Family Planning Commission (上海市浦東新區衛生和計劃生育委員會)	January 16, 2015	January 15, 2018

Yangsi Hospital plans to renew the necessary licenses and permits upon expiration. Our PRC Legal Advisors are of the view that there is no material legal impediment to renew these licenses and permits as long as Yangsi Hospital is in compliance with applicable rules, laws and regulations.

Major Awards

We believe that, through our high-quality management, Yangsi Hospital provides high-quality patient-oriented services, which have earned it a strong reputation among patients and within the industry. The following table sets forth the recent major awards and achievements won by Yangsi Hospital:

Year	Awards and Achievements	Award Issuing Body
2008	Yangsi Hospital was ranked as a 5A Privately-funded Non-enterprise Entity in Shanghai. A re-assessment was completed in 2013 and Yangsi Hospital retained this accreditation (5A級民辦非企業單位)	Shanghai Administration Bureau of NGOs (上海市社會團體管理局)
2010	Yangsi Hospital was awarded the title of "National Advanced Non-government Organization" (全國先進社會組織)	Ministry of Civil Affairs of the People's Republic of China (中華人民共和國民政部)
2012-2014 ..	Yangsi Hospital was awarded the title of "Advanced Entity" (先進集體單位)	Shanghai Municipal Commission of Health and Family Planning (上海市衛生和計劃生育委員會)
2014	Yangsi Hospital was accredited as a 4-star entity (四星級示範單位)	Shanghai Municipal Commission of Health and Family Planning and Shanghai Association for Non-Government Medical Institutions (上海市社會醫療機構協會)

Properties

As of the Latest Practicable Date, Yangsi Hospital occupied five buildings with a gross floor area of 27,146 sq.m. in Pudong New District of Shanghai in connection with its operations. As of the Latest Practicable Date, Yangsi Hospital occupied and owned one parcel of land ("**Land 32**") with a total area of 3,872 sq.m., which is located in Sanlin Town of Pudong New District of Shanghai and two buildings with an aggregate gross floor area of 6,191.5 sq.m. located thereon. Further, Yangsi Hospital received permission from Weikang Investment to operate its business on three buildings with a gross floor area of 20,954.5 sq.m. located on a separate parcel of land in Sanlin Town of Pudong New District of Shanghai with a total area of 4,028 sq.m. ("**Land 28**") owned by Weikang Investment. Land 32 and Land 28 are collectively referred to as the "**Lands**".

In addition, as of the Latest Practicable Date, Yangsi Hospital leased a total of four properties in Shanghai with a total gross floor area of approximately 683 sq.m. for Yangsi Hospital's offices and service centers for the local community. These lease agreements typically have a term ranging from three to six years.

The management service fees that Weikang Investment and, as applicable, Honghe Ruixin charged (net of value-added tax) Yangsi Hospital in relation to its operations carried out on the Lands accounted for 98.1% and 80.4% of our Predecessor Entities' revenue for the years ended December 31, 2013 and 2014, respectively, and 82.7% and 80.8% of our revenue for the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively. Based on this concentration, our Directors are of the view that the Lands are collectively crucial to our operation.

Title defects of the Lands

As of the Latest Practicable Date, Weikang Investment and Yangsi Hospital had applied for the land use right certificates of the Lands. However, as of the Latest Practicable Date, Weikang Investment and Yangsi Hospital had not yet obtained the land use right certificates of the Lands nor the building ownership certificates for the buildings located thereon due to the reasons set out in the paragraph headed "—1. Historical Background of the Lands" below. However, as advised by our PRC Legal Advisors, the absence of title certificates will not create any substantive legal obstacle for Yangsi Hospital to continue occupying and using the Lands and the buildings on them. Details of advice from our PRC Legal Advisors are set out in the paragraph headed "—2. Continuing Occupation and Land Use Right" below.

1. Historical Background of the Lands

In 2002, due to a civil dispute involving the previous owner, Land 32 was confiscated by the Intermediate People's Court of Wuhu (蕪湖市中級人民法院) and sold through a public auction. Weikang Investment acquired Land 32 in the public auction and injected it into Yangsi Hospital as start-up funds in 2006 in preparation of the establishment of Yangsi Hospital. In June 2011, Weikang Investment further acquired Land 28 and the buildings thereon from an Independent Third Party, Shanghai Sanlin Collective Investment Management Co., Ltd (上海三林集體資產投資管理有限公司) (the "**Sanlin Investment**"), a limited liability company ultimately owned by Sanlin Town under the supervision and guidance of the People's Government of Sanlin Town.

Notwithstanding the efforts by Weikang Investment to complete the title registrations subsequent to the acquisitions, Weikang Investment and Yangsi Hospital have not been able to obtain the land use right certificates and the building ownership certificates as a result of long-standing and complicated historical reasons in Pudong New District. Such historical background has been subsequently identified by the People's Government of Sanlin Town as issues arising from rural urbanization and development of Shanghai, particularly Pudong New District pursuant to a working conference of the People's Government of Sanlin Town in 2016.

The People's Government of Sanlin Town also confirmed that, as part of an official survey of Shanghai conducted in 2015, approximately 2.5 million sq.m. of lands in Sanlin Town had not been granted any land use right certificates. With respect to these common issues in Sanlin Town, the People's Government of Sanlin Town further confirmed that, at an appropriate time, there will be a centralized solution designed to rectify all existing title defects on the lands that have been resulted due to historical reasons in Sanlin Town.

2. Continuing Occupation and Land Use Right

Weikang Investment (as purchaser) and Sanlin Investment (as seller) entered into a written agreement in relation to the transfer of Land 28 in 2011. However, the People's Government of Sanlin Town issued a letter stating its decision to transfer the relevant buildings on Land 28 to Weikang Investment in 2003, when Yangsi Hospital was at the early stage of its establishment, and since then, Weikang Investment has been using and occupying Land 28. To further confirm the use of Land 28 for the operation of Yangsi Hospital, on August 23, 2005, the Shanghai Municipal Health Bureau (上海市衛生局) issued a reply consenting to the establishment of Yangsi Hospital by Weikang Investment with its location on Land 28, and on January 5, 2007, Shanghai Municipal Civil Affairs Bureau (上海市民政局) issued the Registration Certificate of Privately-funded Non-enterprise Entity to Yangsi Hospital, stating that the registered address of Yangsi Hospital is at Land 28.

Despite the long-standing and complicated history of the Lands, we inspected the following official documents issued by the relevant competent authorities and are able to confirm that the Lands serving as a community healthcare facility and housing the operation of Yangsi Hospital are in compliance with the land planning of Pudong New District:

(a) the Pudong Planning and Land Bureau (which, as confirmed by our PRC Legal Advisors, is the competent and responsible authority for administering land-related and construction planning affairs (including but not limited to land planning, title certificates application and approval, demolishment of illegal construction and repossession of lands in Pudong New District of Shanghai)), issued a detailed planning layout of the Yangsi district on July 16, 2010, pursuant to which the Lands serve as a community healthcare facility and house the operations of Yangsi Hospital; and

(b) the Pudong Planning and Land Bureau further issued a report on February 10, 2012, indicating that the Lands are occupied to function as the community healthcare facility of the region.

In order to confirm regulatory compliance in respect of the Lands, we have also obtained the following regulatory confirmations from the competent government authorities, including the People's Government of Sanlin Town, the Pudong Planning and Land Bureau and the Construction and Transportation Committee of Pudong New District, each being the competent and responsible authority:

(a) the Construction and Transportation Committee of Pudong New District, Shanghai (上海市浦東新區建設和交通委員會) (which, as confirmed by our PRC Legal Advisors, is the competent and responsible authority for administering construction affairs in Pudong New District of Shanghai), issued a letter in writing on January 29, 2016 to confirm that no penalties have been imposed on Yangsi Hospital or Weikang Investment in Pudong New District since 2004, when Yangsi Hospital was at the early stage of its formation, on the Lands for any violation of property or construction-related laws or policies; and

(b) according to a written confirmation dated April 6, 2016 issued by the Pudong Planning and Land Bureau, no administrative penalties have been imposed on Yangsi Hospital or Weikang Investment in respect of any violation of national or domestic land-related laws and regulations in its operations since the commencement of the Track Record Period, and, our Directors confirm that no administrative penalties have been imposed by Pudong Planning and Land Bureau since Yangsi Hospital commenced operations in 2007.

With a view to seeking further assurance on our use of the Lands, the Sole Sponsor, our PRC Legal Advisors and the PRC legal advisors of the Sole Sponsor consulted the Pudong Planning and Land Bureau on June 23, 2016. The deputy chief officer of the Pudong Planning and Land Bureau (the "**Deputy Chief Officer**") advised verbally that, (a) the Pudong Planning and Land Bureau has actual knowledge of the title defects of the Lands; (b) currently no centralized solution has been finalized for the purpose of rectifying the existing title defects on the Lands resulting from historical reasons in Shanghai; (c) the Lands have been used in compliance with the land planning of Pudong New District; and (d) given that Yangsi Hospital is a medical institution approved by the Health and Family Planning Commission of Shanghai, neither Weikang Investment nor Yangsi Hospital will be restricted from using or occupying the Lands and the properties thereon and Yangsi Hospital will not be required to be demolished or relocated from the Lands due to defective titles. The Deputy Chief Officer is mainly responsible for supervision of land utilization, land ownership registration, land asset management and land expropriation of Pudong New District, and, in the view of our PRC Legal Advisors, is a competent authority to provide the confirmations above.

Our PRC Legal Advisors are of the view that Pudong New District is classified as a "National New District", approved by the PRC State Council. According to the relevant PRC rules, the government authorities of Pudong New District, including the Pudong Planning and Land Bureau and the Construction and Transportation Committee of Pudong New District, are encouraged to be entrusted with the relevant administrative authority to the fullest extent in Shanghai. Our PRC Legal Advisors have also advised us that, each of the Pudong Planning and Land Bureau and the

Construction and Transportation Committee of Pudong New District is considered as a competent government authority to provide the relevant confirmations to us with the following basis:

(a) in respect of the Pudong Planning and Land Bureau,

(i) pursuant to PRC law on Urban and Rural Planning, the planning authorities at or above the county level are responsible for the urban and rural planning within their respective administrative areas;

(ii) pursuant to the Regulation on Shanghai Urban and Rural Planning, the planning authorities at the district or county level are responsible for the urban and rural planning within their respective administrative areas, subject to the guidance by the municipal planning bureau in terms of operation; and

(iii) pursuant to the Regulations for the Implementation of the Land Administrative Law of the PRC, the application for land registration is to be submitted by land users to the land administrative bureaus at or above the county level in which the relevant land is located.

(b) in respect of the Construction and Transportation Committee of Pudong New District,

(i) pursuant to the Administrative Measures for the Construction Licensing of Construction Projects of the PRC, the project owners shall file application for construction permits with the construction authorities at or above the county level prior to commencing the construction of buildings; and

(ii) pursuant to the Regulations on the Administration of Construction Project Quality, the construction authority at or above the county level shall reinforce the supervision and control over the quality of construction projects.

Our PRC Legal Advisors have also advised us that, (a) notwithstanding the fact that Yangsi Hospital has not obtained the land use right certificates of the Lands, the Lands are not subject to any substantive risk of disputes in relation to the right to use of the Lands which is likely to cause any suspension to the operations of Yangsi Hospital or the relocation of Yangsi Hospital; (b) the absence of such title certificates would not (i) create any substantive legal risk that Yangsi Hospital will be restricted from using the Lands and the properties thereon; (ii) create any substantive legal risk that the buildings sitting on the Lands would be required to be demolished; or (iii) cause Yangsi Hospital to be required to be relocated from the Lands and the buildings thereon; accordingly, the non-compliance on the Lands will not cause suspension to the operations of Yangsi Hospital or create any substantive legal obstacle for Yangsi Hospital to continue occupying and using the Lands and the buildings sitting on it; and (c) there will be no material legal impediment to obtaining the land use right certificates of the Lands and the building ownership certificates for the buildings sitting on them after a centralized solution becomes available with respect to the common land issues in Sanlin Town and the relevant land issue policies are promulgated with detailed procedures, assuming our Company completes these procedures.

3. Perfection of the Titles of the Lands

The People's Government of Sanlin Town confirmed to Yangsi Hospital that it has not yet commenced the process to review the title application of the Lands in absence of a centralized solution, and all the existing title defects on the Lands due to historical reasons will be resolved after such centralized solution has been adopted.

We expect that such centralized solution will substantively mirror the land issue policies that have been adopted by other PRC cities to rectify defective titles for lands and properties resulting from historical reasons (the "**Land Issue Policies**"). Although we are currently unable to ascertain the expected time to rectify the title defects on the Lands, we undertake to make the application for perfection of titles of the Lands and the properties thereon as soon as the Land Issue Policies have been adopted in Shanghai and continue to maintain active and regular communications with the relevant government authorities regarding the progress of the Land Issue Policies, in order to ensure that it will not cause any unnecessary delay in applying for and obtaining the relevant titles. Our Directors will also be involved in periodic examination of our land issues and active monitoring on the progress of title perfection.

4. Views of Our Directors and the Sole Sponsor

Based on the regulatory confirmations and official records we obtained from the relevant competent government authorities, and the legal opinions of our PRC Legal Advisors, and having considered collectively that (a) that Yangsi Hospital was the largest non-public hospital in Shanghai in terms of revenue in 2015, and has been providing comprehensive medical services covering the population of 300,000 within the Yangsi area and Yangsi Hospital is of significance to the public welfare in the local area, the development of which became a demonstrative model in the context of the government's promotion of non-public hospitals; and (b) the risk that Yangsi Hospital will be required to be relocated from the Lands to be extremely remote and unforeseeable, our Directors and the Sole Sponsor are of the view that the absence of title certificates of the Lands and the buildings thereon due to historical reasons will not create any substantive legal obstacle for Yangsi Hospital to continue occupying and using the Lands and the properties thereon, and will not have a foreseeable adverse impact on the operation, business or financial conditions of our Group as well as our Global Offering.

5. Relocation

Notwithstanding that we reasonably and firmly believe that the risk for relocation of Yangsi Hospital is extremely remote and that Yangsi Hospital intends to continue its operations in the buildings located on the Lands, we have considered and assessed the feasibility of relocation in the following aspects:

(a) The PRC laws allow and facilitate relocation of medical institutions. As advised by our PRC Legal Advisors, in accordance with the Administrative Regulation of Medical Institutions issued by the State Council of the PRC as amended in February 2016, the Rules for the Implementation of Medical Institution Regulations issued by the Ministry of Health of the PRC as amended in November 2006, and the guidance of the Health and Family Planning Commission of Shanghai, an approval for relocation of Yangsi Hospital would be issued within 45 business days, on the condition that Yangsi Hospital has duly submitted the requisite application.

(b) We would be provided with a sufficient period of time to implement the relocation of Yangsi Hospital. The Pudong Planning and Land Bureau has confirmed to us that change of land planning involving detailed and complicated regulatory procedures would take at least one to two years to be completed at the government level. Therefore, after taking into account of this time frame, we believe Yangsi Hospital would be granted a period of at least two to three years to implement its relocation plan.

(c) We would be able to find a contingent location suitable for relocation of Yangsi Hospital at a reasonable cost. Based on our preliminary feasibility assessment, we would be able to secure a lease for a contingent location that is conveniently located and easily accessible by public transportation, covers a sizable population, has sufficient space to accommodate the operations of Yangsi Hospital and contains the requisite internal structures for performing the functions and services of a medical institution. Based on the above and to the best knowledge and belief of our Directors, the risk of a material drop in the number of patients visiting Yangsi Hospital as a result of the implementation of our relocation plan is not significant.

Based on our preliminary market research, the estimated cost of relocation would be approximately RMB15 million and the estimated timeframe for relocation of Yangsi Hospital would be approximately six months. The relocation steps would include obtaining necessary regulatory approvals, refurbishing and retrofitting, relocating equipment and facilities, relocating in-patients and related hospital staff and relocating out-patient, emergency care departments and related hospital staff. Amongst the aforementioned relocation steps, the relocation of out-patient, emergency care departments and other hospital staff is estimated to be completed within approximately three days. As such, given these factors, in the unlikely event that we would be required to implement our relocation plan for Yangsi Hospital, we would expect any resulting decline in revenue as a result of suspension of our out-patient services for approximately three days to be minimal. Therefore, our Directors believe that any decline in revenue attributable to the relocation would not have a material and adverse impact on our Group's financial performance.

6. Indemnities by Controlling Shareholders

Our Controlling Shareholders have agreed to indemnify our Company and each of our subsidiaries against any actions, claims, direct losses, damages, costs, charges or expenses that may be made, suffered or incurred by us in respect of or arising directly or indirectly from any title defects of the Lands, including any fees which may be payable by us in order to obtain the relevant land use right certificates. As the government authority has not yet commenced the collective review of title defects nor have the Land Issue Policies been finalized, the maximum amount of such outstanding fee payable (if any) is unascertainable as at the date of this prospectus. We confirmed that the consideration for the Lands have been fully settled by Weikang Investment. Having consulted with our PRC Legal Advisors, our Directors are not aware of any explicit legal requirements to make any additional payments with respect to obtaining our land use right certificates for the Lands. The Controlling Shareholders have confirmed to us that they have sufficient financial resources (including capital commitments of limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify our Company for any damages or costs incurred in relation to the title defects of the Lands.

Leased Properties

As of the Latest Practicable Date, Yangsi Hospital leased a total of four properties in Shanghai with a total gross floor area of approximately 683 sq.m., and used these properties as offices and service centers for the local community. These leased properties are not the principal place of business of the hospital. These lease agreements have terms ranging from three to six years and as of the Latest Practicable Date, none of them had expired.

In relation to two of the four property lease agreements entered into by Yangsi Hospital, the lessors either do not have or had not provided the relevant ownership certificates and the relevant lease agreements have not been registered with the relevant PRC Government authorities as required by law.

As advised by our PRC Legal Advisors, Yangsi Hospital will not be subject to any liabilities as a result of the failure to provide the relevant ownership certificates by the lessors. Nevertheless if the lessors do not have the lawful rights to lease these properties, the relevant lease agreements may not be legally binding and enforceable under the PRC laws, and, consequently, Yangsi Hospital may not be able to continue to occupy and use these properties. As of the Latest Practicable Date, we were not aware of any actions that had been brought to challenge the title to or use of these properties. Our Directors do not foresee any difficulties in seeking alternative premises should this become necessary.

Apart from the two above-mentioned leases, another lease agreement entered into by Yangsi Hospital has not been registered. The failure to register these three leases was because the lessors have not been willing to assist with such registration. As advised by our PRC Legal Advisors, under the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the parties of a lease agreement are required to register a lease agreement with the Local Construction (Real Estate) Administrative Department of the Local People's Government (人民政府建設(房地產)主管部門) within 30 days of the signing of the agreement. Yangsi Hospital may be subject to a maximum fine of RMB10,000 for each lease agreement not registered. Our PRC Legal Advisors have further advised us that the failure to register the lease agreements will not create any material adverse effect to the operations of Yangsi Hospital.

We have taken the following rectification measures in respect of leased properties: (i) provided legal compliance training to the management team of Yangsi Hospital, especially to check the ownership certificates and relevant documents before entering into a lease agreement; and (ii) negotiated with the lessors to include a provision obliging them to procure registration upon renewal of the lease agreements.

Legal proceedings and compliance

Medical disputes

Yangsi Hospital is subject to legal proceedings and claims that arise in the ordinary course of its business, which primarily include medical disputes brought by its patients and/or their families against the hospital. These medical disputes related mostly to bodily injuries or fatalities that the patients or their families claim to have suffered during or after receiving medical treatments at the hospital. As part of its risk management and internal control procedures, Yangsi Hospital fully informs its patients of the inherent risks of the relevant medical services and procedures, and obtains their consents before conducting the relevant treatments or procedures, as appropriate.

During the Track Record Period, most of the medical disputes between Yangsi Hospital and its patients and/or their families were settled through direct negotiations between the hospital and them, or mediations. However, patients may choose to seek claims against the hospital through legal proceedings if the initial negotiation or mediation fails to reach a settlement. For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, the total number of medical disputes was 13, 16, 5 and 1, respectively, all of which resulted in monetary compensation to the patients and/or their families. All these disputes have been settled and the total amount of monetary compensation paid for these medical disputes was approximately RMB0.7 million, RMB1.4 million, RMB0.2 million and RMB12,000 in these respective periods, less than 0.3% of Yangsi Hospital's total revenue in the relevant periods. Yangsi Hospital does not maintain any medical liability insurance that protects it from liability associated with these medical disputes. Among these medical disputes, five, five, zero and zero cases in these respective periods involved patient fatalities, and two, six, two and zero cases in these respective periods involved settlement amounts higher than RMB50,000.

The following table sets out the details of material medical disputes of Yangsi Hospital during the Track Record Period:

Date of Incident	Nature and Reason of Incident	Settlement Method	Compensation Paid by the Hospital	Liability of the Hospital	Penalty Imposed by the Relevant Authority
For the year ended December 31, 2013:					
April 20, 2011	Patient fatality due to sudden death	Litigation	RMB426,867.06	Secondary liability	No
December 22, 2012	Patient fatality due to aneurysm rupture	Private negotiation/ settlement	RMB5,000	Not primarily or secondarily liable[(1)]	No

Date of Incident	Nature and Reason of Incident	Settlement Method	Compensation Paid by the Hospital	Liability of the Hospital	Penalty Imposed by the Relevant Authority
January 21, 2013	Patient fatality due to sudden respiratory and cardiac arrest during examination	Mediation	RMB41,747.95	Not primarily or secondarily liable[(1)]	No
February 10, 2013	Patient fatality in hospital ward	Mediation	RMB105,962.20	Not primarily or secondarily liable[(1)]	No
February 24, 2013	Patient left hospital alone and found dead after falling from a building	Private negotiation/ settlement	RMB2,000	Not primarily or secondarily liable[(1)]	No
For the year ended December 31, 2014:					
August 29, 2012	Patient fatality due to sudden respiratory and cardiac arrest during examination	Litigation	RMB117,636	Secondary liability	No
November 9, 2013	Patient fatality due to gastrointestinal bleeding	Litigation	RMB141,904.14	Class I level A minor liability[(2)]	No
November 12, 2013	Patient injury due to achilles tendon rupture caused during examination	Mediation	RMB130,000	Not primarily or secondarily liable[(1)]	No
December 30, 2013	Patient fatality due to allergy to infusion fluid	Settlement in court	RMB520,000	Not primarily or secondarily liable[(1)]	No
March 13, 2014	Patient fatality due to hypoglycemia	Mediation	RMB131,450	Not primarily or secondarily liable[(1)]	No

Date of Incident	Nature and Reason of Incident	Settlement Method	Compensation Paid by the Hospital	Liability of the Hospital	Penalty Imposed by the Relevant Authority
September 18, 2014	Patient died after being transferred to Zhongshan Hospital due to acute pancreatitis and organ failure	Mediation with judicial intervention	RMB280,000	Not primarily or secondarily liable[1]	No
For the year ended December 31, 2015:					
June 23, 2014	Patient injury due to renal atrophy and decreased renal function	Mediation	RMB50,000	Not primarily or secondarily liable[1]	No
February 8, 2015	Newborn infant injury due to nerve injury	Mediation	RMB100,000	Not primarily or secondarily liable[1]	No

Notes:

(1) As advised by our PRC Legal Advisors, according to the Interim Measures on Medical Malpractice (醫療事故技術鑒定暫行辦法), which were promulgated on July 31, 2002 by the Ministry of Health of the PRC, primary liability is defined as where the injury and its effects are found to have been mainly caused by medical negligence, with other factors playing a secondary role; and secondary liability is defined as where the injury and its effects are found to have been primarily caused by factors other than medical negligence, with medical negligence playing a secondary role.

For medical incidents for which we were not primarily or secondarily liable, we from time to time pay no-fault compensation to the counterparties of such incidents, especially those resulting in fatality, as part of our efforts to undertake social responsibility and to expedite the resolution of any potential claims from such parties.

(2) According to Medical Malpractice Grading Standards (Trial) (《醫療事故分級標準(試行)》), which were promulgated on July 31, 2002 by the Ministry of Health of the PRC, class I level A medical incidents are those resulting in patient fatality. According to the Interim Measures on Medical Malpractice (醫療事故技術鑒定暫行辦法), medical incidents caused predominantly by factors other than medical negligence, with medical negligence playing a minor role, are classified as those with minor liability.

Among these medical disputes, none of the medical staff or doctors was involved in any disciplinary proceedings or determined to be liable for any medical malpractice incidents; while internal disciplinary actions had been imposed on the relevant responsible staff, including dismissal, deduction of salary and/or bonus, monetary penalty, degrading in annual assessment and attending mandatory training.

We believe these medical disputes reflect the inherent risks related to the hospital's business and operations. According to the Frost & Sullivan Report, medical disputes are not uncommon due to the inherent risks associated with medical services in relation to diagnoses, treatments, procedures and unforeseeable conditions that might result in unfavorable medical outcomes. Yangsi Hospital may continue to face potential legal proceedings and claims in its operations. See the section headed "Risk Factors—Risks Relating to Our Business and Industry—The Hospitals have been and could become the subject of litigation, claims and governmental investigations, including medical disputes brought by patients, which may harm our reputation and our business."

As of the Latest Practicable Date, Yangsi Hospital was not a party to any material ongoing litigation, arbitration or administrative proceedings arising from medical disputes, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect the business, financial conditions or results of operations of Yangsi Hospital.

Non-compliance incidents

Except as disclosed below, the operations of Yangsi Hospital were in material compliance with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. The table below sets forth a summary of incidents of certain non-compliance with the applicable laws and regulations of Yangsi Hospital during the Track Record Period.

Non-compliance incidents and reasons for non-compliance	Legal consequences and potential maximum penalties on Yangsi Hospital	Remedial Measures Taken/To be Taken
1. Defective titles to properties There are title defects with certain properties owned or leased by Yangsi Hospital. Please see "—The Hospitals—Yangsi Hospital—Properties" for details.	Please see "—The Hospitals—Yangsi Hospital—Properties" for details.	Please see "—The Hospitals—Yangsi Hospital—Properties" for details.
Due to lack of the land use right certificate for Land 32, Yangsi Hospital was unable to obtain the construction works planning permit (建設工程規劃許可證) or construction works commencement permit (建築工程施工許可證) in respect of the construction of the buildings on Land 32 that are being used for the operations of Yangsi Hospital as at the Latest Practicable Date. Consequently, Yangsi Hospital was unable to apply for an inspection upon completion of the construction project pursuant to the Regulations on Quality Management of Construction (建設工程質量管理條例) as at the Latest Practicable Date.	Our PRC Legal Advisors have advised us that, with respect to construction works without obtaining the construction works planning permit, in the case that the construction can be remedied to conform to the relevant planning rules, the planning authority may order the developer to rectify the construction in a prescribed period of time and a fine up to 10% of the total construction cost may be imposed. Where the construction cannot be remedied to conform to relevant planning rules, the planning authority may order that such construction be demolished, or where demolition is not possible, forfeit the illegal property or illegal income derived from the property and a fine up to 10% of the construction cost impose. Our PRC Legal Advisors have further advised us that the abovementioned non-compliance may trigger a demolishment order over the buildings on Land 32 with such non-compliance issues within a prescribed period of time and Yangsi Hospital may be subject to a fine. With respect to the commencement of construction work without obtaining the construction works commencement permit, the developer may be ordered to rectify the construction within a prescribed period of time and a fine up to 2% of the total construction cost may be imposed on Yangsi Hospital. With respect to the delivery and use of buildings without processing the inspection of the completed construction works, the developer may be ordered to rectify the activity within a prescribed period of time and a fine up to 4% of the total construction cost may be imposed. Pursuant to the above requirements, the maximum amount of penalty that could be imposed on Yangsi Hospital is approximately RMB5,247,000, calculated based on the total construction cost for the buildings located on Land 32 incurred by Yangsi Hospital.	The Construction and Transportation Committee of Shanghai Pudong New District, Shanghai (上海市浦東新區建設和交通委員會) (which, as confirmed by our PRC Legal Advisors, is a competent and responsible authority for administering construction affairs in the Pudong New District of Shanghai), issued a letter on January 29, 2016 to confirm that no penalties had been imposed on Yangsi Hospital or Weikang Investment in Pudong New District since 2004, when Yangsi Hospital was at the early stage of its formation, on Land 32 (together with Land 28) for any violation of property or construction-related laws or policies. In addition, in order to assess the safety condition of the properties on Land 32, our Company obtained a property condition inspection report (房屋完損檢測報告) issued by CSTC Standards Technical Services (Shanghai) Co., Ltd. (a competent independent inspection company approved by the Shanghai City Housing and Urban and Rural Construction Management Committee (上海市住房和城鄉建設管理委員會)) on February 18, 2016, confirming that there is no structural defect on the buildings on Land 32 and such buildings are in a good state of repair and can fulfill their functions under normal usage. Based on the property condition inspection report and the safety records of Yangsi Hospital, the Directors believe that the properties on Land 32 are fit and safe for the operations of Yangsi Hospital.

Non-compliance incidents and reasons for non-compliance	Legal consequences and potential maximum penalties on Yangsi Hospital	Remedial Measures Taken/To be Taken
	Our PRC Legal Advisors have further advised us that Land 32 and the buildings located on it cannot be bought, sold or accepted as security for mortgages by Yangsi Hospital without the relevant land use right certificate and building ownership certificates. See the section headed "Risk Factors—Risks Relating to Our Business and Industry—There are risks associated with the land and buildings on which Yangsi Hospital operates, and we would face disruption to our business if Yangsi Hospital were required to find alternative premises" for more details on the risks associated with defective titles.	
2. ***Environmental protection***		
Yangsi Hospital did not fully comply with the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例) as it did not file an environmental impact report with the competent environmental protection authorities for them to approve the construction project of Yangsi Hospital on Land 28 and Land 32. Consequently, Yangsi Hospital was unable to apply for an environmental protection inspection upon completion of the construction project pursuant to the Regulations on Administrative Regulations on Environmental Protection for Construction Project. These non-compliances were due to the absence of the requisite land use right certificates of Land 28 and Land 32. See "—The Hospital—Yangsi Hospital—Properties" for more information.	Our PRC Legal Advisors have advised us that, under the relevant PRC laws and regulations, as a result of the failure to comply with the stipulated procedures for filing an environmental impact report for approval, the relevant environmental protection authority may require the fulfillment of the formalities and failing this, order to cease construction of the project and impose a fine of up to RMB100,000 on Yangsi Hospital. Our PRC Legal Advisors have further advised us that, under the relevant PRC laws and regulations, as a result of the failure to apply for an environmental protection inspection upon completion of the construction, the relevant environmental protection authority may order the relevant facility to cease production or operation and impose a fine of up to RMB100,000. Based on (i) the written confirmation from the Environmental Supervision Division of Pudong New District of Shanghai (上海市浦東新區環境監察支隊), (ii) the testing reports issued by the Pudong Sub-division of Shanghai Aquatic Environment Monitoring Center (上海市水環境監測中心浦東新區分中心), (iii) the Radiation Safety Permit (輻射安全許可證) issued by the Shanghai Environmental Protection Bureau (上海市環境保護局), and (iv) the remedial actions taken by Yangsi Hospital, the PRC Legal Advisors are of the view that these non-compliances will not create any material adverse effect on Yangsi Hospital.	On March 22, 2016, the Environmental Supervision Division of the Shanghai Pudong New District, the competent authority for supervising environmental protection, confirmed in writing that no administrative penalty had been imposed on Yangsi Hospital since April 1, 2013 in relation to the violation of the environmental protection laws and regulations. The Pudong Sub-division of Shanghai Aquatic Environment Monitoring Center issued testing reports on October 29, 2014 and April 15, 2016, confirming the compliance of the sewage discharged by Yangsi Hospital with applicable water quality standards and emission limits. The Shanghai Environmental Protection Bureau issued a Radiation Safety Permit to Yangsi Hospital on June 18, 2015. As of the Latest Practicable Date, Yangsi Hospital had put in place relevant environmental protection facilities, engaged Shanghai Solid Waste Disposal Center (上海市固體廢物處置中心) to dispose of its solid medical waste, and completed rainwater discharge inspection and connected to the Shanghai urban drainage facilities.

Non-compliance incidents and reasons for non-compliance	Legal consequences and potential maximum penalties on Yangsi Hospital	Remedial Measures Taken/To be Taken
3. ***Social insurance and housing provident fund contribution*** The mandatory social insurance contributions in accordance with the Law on Social Insurance (社會保險法) and the housing provident fund contributions in accordance with the Regulations on Management of Housing Provident Fund (住房公積金管理條例) for Yangsi Hospital's employees, which amounted to approximately RMB8.4 million, RMB9.9 million, RMB12.5 million and RMB8.9 million for 2013, 2014, 2015 and the nine months ended September 30, 2016, respectively, were made in the name of Weikang Investment. In spite of that, contributions to social insurance and housing provident fund had been made for Yangsi Hospital's employees, and no penalties or punishments had been imposed upon Yangsi Hospital by relevant government authorities as of the Latest Practicable Date. The contributions to social insurance for employees of Yangsi Hospital were historically made in the name of Weikang Investment as founder of Yangsi Hospital for the purpose of attracting talents, as the amounts contributed in the name of Weikang Investment (which was registered in the urban area of Shanghai) could be higher than the amounts required of Yangsi Hospital (which was registered in the suburban area of Shanghai) according to the local social insurance policies. The contributions to the housing provident fund for employees of Yangsi Hospital were historically made in the name of Weikang Investment together with the social insurance contributions.	(1) With respect to social insurance contributions Our PRC Legal Advisors have advised us that, pursuant to relevant PRC laws and regulations, the social insurance authority may order Yangsi Hospital itself to make social insurance contributions that are legally required of Yangsi Hospital within a prescribed time limit, together with an overdue fine at a daily rate of 0.05% on the outstanding amount. If there are still any outstanding social insurance contributions after the prescribed time limit, the social insurance authority may impose a fine of up to three times of the outstanding amount on Yangsi Hospital. (2) With respect to housing provident fund contributions Our PRC Legal Advisors have advised us that, pursuant to relevant PRC laws and regulations, the housing provident fund management center may order Yangsi Hospital itself to make the housing provident fund contributions that are legally required of Yangsi Hospital within a prescribed time limit. If there are still any outstanding housing provident fund contributions after the prescribed time limit, the housing provident fund management center may seek an order for payment from the relevant Chinese courts. Based on (i) the fact that as of the Latest Practicable Date, contributions had been made for Yangsi Hospital's employees in the name of Weikang Investment, (ii) the written confirmation from the Shanghai Housing Provident Fund Management Center (上海市公積金管理中心), and (iii) the written confirmation from the Pudong Branch Center of Shanghai Social Insurance Management Center, our PRC Legal Advisors are of the view that it is highly unlikely that a fine or penalty would be imposed on Yangsi Hospital for these non-compliances. Yangsi Hospital did not make a provision for these non-compliances.	On May 13, 2016, the Shanghai Housing Provident Fund Management Center, the relevant authority for administering housing provident fund-related affairs in Shanghai, confirmed in writing that no administrative penalties had been imposed on Yangsi Hospital in relation to the housing provident fund contributions. The Pudong Branch Center of Shanghai Social Insurance Management Center (上海市社會保險事業管理中心浦東分中心), the relevant authority for administering social insurance-related affairs, confirmed in writing that no administrative penalties had been imposed on Yangsi Hospital in relation to its social insurance contributions during the period from January 1, 2013 to February 29, 2016. Yangsi Hospital will begin making the required contribution itself to social insurance and housing provident fund for all of its employees as soon as reasonably practicable. Going forward, Yangsi Hospital's human resources department will consult its PRC legal advisors and the relevant local authorities on a regular basis to ensure that its contribution to social insurance and housing provident fund is, in its PRC legal advisors and local government officers' view, in compliance with all applicable laws, regulations and governmental policies. In addition, Yangsi Hospital will review and update the list of social insurance and housing provident fund contributions regularly and make voluntary filings with the relevant local authorities. We have implemented, or plan to implement, various measures to prevent the occurrence of similar non-compliance incidents: (i) we have dedicated personnel who closely monitor legislative and regulatory developments in all relevant regions to ensure that we are kept abreast of, and are in compliance with, all applicable laws and regulations relating to social insurance and housing provident fund contribution, (ii) going forward, we will communicate regularly with Yangsi Hospital to ensure that it complies with all applicable laws and regulations relating to social insurance and housing provident fund contribution, and (iii) we will also establish channels for employees of Yangsi Hospital to report any irregularities in its social insurance and housing provident fund contribution.

Fuhua Hospital

We own and operate Fuhua Hospital, a non-public for-profit general hospital registered in the form of a limited liability company located in Pudong New District of Shanghai, since January 2014. It is a Medical Insurance Designated Medical Institution and a general hospital that provides general hospital services integrating clinical care and rehabilitation services. As of the Latest Practicable Date, Fuhua Hospital had 15 medical departments, including internal medicine (including disciplines such as rehabilitation), obstetrics and gynecology, aesthetic medicine, ophthalmology, general surgery (including disciplines such as urology and orthopaedics) and Chinese medicine. The department of internal medicine made the largest contribution to Fuhua Hospital's revenue in 2014, 2015 and the nine months ended September 30, 2016. As of the Latest Practicable Date, Fuhua Hospital's facilities occupied a gross floor area of 4,063 sq.m. Fuhua Hospital had 61 medical professionals, including 27 doctors and 34 other medical professionals, as of January 31, 2017. As of the same date, Fuhua Hospital also had seven multi-site practice physicians, who principally practice at other hospitals.

The table below sets forth a breakdown of Fuhua Hospital's revenue by medical departments during the periods indicated:

	Year ended December 31,	Nine months ended September 30,	
	2015	2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)
Internal medicine	14,238	10,456	12,771
Chinese medicine	3,250	1,936	2,735
General surgery	2,050	1,404	2,563
Obstetrics and gynecology	1,081	847	464
Others(1)	2,828	1,231	2,555
Total(2)	23,447	15,875	21,089

Notes:

(1) Primarily includes revenue from other medical departments.

(2) We did not include the 2014 data because Fuhua Hospital does not have a revenue breakdown by medical departments for the first few months of 2014, which data were stored on an old IT system that it has ceased to use.

The following table sets forth the key information relating to Fuhua Hospital during the Track Record Period:

	As of or for the year ended December 31,		As of or for the nine months ended September 30,	
	2014	2015	2015	2016
Revenue (RMB'000)*	14,675	23,447	15,875	21,089
Cost of revenue (RMB'000)[1*]	15,249	21,608	14,814	19,878
Gross profit (RMB'000)[1*]	(574)	1,839	1,061	1,211
Gross profit margin[1*]	(3.9)%	7.8%	6.7%	5.7%
Number of hospital beds in operation as of the end of the relevant period	111	120	120	120
Occupancy rate of beds in operation	30%	73%	77%	83%
In-patients				
Number of in-patient visits	198	523	331	386
Total revenue from in-patient services (RMB'000)	3,632	7,554	5,227	6,881
Average revenue per in-patient visit (RMB)	18,343	14,444	15,792	17,826
Out-patients				
Number of out-patient visits	24,237	42,932	26,661	34,644
Total revenue from out-patient services (RMB'000)	11,043	15,893	10,648	14,207
Average revenue per out-patient visit (RMB)	456	370	399	410

Note:

1 For the year ended December 31, 2014, the data were cost of revenue, gross profit and gross profit margin, respectively, for our Predecessor Entities' general hospital services segment, while for the year ended December 31, 2015 and for the nine months ended September 30, 2015 and 2016, the data were cost of revenue, gross profit and gross profit margin, respectively, for our Group's general hospital services segment. The cost of revenue of our Group's general hospital services segment includes a higher amount in respect of amortization of Fuhua Hospital's medical licenses compared with that included in the cost of revenue of the Predecessor Entities' general hospital services segment, as a result of the appreciation in fair value of these medical licenses upon our acquisition of the Predecessor Entities. Given these differences, the cost of revenue, gross profit and gross profit margin data for 2014 are not comparable with the cost of revenue, gross profit and gross profit margin data for 2015 and 2016.

* The financial information as of or for the nine months ended September 30, 2015 is unaudited.

Fuhua Hospital was acquired by Weikang Investment on January 15, 2014; since then it has formed the general hospital services segment of our Predecessor Entities. The following is a year-on-year comparison of the revenue, cost of revenue and gross profit of our Predecessor Entities' general hospital services segment from 2014 to 2015. The revenue for the general hospital services segment of our Predecessor Entities in 2015 was the same as that of our Group's general hospital services segment. However, the cost of revenue and gross profit for the general hospital services segment of our Predecessor Entities in 2015 differed from that of our Group's general hospital services segment, because the amortization expense of Fuhua Hospital's medical licenses recorded in our Group's financial results was higher than that in our Predecessor Entities' financial results as a result of our acquisition of the Predecessor Entities on September 30, 2014. For a discussion of the period-to-period comparison of the financial performance of our Group's general hospital services segment from the nine months ended September 30, 2015 to the same period of 2016, please see "Financial Information—Results of Operations—Our Group—The Nine Months Ended September 30, 2016 Compared with the Nine Months Ended September 30, 2015."

Revenue

Revenue from the general hospital services segment of our Predecessor Entities increased by 59.8% from RMB14.7 million in 2014 to RMB23.4 million in 2015. This increase was primarily due to the increased out-patient treatment efforts of Fuhua Hospital, higher pharmaceutical sales, and the retrofitting of wards in the second half of 2014, which were in line with an increase in out-patient visits from 24,237 in 2014 to 42,932 in 2015 and an increase in in-patient visits from 198 in 2014 to 523 in 2015. The increases in Fuhua Hospital's out-patient visits and in-patient visits from 2014 to 2015 were primarily due to our efforts to diversify and optimize the medical services that Fuhua Hospital provides, improve its medical capabilities, enhance its recognition among customers by providing free clinical services at communities and the retrofitting of its wards to attract in-patient visits.

Cost of revenue

Cost of revenue for the general hospital services segment of our Predecessor Entities increased by 39.4% from RMB15.2 million in 2014 to RMB21.3 million in 2015, primarily due to an RMB5.5 million increase in cost of pharmaceuticals, consumables and testing fees of Fuhua Hospital in line with an increase in pharmaceutical sales.

Gross profit and gross profit margin

Gross profit for the general hospital services segment of our Predecessor Entities reversed from a gross loss of RMB574 thousand in 2014 to a gross profit of RMB2.2 million in 2015. Gross profit margin for the general hospital services segment of our Predecessor Entities was negative 3.9% in 2014 and 9.3% in 2015. This reversal was primarily due to economies of scale of Fuhua Hospital, as indicated by the general hospital services segment's higher revenue and that certain fixed costs accounted for a lower percentage of the general hospital services segment's revenue.

Compared to the more mature Yangsi Hospital, Fuhua Hospital is still in a transitional development stage. To improve Fuhua Hospital's business prospects and financial performance, we plan for Fuhua Hospital to focus on treatment of common diseases, frequently re-occurring diseases and chronic diseases, which we believe will help widen its customer base. In particular, based on a strategy of providing in-patient services that integrate clinical care and rehabilitation services, we plan to gradually convert Fuhua Hospital's beds currently used for senior care services to beds used for general medical care services by improving Fuhua Hospital's medical service quality and the level of its cooperation with community senior care agencies. We believe this change will increase Fuhua Hospital's in-patient revenue. In addition, we plan to continue to improve Fuhua Hospital's cost efficiency, improve its medical service quality, and recruit and maintain quality medical professionals.

Out-patient Services

Fuhua Hospital operates through two main business lines, through which patients gain access to the hospital and pay for services: (i) out-patient clinic services and (ii) medical check-ups.

Fuhua Hospital provides a wide range of out-patient clinic services in several major out-patient specialties including general surgery, internal medicine, gynecology, stomatology and Chinese medicine. For the years ended December 31, 2014 and 2015, Fuhua Hospital recorded 24,237 and 42,932 out-patient visits (including patients who had medical check-ups at the hospital), respectively. For the nine months ended September 30, 2015 and 2016, Fuhua Hospital recorded 26,661 and 34,644 out-patient visits (including patients who had medical check-ups at the hospital), respectively.

Fuhua Hospital provides various medical check-up programs such as liver-function screening, renal-function screening, electrocardiogram (ECG) testing, brightness mode ultrasound, and radiological examination. In 2014 and 2015, revenue generated by Fuhua Hospital from out-patient services was RMB11.0 million and RMB15.9 million, which accounted for 75.3% and 67.8% of Fuhua Hospital's total revenue, respectively, and the average revenue per out-patient visit was RMB456 and RMB370, respectively. In the nine months ended September 30, 2015 and 2016, revenue generated by Fuhua Hospital from out-patient services was RMB10.6 million and RMB14.2 million, which accounted for 67.1% and 67.4% of Fuhua Hospital's total revenue, respectively, and the average revenue per out-patient visit was RMB399 and RMB410, respectively. Revenue from out-patient services consists of registration and treatment fees, laboratory fees, sales of pharmaceuticals and medical consumables, radiology service fees and ancillary equipment revenue.

In-patient services

Fuhua Hospital provides comprehensive in-patient services integrating treatments and rehabilitation services. In 2014 and 2015, its in-patient services generated revenue of RMB3.6 million and RMB7.6 million, which accounted for 24.7% and 32.2% of its total revenue, respectively, and the average revenue per in-patient visit was RMB18,343 and RMB14,444, respectively. In the nine months ended September 30, 2015 and 2016, its in-patient services generated revenue of RMB5.2 million and RMB6.9 million, which accounted for 32.9% and 32.6% of its total revenue, respectively, and the average revenue per in-patient visit was RMB15,792 and RMB17,826, respectively. The growing aging population in Shanghai has placed pressing needs for medical care for elderly patients. Over 90% of in-patients admitted to Fuhua Hospital in 2014 and 2015 and the nine months ended September

30, 2016 were aged over 65. Elderly patients tend to have a higher chance of readmission and longer lengths of stay due to their complex disease status and multiple comorbidities and chronic diseases, which results in a higher average revenue per in-patient visit as compared to Yangsi Hospital. Revenue from in-patient services mainly consists of treatment fees, room rates, laboratory fees, sales of pharmaceuticals, medical consumables and supplies, radiology service fees, and surgical fees. Fuhua Hospital operated 111, 120 and 120 beds to provide geriatric and rehabilitative treatments and services, as of December 31, 2014 and 2015 and September 30, 2016, respectively.

In 2014 and 2015, Fuhua Hospital's in-patient deaths represented 34.0% and 18.2% of its total number of admitted in-patients, respectively, compared to approximately 0.50% and 0.50% for general hospitals in the PRC for these respective periods, according to the Frost & Sullivan Report. Fuhua Hospital's higher-than-industry-average in-patient mortality rates for 2014 and 2015 were primarily a result of its focus on the providing clinical care and rehabilitation services to elderly patients and its admission of a relatively larger number of elderly in-patients during these periods; these patients generally have higher mortality rates than in-patients of other age groups. In 2014 and 2015, 91.8% and 94.0% of Fuhua Hospital's in-patients were aged over 65, respectively, which, according to Frost & Sullivan, were higher than industry averages. According to the same source, hospitals with higher percentages of elderly patients generally have higher patient mortality rates, and in general, the higher the percentage of a hospital's elderly in-patients, the higher its in-patient mortality rate.

Pricing and price controls

As a non-public for-profit hospital, Fuhua Hospital is entitled to set the prices of its medical services at its own discretion. Fuhua Hospital is a Medical Insurance Designated Medical Institution and subject to the pricing guidelines for medical services set by the relevant authorities with respect to the medical services covered by public medical insurance programs it provides. Fuhua Hospital usually charges the same prices for the same types of medical services it provides, whether or not covered by public medical insurance programs. In 2015 and the nine months ended September 30, 2016, approximately 78% and 75% of the revenue of Fuhua Hospital was derived from patients covered by the public medical insurance system, respectively. For details of the pricing guidelines for medical services, see the paragraph headed "—The Hospitals—Yangsi Hospital—Pricing and price controls" in this section.

The pharmaceuticals and medical devices subject to government controls that Fuhua Hospital sells must comply with the guideline prices or profit margin restrictions set by the relevant authority. For details of the pricing guidelines for pharmaceuticals and medical devices, please see the paragraph headed "—The Hospitals—Yangsi Hospital—Pricing and price controls" in this section.

Most of Fuhua Hospital's patients covered by the public medical insurance programs settle a portion of their medical fees immediately by cash, and in 2014, 2015 and the nine months ended September 30, 2016, the remainder (approximately 70%, 70% and 78%, respectively) was covered by the public medical insurance programs. The specific percentage covered by the public medical insurance programs for different patients may vary based on criteria including the age of the patient and type of treatment and pharmaceuticals. Fuhua Hospital became a Medical Insurance Designated Medical Institution in January 2013 and became subject to a government-approved quota under the UEBMIS in 2015 in respect of the reimbursement of the medical fees covered by the UEBMIS. Fuhua

Hospital is subject to similar reimbursement practices under the UEBMIS and other medical insurance programs as Yangsi Hospital since 2015. For details of the reimbursement practices under China's public medical insurance programs, see the paragraphs headed "—The Hospitals—Yangsi Hospital—Pricing and price controls" in this section and the section headed "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheets—Trade-nature Receivables." Fuhua Hospital's government-approved annual quota under the UEBMIS was RMB14.1 million and RMB17.9 million in 2015 and 2016, respectively. As of December 31, 2015, Fuhua Hospital's medical fees under the UEBMIS in excess of the annual quota were RMB1.1 million. The excess amount under the UEBMIS as of December 31, 2015 that will not be reimbursed by the local medical insurance bureau was RMB0.5 million. Fuhua Hospital made a provision of RMB1.0 million in 2015 for impairment of trade receivables in respect of medical service fees in excess of the quota that it estimated to be unrecoverable. Fuhua Hospital recognizes all of its medical service fees, including any excess amounts under the UEBMIS, in revenue. Before it receives notice from the local medical insurance bureau on what portion of the excess amount that the bureau will reimburse the hospital, Fuhua Hospital makes a provision for impairment of trade receivables equal to the portion of the excess amount that it estimates to be unrecoverable from the local medical insurance bureau. The amount of that provision is currently based primarily on its best estimate and will, in future, be based primarily on its experience. After receiving this notice, Fuhua Hospital writes off the portion of the excess amount that will not be reimbursed by the local medical insurance bureau.

OUR CUSTOMERS

Our customers primarily fall into two categories: (i) Yangsi Hospital and (ii) patients of Fuhua Hospital.

Yangsi Hospital was our largest customer during the Track Record Period, and we receive management service fees from Yangsi Hospital by providing management and consultancy services to it. For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, Yangsi Hospital generated revenue of RMB399.4 million, RMB461.7 million, RMB538.0 million and RMB443.6 million, respectively. In these same respective periods, management service fees (net of value-added tax) from Yangsi Hospital (by Weikang Investment in 2013 and 2014 and by Weikang Investment and Honghe Ruixin in 2015 and the nine months ended September 30, 2016) were RMB45.5 million, RMB64.6 million, RMB117.8 million and RMB93.3 million.

Relationship with Yangsi Hospital

Yangsi Hospital is a Privately-funded Non-enterprise Entity. We exercise substantial influence over the operational and managerial decisions of Yangsi Hospital through our ownership of the management companies—Weikang Investment and Honghe Ruixin. This influence is achieved through Weikang Investment and Honghe Ruixin's management rights under the Hospital Management Agreements and Weikang Investment's right to nominate a majority of the members in the executive committee of Yangsi Hospital under the hospital's rules of procedure for its executive committee. For more details of the governance structure and business of Yangsi Hospital, please see the paragraphs headed "—Our Business Model—Our Hospital Management Business" and "—The Hospitals—Yangsi

Hospital" above. Our Directors believe that the management and consultancy services provided by Weikang Investment and Honghe Ruixin to Yangsi Hospital and the voting that Weikang Investment's nominated members make on Yangsi Hospital's executive committee decisions reflect our interest as well as serve the benefit of Yangsi Hospital.

During the Track Record Period, we had non-trade amounts due to Yangsi Hospital, which particularly included an RMB80.0 million advance from Yangsi Hospital to Weikang Investment as of December 31, 2014. See "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheet—Related Party Transactions" for more information. On May 7, 2014, New Pride, a subsidiary of the Company, and the-then shareholders of Weikang Investment entered into an equity transfer agreement in relation to the Weikang Acquisition. After signing the equity transfer agreement but before completion of the Weikang Acquisition, as agreed amongst all parties, the seller side provided good faith money to address New Pride's concerns on the effectiveness of the Hospital Management Agreements given that Weikang Investment did not recognize its full entitled revenue under the Hospital Management Agreements, and New Pride paid 30% of the consideration to the selling shareholders of Weikang Investment at their request prior to completion of the Weikang Acquisition. As part of the good faith money arrangement mutually agreed amongst all the parties after negotiations, Weikang Investment borrowed a fund in the amount of RMB80 million from Yangsi Hospital, and Yangsi Hospital deposited the fund to a jointly controlled account of Weikang Investment for the main purpose of providing comfort to New Pride in relation to effectiveness of the hospital management business model contemplated under the Hospital Management Agreements. Such good faith money was also intended to be used to secure uncertainties during the transition period between signing and completion. The funds were wired by Yangsi Hospital on May 30, 2014 to the jointly controlled account of Weikang Investment. Withdrawal or deployment of the RMB80 million contained in this jointly controlled account could only be processed upon affixing of all of the three account seals, which were separately held by (i) Weikang Investment, (ii) a representative of New Pride, and (iii) a representative of the-then shareholders of Weikang Investment. After the completion of the Weikang Acquisition, Weikang Investment repaid the funds in full to Yangsi Hospital on February 17, 2015. Upon obtaining unanimous consent and authorization from the holders of the three account seals, and with a view to optimizing returns on the funds, from May 30, 2014 to February 17, 2015 (the "**Funding Period**"), Weikang Investment initially placed these funds in short-term time deposits and, after our acquisition of Weikang Investment was completed, it invested these funds in short-term wealth management products. The funds were placed in the jointly controlled account of Weikang Investment during the Funding Period. Please see "Financial Information—Results of Operations—Our Predecessor Entities—The Year Ended December 31, 2015 Compared with the Year Ended December 31, 2014—Finance Income" for information on the short-term fixed deposits and "Financial Information—Discussion of Certain Items from the Consolidated Balance Sheet—Available-for-sale Financial Assets" for a description of our wealth management products, which were purchased with these funds.

Weikang Investment provided management services to Yangsi Hospital during the Track Record Period. In 2015, Honghe Ruixin began providing consultancy services to Yangsi Hospital. To safeguard the long-term sustainability of this arrangement, we have entered into the 10-year Long Term Hospital Management Agreement and 51-year Letter of Intent with Yangsi Hospital, pursuant to which Yangsi Hospital may not enter into other similar arrangement with any third party without our written approval. Please see the paragraphs headed "—Our Business Model—Our Hospital

Management Business" and "—The Hospitals—Yangsi Hospital—Hospital Management Agreements" in this section for details. In addition, Weikang Investment paid the start-up fund for the establishment of Yangsi Hospital and has been registered as the founder of Yangsi Hospital. We have the right to nominate six of the nine members of Yangsi Hospital's executive committee, which in turn has the authority to appoint and remove the president and the vice-president of the executive committee, the hospital administrator and heads of functional departments. Based on the governance structure of Yangsi Hospital and our contractual relationship with Yangsi Hospital, our Directors believe that the business relationship between Yangsi Hospital and us is stable and sustainable.

We believe that this long-term business relationship is mutually beneficial to both Yangsi Hospital and us. This relationship is beneficial to us in securing a high-quality and reputable hospital in our hospital network and it allows Yangsi Hospital to benefit from our full range management support. Yangsi Hospital's operations are highly reliant on management and consultancy services that we provide to it. Various senior management personnel of Yangsi Hospital (including the hospital administrator and the deputy hospital administrator appointed by its executive committee) are from Weikang Investment and Honghe Ruixin; these personnel manage different departments of Yangsi Hospital in a wide range of aspects, including pharmaceutical and medical equipment procurement, medical equipment maintenance, training for doctors and other medical professionals, storage and logistics management, management of public relations, branding and marketing, human resources management, and improvement of information technology systems. If the revenue of Yangsi Hospital were to drop hence affecting our income generated from management service fees, or our business relationship with Yangsi Hospital were to cease to continue, we believe that we possess the necessary industry knowledge and experience, resources and other competitive strengths to adopt our current business model of investing in and management of medical institutions with other potential hospital targets. See the paragraphs headed "—Our Competitive Strengths" in this section for more details.

Our management arrangement with Yangsi Hospital is not uncommon in our industry. According to the Frost & Sullivan Report, under many circumstances, not-for-profit hospitals are charged management service fees by their investors, by way of engaging a management company held by the investors to manage the hospitals. Hospital groups are managed under similar arrangements.

In addition, China's ongoing healthcare reform and the increasing demand for quality medical services have provided significant opportunities for private investments in China's healthcare market. To seize these opportunities, we have been actively seeking to invest in or manage other potential hospital targets, with a view to develop a national hospital network by leveraging the resources accessible to us. As a first step to enter China's healthcare market, we acquired Weikang Investment and Fuhua Hospital in 2014. We intend to apply 50% of the net proceeds from the Global Offering to finance the expansion of our hospital network. Please see the section headed "Future Plans and Use of Proceeds—Use of Proceeds" for more details. We plan to expand our hospital network by investing in Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale focused on common diseases, frequently re-occurring diseases or chronic diseases which fit our criteria. For more details, please see the paragraphs headed "—Expansion and Management of Our Hospital Network" in this section.

Relationship with Other Customers

Our patients, whom Fuhua Hospital directly provides with medical services, are individual patients. The majority of our patients rely on public medical insurance programs to pay for their treatments. These patients are further categorized as in-patients and out-patients. In 2014 and 2015, the revenue generated from providing general hospital services by Fuhua Hospital was RMB14.7 million and RMB23.4 million, which accounted for 18.3% of the Predecessor Entities' revenue in 2014 and 16.5% of our Group's revenue in 2015, respectively. In the nine months ended September 30, 2016, the revenue generated from providing general hospital services by Fuhua Hospital was RMB21.1 million, which accounted for 18.3% of our Group's revenue in this period. Other than Yangsi Hospital, which was our largest customer during the Track Record Period, none of our other individual patients accounted for more than 5% of our total revenue during the Track Record Period. To the best knowledge of our Directors, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

OUR SUPPLIERS

The supplies required in our operations primarily include pharmaceuticals and medical consumables purchased by Fuhua Hospital. In the period from February 21, 2014 to December 31, 2014, in 2015 and the nine months ended September 30, 2016, our cost of pharmaceuticals, consumables and testing fees, which was related to Fuhua Hospital, was RMB2.7 million, RMB12.9 million and RMB12.6 million, accounting for 55.1%, 59.6% and 63.6% of our general hospital services segment's cost of revenue and 52.1%, 54.9% and 59.9% of our general hospital services segment's total revenue, respectively. In 2014 and 2015, our Predecessor Entities' cost of pharmaceuticals, consumables and testing fees, which was related to Fuhua Hospital, accounted for 50.0% and 54.9% of our Predecessor Entities' general hospital services segment's total revenue, respectively. Our pharmaceuticals and medical consumables are mainly sourced from China.

Chinese regulations require Fuhua Hospital, a Medical Insurance Designated Medical Institution, to procure pharmaceuticals and medical consumables through public tendering conducted using the centralized online pharmaceutical platforms organized by the competent government authorities. Fuhua Hospital purchases pharmaceuticals and medical consumables from the suppliers through Sunshine Medical Website. For more details on centralized pharmaceutical procurement, see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on Pharmaceutical Management and Procurement—Regulations on Centralized Pharmaceutical Procurement by Medical Institutions." For more details on Sunshine Medical Website and the criteria for suppliers to register with the website, see the paragraphs headed "—The Hospitals—Yangsi Hospital—Suppliers" in this section. Upon delivery of the pharmaceuticals and medical consumables, the warehouse personnel will conduct inspections to ensure strict quality control, including expiration dates, packaging, product description, product condition and other quality indicators. We typically do not enter into supply contracts with the suppliers as purchases are conducted through Sunshine Medical Website. Instead, we entered into quality assurance agreements with the suppliers. Under these agreements, the suppliers undertake to ensure the quality of the supplies, and we may return the supplies if they are defective, have expired or do not meet the standards of the hospital guidelines upon inspection after delivery. In general, our suppliers grant us credit terms of around 60 days after delivery.

We have close oversight over our procurement process. We have implemented comprehensive policies and guidelines governing our procurement process, such as our procurement management guidelines, supplier management guidelines and code of conduct for our procurement personnel. These policies and guidelines set forth detailed rules and procedures for the procurement of pharmaceuticals, medical consumables, medical devices and other supplies, and are designed to, among others, prevent bribery and corruption with respect to our procurement process. In particular, we have adopted a multi-tier procurement approval process involving various departments, which ensures that no particular individual or department has excessive authority, control or influence over our procurement process, thereby minimizing the risk of bribery or corruption.

During the Track Record Period, we did not experience any shortage of supplies, any significant fluctuation in the prices of the supplies, or any quality issue or received any defective supplies that could materially and adversely affect our business, financial condition or results of operations.

In the period from February 21 to December 31, 2014, in 2015 and in the nine months ended September 30, 2016, purchases attributable to our five largest suppliers accounted for 36.9%, 22.3% and 19.6% of our total cost of revenue, respectively. To the best knowledge of our Directors, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

INVENTORY

Our inventory comprises pharmaceuticals and medical consumables of Fuhua Hospital. As at December 31, 2014 and 2015 and September 30, 2016, we had inventories of RMB0.9 million, RMB1.2 million and RMB2.0 million, respectively.

We generally maintain approximately 15 days of pharmaceuticals and medical consumables inventory to meet our needs. We keep our inventory at our storehouse with controlled temperature and humidity in accordance with the storage requirements of the medical supplies and the applicable laws and regulations. We closely monitor the inventory level and identify obsolete and slow-moving inventories. We deploy a computerized inventory management system to manage our inventory levels. In addition, we also carry out regular physical inventory counts and shelf life examination for medical supplies. When pharmaceuticals and medical consumables expire, or when the medical devices have reached the end of their service lives, we safely dispose of them in accordance with the applicable laws and regulations, and the medical supplies will be written off accordingly. During the Track Record Period, we did not experience any significant write-offs of our inventories.

FACILITIES AND EQUIPMENT

Our medical professionals in Fuhua Hospital are equipped with equipment and diagnostic technology to provide patients with diagnoses and treatments while minimizing pain and waiting time. Our major equipment includes a diagnostic ultrasound system in Fuhua Hospital. The wards in Fuhua Hospital provide a safe and pleasant space for our patients and their families.

RISK MANAGEMENT AND INTERNAL CONTROL

We have adopted a series of risk management and internal control policies and procedures at both the Group level and at the level of the hospital we manage designed to provide reasonable assurance for achieving our objectives. Our risk management and internal control efforts focus on effective and efficient operations, reliable financial reporting and compliance with the applicable laws and regulations. Our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system to prevent future recurrence of non-compliance incidents. Highlights of our internal control system include the following:

- *Employee Code of Conduct.* Our code of conduct explicitly communicates to each employee our values, ethics, applicable legal requirements and standards for behavior. We require and expect all our employees to abide by our code of conduct in carrying out their duties and functions.

- *Internal Audit.* Our internal audit function accesses and monitors key risks, controls and procedures to assure our management and Directors that the internal control system is functioning as intended and is sound and effective. Our Audit Committee is responsible for supervising our internal audit function.

- *Management Report of the Hospitals We Own or Manage*. We hold periodic meetings to review and discuss the management of the hospitals we own or manage, including their recent operations, material managerial events and financial situations, as well as analyze recent changes in the industry. The meetings are held every month at the hospital level, and every three months and annually at our Group level.

- *Internal Control System Implemented in the Hospitals We Own or Manage*. We have implemented a standardized internal control system to the hospitals we own or manage to ensure quality of healthcare services and compliance with law and regulations, which covers various aspects including (1) clinical and administrative procedures, including procedures for patient admission and discharge, rules of management in relation to patients with special conditions and rules for management of medical products; (2) patient care and protection, including patients' right to information, as well as mechanisms for dealing with conflicts between doctors and patients; (3) medical record keeping, including requirements in relation to content, quality and timing of keeping medical records; (4) pharmaceutical records and dispensing, including the purchase, inspection, storage and use of pharmaceuticals; (5) infection control, including management of infectious diseases; (6)

administrative management; (7) financial management; (8) human resources management; (9) staff training and education; (10) fire safety and occupational health; and (11) logistics management. For Yangsi Hospital, which we manage but do not own, we evaluate and improve their internal policies and procedures based on our standardized systems.

We have engaged a reputable internal control consultant to review our Company's internal controls over, among other things, corporate governance, internal audit, collection of receivables, asset and cash management and financial reporting including tax management.

The major findings are the lack of written internal control policies or procedures, and the lack of formal document action for certain internal control matters. Recommendations proposed by the internal control consultant include, among other things:

(a) in respect of corporate governance, establishing a code of communication with relevant management and staff including guidelines for confidentiality, conflict of interest, compliance with laws and regulations and reporting procedures for violations;

(b) in respect of internal audit, establishing (i) an internal audit committee to ensure our Company's adherence to regulatory requirements and to enhance the detection and prevention of fraud, and (ii) disclosure policies and the review procedures for financial statements and reports of our Company by the Board and the audit committee, including financial reporting and compliance with the Listing Rules; and

(c) in respect of financial reporting, establishing standardized procedures and requirements for financial and accounting documentation, preparation and filing.

We have adopted applicable recommendations provided by the internal control consultant, and implemented remedial actions into our Company's internal controls system. The internal control consultant has completed their review and follow-up reviews of our internal control system in December 2015 and in June 2016, respectively, and confirmed the adoption of the applicable recommendations proposed by them.

Furthermore, independent internal control consultants will be engaged by the Company to perform regular reviews of the Group's material internal control measures on an annual basis in order to prevent the recurrence of any of the non-compliance incidents hereby mentioned in the future. The independent internal controls consultant to be appointed shall be a professional firm specializing in corporate governance, internal audit and internal control review services and which has the relevant experience in providing review services to listed companies.

The goal of our risk management process is to bring focus to the issues and uncertainties in our business that could create impediments to our success and analyze, respond to and control the potential risks identified in relation to our operations. The key process points in our risk management system include:

- *Identify.* We identify current and emerging risks in our business operations and categorize those risks into a reasonable profile based on timeframe, likelihood, intensity and impact severity.

- *Assess.* We assess and prioritize risks so that the most important risks can be identified and dealt with. Based on both qualitative and quantitative analyses, we prioritize risks in terms of likelihood and impact severity.

- *Mitigate.* Based on our assessment of (i) the probability and impact severity of the risks and (ii) cost and benefit of the mitigation plans, we pair each risk with an appropriate mitigation plan, including risk elimination by suspending the associated business activities, risk reduction by adopting appropriate control measures, risk transfer by outsourcing or purchasing insurance policies, and risk acceptance by choosing to accept risks of low priority.

- *Measure.* We measure our risk management by determining if changes have been implemented and if the changes are effective. If any weakness in control is identified, we follow up by adjusting our risk management measures and reporting material issues to our Directors.

Each of our operating departments and the hospitals we own or manage is responsible for identifying and analyzing risks associated with its operation, maintaining a comprehensive risk register, preparing risk mitigation plans, measuring the effectiveness of its risk mitigation plans, and reporting the status of risk management. Our Audit Committee supervises the implementation of our risk management policies at the Group level by bringing together each operating department and hospital to collaborate on risk issues among different functions. For details about the qualifications and experiences of the members of the Audit Committee and our Directors, please see the section headed "Directors and Senior Management."

Medical Quality and Safety

We emphasize the quality and safety of the medical services we provide. We have established comprehensive risk management systems and internal control procedures in Fuhua Hospital to minimize medical risks arising from our hospital. The skills, competence and attitude of the medical professionals and other staff are essential for medical services in determining the quality of care that patients receive. Our employees receive regular training on relevant safety policies, standards, protocols and procedures and are required to strictly comply with them in all aspects of our operations. Further, we have established a group-level medical management department to oversee the risk management in the hospital owned by us and to ensure the risk management team in our hospital has followed our policies and procedures to achieve effective and efficient governance, risk and control processes. Our risk management team assigns responsibilities to different medical professionals and employees, implements rules and regulations, sets out training plans, and supervises the execution of these functions. In addition to periodic inspections conducted by our Company, hospitals are subject to regular and unscheduled inspections by relevant government authorities, including the Shanghai Municipal Commission of Health and Family Planning, which reviews medical service management systems and medical services provided by the hospitals to determine the compliance status and areas that can be further improved. During the Track Record Period, Fuhua Hospital did not receive any written notice or punishment for non-compliance or violation of medical quality and safety laws or regulations resulting in material consequences, nor did it receive any recommendation for improvement with respect to medical quality and safety from any government authority.

Hospital Management Business

The management service fees that we receive from Yangsi Hospital form a very substantial part of our revenue. Therefore, it is important to ensure that the Hospital Management Agreements between Yangsi Hospital and us will be renewed continuously. We believe that we maintain a good and steady relationship with Yangsi Hospital and it is unlikely that Yangsi Hospital will unilaterally terminate the Hospital Management Agreements with us. We have taken the following steps to ensure the accuracy of Yangsi Hospital's financial accounts and the stability of our revenue source from Yangsi Hospital:

(i) in light of the expected growth in the operation of Yangsi Hospital under our management, we entered into the Letter of Intent and the Long Term Hospital Management Agreement with Yangsi Hospital to secure our interest in the business of Yangsi Hospital;

(ii) Yangsi Hospital is required under the Hospital Management Agreements to provide Weikang Investment and Honghe Ruixin with its financial statements periodically;

(iii) Yangsi Hospital's financial statements are subject to annual audit by a competent PRC audit firm. In addition, its financial information during the Track Record Period has been reviewed by the Reporting Accountant in accordance with the International Standard on Review Engagements (ISRE) 2400;

(iv) Yangsi Hospital will ensure that a proper and sound internal control system in respect of its financial reporting is in place and we will conduct periodic inspections on its internal control system. For details regarding Yangsi Hospital's financial risk management, please see the paragraph headed "—The Hospitals—Yangsi Hospital—Risk management and internal control"; and

(v) We assigned the chief financial officer to Yangsi Hospital.

Anti-corruption and Anti-bribery Policies

During the Track Record Period, we have not encountered any corruption or bribery incidents. We have taken a number of measures to prevent improper activities including bribery and kickbacks by the employees of the Group and Yangsi Hospital in connection with, among others, the provision of healthcare services and the procurement of pharmaceuticals, medical consumables and medical devices. These measures include internal training programs, internal policies and guidelines governing our employees and employees of Yangsi Hospital and review and discussion of any suspicious incidents by our Board. See "—Our Suppliers" for more details on anti-corruption and anti-bribery policies relating to our procurement process. In addition, we have adopted a comprehensive anti-bribery policy and code of conduct for our employees and employees of Yangsi Hospital to further institutionalize our anti-bribery practice. In accordance with our internal policy, both our employees and Yangsi Hospital's employees are prohibited from receiving, giving or offering bribes or otherwise engaging in activities that would violate the applicable anti-corruption laws.

According to our internal anti-corruption and anti-bribery policies, our legal and compliance department is responsible for prevention of commercial bribery and supervision over our key staff in relation to anti-bribery and anti-corruption matters. Our and Yangsi Hospital's employees are encouraged to submit inquiries or report suspicious behaviors to their supervisors, and supervisors at all levels have additional deterrence and detection duties, including maintaining effective monitoring, review and control procedures that will prevent or detect acts of violations. Our multiple whistle-blowing channels in relation to commercial bribery with strict measures protect the confidentiality of whistle-blowers throughout the entire process of investigation. The department in charge will make open as well as secret inquiries in relation to the anti-corruption and anti-bribery matters. Our and Yangsi Hospital's employees are required to sign a statement acknowledging they have read, and undertake to abide by, our internal policies. Any violation of these rules may result in penalties, and compliance with our internal anti-corruption and anti-bribery policies by our key staff is an important factor in their evaluation, promotion or discharge.

Financial Reporting Internal Controls

Irregularities in Weikang Investment's financial reporting

To the best knowledge of our Directors, with a view to normalizing and formalizing the business relationship between Weikang Investment and Yangsi Hospital, the then-shareholders of Weikang Investment decided to enter into the Hospital Management Agreements with Yangsi Hospital to refine the service scope and details, tighten Weikang Investment's financial management over Yangsi Hospital, standardize the annual contractual arrangement between Weikang Investment and Yangsi Hospital and include restrictive covenants of exclusivity on the part of Yangsi Hospital since 2013. However, in 2013 and 2014, Weikang Investment failed to recognize its revenue from the management service fees according to the applicable accounting policy, and the amounts that Weikang investment invoiced to Yangsi Hospital were substantially less than the amounts due under the Hospital Management Agreements. According to the applicable accounting policy, Weikang Investment's hospital management services fees should be recognized when services are rendered and it is probable that the economic benefits from the services rendered will flow to Weikang Investment and such benefit could reliably measures.

The table below sets forth the revenues recognized in the management accounts of Weikang Investment (based on an incorrect revenue recognition method), the understated amounts, and the restated amounts in 2013 and 2014:

	Revenue recognized in management accounts	Understated amounts	Restated amounts
	RMB ('000)	RMB ('000)	RMB ('000)
2013	13,903	32,540	46,443
2014	9,192	56,542	65,734

There were some accounting errors in the management accounts of Weikang Investment in 2013 and 2014, which resulted in immaterial misstatements in respect of expenses which Yangsi Hospital paid on the behalf of Weikang Investment in 2013 and 2014. Such errors have been rectified in the self-inspection report issued by an independent accounting firm and submitted to the tax bureau in July 2015.

According to the financial information prepared by the management of Yangsi Hospital, Yangsi Hospital accrued the management service fees and recognized the amounts due to Weikang Investment based on the Hospital Management Agreements in accordance with the applicable accounting standards in 2013 and 2014 (prior to the Weikang Acquisition) (the "**relevant period**") .

Underlying Reasons for irregularities in respect of Weikang Investment's revenue recognition and financial reporting

Based on the information and documents accessible by the Company and on the due diligence conducted by the Sole Sponsor, including the interview with one of the then-directors of Weikang Investment, the irregularities in respect of revenue recognition and financial reporting of Weikang Investment were mainly attributable to the following:

(a) Weikang Investment was considered by the then-shareholders of Weikang Investment a side business of its then-shareholders, majority of whom were then-directors of Weikang Investment during the relevant period, and they did not intend to receive their full entitlements under the Hospital Management Agreements as they believed cash generated from Yangsi Hospital should primarily be used for on-going up-scale expansion and facilities improvement of Yangsi Hospital;

(b) given Weikang Investment is the founder of Yangsi Hospital, the then-shareholders of Weikang Investment were satisfied with the reliability of financial management of Yangsi Hospital and they considered that their personal interest will not be prejudiced notwithstanding Weikang Investments' entitlements under the Hospital Management Agreements were not collected in full, and to the best knowledge of our Directors, the then-shareholders of Weikang Investment further believed that there was no urgent need to cause Weikang Investment to recognize the portion of its revenue that remained uncollected pursuant to the Hospital Management Agreements;

(c) in the relevant period, Weikang Investment engaged a financial manager and an accounting clerk to be in charge of its financial and tax affairs. Without sufficient knowledge and skills, they failed to use the correct revenue recognition method when preparing and reviewing the financial reporting of Weikang Investment during the relevant period. The accounting clerk was responsible for the preparation and maintenance of Weikang Investment's tax filings, which were subsequently passed onto the financial manager for review. But none of our Directors and senior management who worked within the Group and the Hospitals during the relevant period participated in the process of preparation, review and approval of the financial accounts of Weikang Investment during the relevant period;

(d) due to the reasons as set out in paragraphs (a), (b) and (c) above, the persons in charge of Weikang Investment's financial and tax affairs mentioned above failed to properly report to the relevant tax bureau the Hospital Management Agreements (which set out, among other things, the service scope and management fees of Weikang Investment), did not increase the amounts of the business tax invoices that Weikang Investment was allowed to issue in the relevant period, and did not obtain from the relevant tax bureau the sufficient amount of business tax invoices in a timely manner. As a result, the amounts of business tax invoices issuable by Weikang Investment as approved by the tax bureau were insufficient to cover the management service fees due from Yangsi Hospital based on the Hospital Management Agreements at the end of the relevant period and prior to the Weikang Acquisition and Weikang Investment recognized revenues from hospital management service fees within the limit of the amounts of business tax invoices issuable and actually issued by it, which were lower than the revenue amounts that should have been recognized for the hospital management service fees based on the Hospital Management Agreements pursuant to the applicable accounting policy during the relevant period; and

(e) the fundamental causes for such irregularities are (i) the then-board of directors of Weikang Investment in the relevant period exercised inadequate oversight over financial reporting of Weikang Investment; and (ii) Weikang Investment was lacking of an effective internal control system in place, particularly in relation to its financial reporting.

Rectification Steps

Following the Weikang Acquisition, the Company spent a considerable amount of time taking rectification steps. The Company caused Weikang Investment to conduct a detailed review of all the previous tax filings of Weikang Investment in 2013 and 2014, including a review of the incorrect revenue recognition method used in the then-financial statements and tax filings of Weikang Investment in 2013 and 2014. Following this review, Weikang Investment recognized the hospital management service fees in accordance with the applicable accounting policy and restated its financial statements for the years ended December 31, 2013 and 2014. Concurrently with this restatement of its financial statements, Weikang Investment voluntarily submitted a self-inspection report issued by an independent accounting firm to the tax bureau, informed the tax bureau of the mistake that Weikang Investment had made with respect to its use of the old revenue recognition method and reported to the relevant tax bureau the management service fees Weikang Investment was entitled to receive under the Hospital Management Agreements. The agreed payment term as set out in the Hospital Management

Agreements is quarterly settlement. The relevant amount to be settled quarterly would probably exceed the monthly approved business tax invoices issuable by Weikang Investment. Accordingly, Weikang Investment applied to the relevant tax bureau for the increase of the amount of business tax invoices that it is allowed to issue. Please see "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations Related to Taxation in China—Business Tax" with respect to the relevant legal requirements. In July 2015, the tax bureau accepted Weikang Investment's submission of the self-inspection report and approved the increase of business tax invoices that Weikang Investment is allowed to issue. Weikang Investment fully paid the additional taxes based on the correct revenue figures that should have been recognized in accordance with the applicable accounting policy and issued to Yangsi Hospital the additional business tax invoices corresponding to the management service fees that were recorded in the restated financial statements of Weikang Investment. The tax bureau has also issued a letter confirming to the Company that there was no record of tax evasion, outstanding taxes or material non-compliance with the relevant tax laws, rules or regulations by Weikang Investment for the period from January 1, 2013 to December 31, 2015.

Based on (i) the fact that Weikang Investment has restated its revenues for 2013 and 2014 and fully paid the additional taxes according to the correct revenue figures and (ii) the confirmation letter from the relevant tax bureau, which confirmed that there was no record of tax evasion, outstanding taxes or material non-compliance with the relevant tax laws, rules or regulations by Weikang Investment for the period from January 1, 2013 to December 31, 2015, the PRC Legal Advisors are of the view that the risk of Weikang Investment being fined or penalized by the tax authority for its previous tax payments (based on the incorrect revenue recognition method) in 2013 and 2014 is extremely low.

Enhanced Internal Control Measures

We have taken the following measures to enhance our financial reporting internal controls, reduce the risks of material errors or misstatements and ensure compliance with applicable accounting policies and laws:

(i) our financial reporting matters are conducted by our accounting department under the supervision of our Board. Our internal policy and guidelines have been revised to include tax filing and payment guidelines. Under our internal control rules, staff members of the accounting department with sufficient experience will be responsible for preparing financial and tax reports, which will be reviewed by our accounting and finance managers and by our Board;

(ii) we have conducted a series of, and will continue to organize regular, training seminars to Directors, senior management and key employees involved in our financial reporting processes to update them with the latest developments of financial reporting practices related to the our operations;

(iii) our Board will carry out periodical reviews of the implementation of these enhanced internal control measures; and

(iv) we will also engage an independent tax advisor to (i) review and advise on the enhancements of our financial filing system; (ii) review our tax returns before filing the same with the tax authorities; and (iii) provide training to the staff of our accounting and finance departments in respect of applicable tax laws and regulations.

INFORMATION TECHNOLOGY SYSTEMS

Fuhua Hospital uses hospital information systems (HIS). All of the hospital's healthcare facilities are interconnected by HIS, allowing real time data-sharing among the departments and with the medical insurance center and the Shanghai Pharmaceutical Administration Bureau.

We are developing our information technology systems. The following table illustrates our information technology systems' development plan as of the Latest Practicable Date, which will be funded by proceeds from the Global Offering, and related information:

Plan	Expected completion date	Estimated approximate expenditure
To optimize our hospital information system (including HIS, LIS, PACS, electronic medical record (EMR) and clinical data repository (CDR))....	December 2017	US$0.64 million
To build an integrated platform of hospital information consolidating our Group's HIS, LIS, PACS, EMR, CDR, etc.	June 2018	US$1.29 million
To build hospital management systems for human resources, operation management, logistics management, etc	March 2018	US$0.39 million
To develop a health management service system based on internet	December 2017	US$0.39 million
To improve our Group's information security protection system............	December 2017	US$0.52 million
To fund other hardware upgrade and software purchases............	December 2017	US$0.64 million

SEASONALITY

We experience seasonal fluctuations in our results of operations. The Hospitals generally experience fewer patient visits in January or February of each year due to the effect of the Chinese New Year holiday, and more patient visits in the fourth quarter and in March, in anticipation of medical insurance programs' annual quota expirations. In addition, based on the Letter of Intent and the Long Term Hospital Management Agreement, the management service fees we receive from Yangsi Hospital are based on a fixed component and a performance-based floating component (prescribed by a cap rate and a floor rate). For details of the calculation of the management service fees, please see the paragraphs headed "—The Hospitals—Yangsi Hospital—Hospital Management Agreements" in this section. We may be entitled to higher or lower management service fees in the fourth quarter than the average in the first three quarters, depending on Yangsi hospital's audited full-year revenue and Yangsi Hospital's performance relative to specified criteria for the year. As a result of the foregoing, our revenue and profitability generated from our hospital operation and management business may fluctuate. For more details, see the sections headed "Financial Information—Significant Factors Affecting Our Results of Operations—Seasonality" and "Risk Factors—Risks Relating to Our Business and Industry—Seasonal fluctuations in revenue at the Hospitals may impact our results of operations".

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Health and Safety Matters

We are committed to complying with the relevant regulatory requirements and relevant laws and regulations, preventing and reducing various hazards and risks associated with our operation, and ensuring the health and safety of our patients, employees and surrounding communities. We have implemented internal policies and systems designed with a view to ensuring compliance with such requirements, which primarily include the following measures:

(a) *Written guidelines:* We have written procedures and guidelines in place for health and safety, including in relation to handling medical equipment, needle, sharp objects and medical waste. These written procedures and guidelines are handed out to the doctors and other medical professionals;

(b) *Training programs:* We provide training to the doctors and other medical professionals so that they are familiar with the relevant medical procedures and technology at the hospital and the health and safety-related policies; and

(c) *Assessment system:* We evaluate the health and safety measures periodically against current and new health and safety regulations to identify areas which may need improvement. Further, our general hospital service is subject to periodic licensing renewal requirements and inspections by various government agencies and departments.

We had been in compliance with the relevant regulatory requirements and laws and regulations during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, our employees did not experience any material health or safety accidents in the course of our business operations.

Environmental Protection

We are subject to various Chinese laws, rules and regulations with respect to environmental matters, including those applicable to Fuhua Hospital with respect to the disposal of medical waste and the discharge of wastewater, pollutants and radioactive substances. For details of the relevant laws, rules and regulations, see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on Environmental Protection related to Medical Institutions." We have implemented internal policies and procedures with respect to environmental protection at Fuhua Hospital and have engaged qualified service providers to dispose of Fuhua Hospital's medical waste. We have established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections.

For the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016, our costs for compliance with the applicable health, safety and environmental rules and regulations, comprising waste disposal fees, were RMB11,132, RMB4,232 and RMB46,226, respectively. We do not expect there to be substantial changes to our costs for compliance with the applicable health, safety and environmental rules and regulations in the near future. During the Track Record Period, we did not encounter any material non-compliance or complaints in relation to the environmental protection.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we were in the process of applying for the registration of four trademarks in China. As of the same date, we had registered four trademarks in Hong Kong and held 12 domain names.

As of the Latest Practicable Date, we were not engaged in or threatened by any claim for any material infringement of any intellectual property rights, whether as a claimant or as a defendant.

EMPLOYEES

As of January 31, 2017, we had 112 employees, among which 34 were employees at our headquarters level and 78 were working at Fuhua Hospital. Fuhua Hospital had 61 medical professionals, including 27 doctors and 34 other medical professionals, as of January 31, 2017. The 27 doctors consisted of 2 chief doctors, 8 associate-chief doctors, 16 attending doctors and 1 assistant doctor. The following table sets forth a breakdown of our employees by function as of January 31, 2017:

Function	Number of employees
Headquarters level	
Chief executive officer	1
Hospital operation officers	2
Hospital investment officers	2
Financial staff	2
Hospital managers	19
Other staffs	8
Subtotal	34
Fuhua Hospital	
Hospital managers	2
Doctors	27
Other medical professionals	34
Financial staff	2
Other staff	13
Subtotal	78
Total	112

Our employees enter into employment contracts with us. We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. We set performance targets for the employees based on their position and department and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. Our employee-related insurance consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations.

We provide ongoing training for our employees. Our doctors and other medical professionals regularly receive technical training in their relevant fields. Our administrative and management staff also receive systematic training on management skills and business operations.

During the Track Record Period, we did not experience any significant staff turnover or any disruption to our business operations due to labor disputes. Except as disclosed in this prospectus, we had complied with the applicable laws and regulations related to labor and employee benefit plans in all material aspects throughout the Track Record Period. See "—Legal Proceedings and Compliance —Non-compliance Incidents" for more information.

LICENSES, PERMITS AND CERTIFICATES

We operate in a heavily regulated industry in China. As a result, we are required to obtain various licenses, permits and approvals for our operations. For details of the relevant requirements, see the section headed "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China." As advised by our PRC Legal Advisors, save as disclosed in this prospectus, we had obtained all material requisite licenses, permits and approvals for our business operations as of the Latest Practicable Date.

The following table sets forth material requisite licenses and permits of Fuhua Hospital as of the Latest Practicable Date:

License/permit/certificate	Issuing Body	Effective Date	Expiration Date
Medical Institution Practicing License (醫療機構執業許可證)	Shanghai Pudong New District Health and Family Planning Commission (上海市浦東新區衛生和計劃生育委員會)	November 6, 2014	September 28, 2017
Radiation Treatment License (放射診療許可證)	Shanghai Pudong New District Health and Family Planning Commission (上海市浦東新區衛生和計劃生育委員會)	December 2, 2014	n/a
Radiation Safety License (輻射安全許可證)	Shanghai Environmental Protection Bureau (上海市環境保護局)	June 9, 2014	June 8, 2019
Narcotic Drugs, Type 1 Psychotropic Drugs Purchase Seal (麻醉藥品、第一類精神藥品購用印鑑)	Shanghai Pudong New District Health and Family Planning Commission (上海市浦東新區衛生和計劃生育委員會)	February 27, 2015	February 26, 2018

We plan to renew the necessary licenses and permits upon expiration. Our PRC Legal Advisors are of the view that, there is no material legal impediment in renewing these licenses and permits as long as we are in compliance with the applicable rules, laws and regulations.

INSURANCE

We consider our insurance coverage to be adequate and we have in place all mandatory insurance required by law and, according to the Frost & Sullivan Report, in accordance with the commercial practices in our industry. Our insurance coverage primarily includes employee-related insurance including social security insurance and housing accumulation funds we contribute for our employees as required by Chinese laws and regulations and motor vehicle insurance. We do not maintain medical liability insurance. For more details, see the paragraph headed "—Employees" in this section. See also "Risk Factors—Risks Relating to Our Business and Industry—We may not be adequately insured."

OUR PROPERTIES

We occupy five properties in China in connection with our business operations. We do not directly or indirectly hold or develop properties for letting or retention as investments, nor do we purchase or develop properties for subsequent sale or for retention as investments.

According to Chapter 5 of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land and buildings, because as of September 30, 2016, we had no single property interest with a carrying amount of 15% or more of our total assets.

Owned Properties

As of the Latest Practicable Date, we held Land 28, a parcel of land with a total area of 4,028 sq.m. and the building ownership rights to three buildings with an aggregate gross floor area of 20,954.5 sq.m. located on the parcel of land in Sanlin Town of Pudong New District of Shanghai, of which the buildings with an aggregate gross floor area of approximately 12,124.2 sq.m. were developed by Weikang Investment.

Weikang Investment had not obtained the land use right certificate for Land 28 nor the building ownership certificates for three buildings thereon. Yangsi Hospital currently occupies and conducts its operation in three buildings sitting on Land 28 with Weikang Investment's permission to use the properties on Land 28.

For details of title defects on Land 28, please refer to the paragraph headed "—The Hospitals—Yangsi Hospital—Properties—Title defects of the Lands".

Internal control measures in relation to the non-compliance

In order to prevent re-occurrence of similar non-compliance incidents after the Listing, our Company has gradually adopted and implemented the following internal control measures starting from June 25, 2016:

- We will seek professional legal advisor to examine the status of the land use right certificates and building ownership certificates at least twice a year;

- We will provide legal compliance training to our management team and they will consult our PRC Legal Advisors on the relevant laws and regulations from time to time; and

- We have obtained an irrevocable undertaking provided by the Controlling Shareholders to indemnify all costs, expenses and direct loss suffered by the Group directly or indirectly arising from the abovementioned title defects of Land 28 (together with Land 32) and the buildings located thereon.

Leased Properties

As of the Latest Practicable Date, we leased a total of three properties with an aggregate gross floor area of approximately 4,703 sq.m. for premises of the hospital, offices, contact points and warehouses, including 4,063 sq.m. for Fuhua Hospital's facilities. Our lease agreements typically have a term ranging from one to six years.

Two of the three property lease agreements we entered into have not been registered with the relevant PRC Government authorities as required by law. The lessors of these properties are not willing to cooperate in completing the registration of the relevant lease agreements.

As advised by our PRC Legal Advisors, under the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the parties of the lease agreement shall register the lease agreement with the Local Construction (Real Estate) Administrative Department of the Local People's Government (人民政府建設(房地產)主管部門) within 30 days of the signing of the agreement. We might be subject to a maximum fine of RMB10,000 per each lease agreement not registered. Our PRC Legal Advisors further advised us that the failure to register the lease agreements will not affect the validity of such lease agreements and hence create any material adverse effect on the operations of our Company.

We have taken the following rectification measures: (i) provide legal compliance training to our management team, especially to check the title ownership certificates, land use right certificates and relevant documents before entering into a lease agreement; and (ii) negotiate with the lessors to include a provision requiring them to procure registration upon renewal of the lease agreements.

LEGAL PROCEEDINGS AND COMPLIANCE

Medical Disputes

Our operations are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by patients and/or their families against us. These medical disputes mostly related to bodily injuries that patients claim to have suffered during or after receiving medical treatments at Fuhua Hospital. As part of our risk management and internal control procedures, we have fully informed our patients of the inherent risks of the relevant medical service and procedure, and obtained their consents before conducting the relevant treatments or procedures, as appropriate.

During the Track Record Period, most of the medical disputes between us and our patients and/or their families were settled through direct negotiations between us and them, or mediations. However, they may choose to seek claims against us through legal proceedings if initial negotiation or mediations fails to reach a settlement. For the years ended December 31, 2014 and 2015, there were two cases of medical disputes with our patients and/or their families and both of them resulted in monetary compensation to them, which amounted to an aggregate of RMB23,800. We do not maintain any medical liability insurance that protects us from liability associated with these medical disputes. For the nine months ended September 30, 2016, we did not experience any medical disputes with our patients or their families. As Fuhua Hospital mainly provides clinical care and rehabilitation services to elderly patients (as opposed to surgical operations, which we believe inherently present higher risks of patient death and medical disputes), it did not experience any medical disputes involving patients fatalities or that have a material adverse effect on its business, financial condition or results of operations during the Track Record Period.

The following table sets out the details of each medical dispute of Fuhua Hospital for the years ended December 31, 2014 and 2015:

Date of Incident	Nature and reason of Incident	Settlement Method	Compensation Paid by the Hospital	Liability of the Hospital	Penalty Imposed by the Relevant Authority
Medical dispute for the year ended December 31, 2014					
September 8, 2013	Patient injury due to urinary tract infection	Mediation	RMB15,000	Not primarily or secondarily liable(1)	No
Medical dispute for the year ended December 31, 2015					
April 2015	Patient injury due to falling in the hospital	Private negotiation/ settlement	RMB8,800	Not primarily or secondarily liable(1)	No

Notes:

(1) As advised by our PRC Legal Advisors, according to the Interim Measures on Medical Malpractice (醫療事故技術鑒定暫行辦法), which were promulgated on July 31, 2002 by the Ministry of Health of the PRC, primary liability is defined as where the injury and its effects are found to have been mainly caused by medical negligence, with other factors playing a secondary role; and secondary liability is defined as where the injury and its effects are found to have been primarily caused by other factors, with medical negligence playing a secondary role.

For medical incidents for which we were not primarily or secondarily liable, we from time to time pay no-fault compensation to the counterparties of such incidents, especially those resulting in fatality, as part of our efforts to undertake social responsibility and to expedite the resolution of any potential claims from such parties.

Among these medical disputes, none of the medical staff or doctors were involved in any disciplinary proceedings or determined to be liable for any medical malpractice incidents. The medical dispute that happened in 2014 was incurred before Weikang Investment acquired the equity interest in Fuhua Hospital. The relevant responsible staff left the hospital after the Fuhua Hospital Acquisition and therefore no internal disciplinary action was taken against them.

In order to prevent the occurrence of medical disputes and to ensure medical safety, our Group has implemented the following internal control measures:

(i) Our Group has adopted the Medical Institutions Management Report System Rules (醫療集團所屬醫療機構管理報告體系管理辦法) (the "**Management Report Rules**") governing the multi-tier reporting system within our Group with respect to various aspects of our operations, including detailed reporting procedures for medical disputes. According to the Management Report Rules, a material adverse event (i.e., an event that may result in material damage to the reputation or property of the hospital and Group such as a material medical dispute) should be reported to the Group level within 24 hours of its occurrence to ensure that every material adverse event is efficiently and effectively dealt with. In addition, relevant personnel across departments receive monthly updates as to the latest status of every material adverse event.

(ii) Our Group has also adopted the Medical Risk Management Rules for Medical Institutions (弘和醫療集團所屬醫療機構醫療風險管理制度), according to which the medical management department of the Group is principally in charge of medical risk management, and each medical institution owned or managed by our Group shall form their medical risk management teams to (1) establish the rules, responsibilities, working process as well as training plans in relation to medical risk management; (2) organize emergency drills and enhance the staff's ability to deal with emergencies; and (3) organize the provision of first-aid measures under emergency situations.

(iii) Our Group has also adopted various standardized procedures with respect to medical practice and the provision of medical services by its medical staff, such as standard procedures dealing with medical disputes, patient complaints, medication errors, medical and emergent incidents. For example, we have adopted detailed procedures in dealing with patient complaints, which are designed to resolve all patient complaints in an efficient manner. We offer a number of channels where our patients may lodge a complaint and have experienced personnel who communicate with the patients to collect facts and conduct initial analysis, and, depends on the nature of the complaint, determine whether such complaint should be escalated internally. For critical complaints involving clinical safety or possible health implications, we take immediate actions to protect patient safety. Our policy mandates every complaint to be properly lodged and dealt with and prohibits our staff from reaching a private settlement with the complainants, which may potentially put us in a disadvantaged position if such complaints were to escalate further. In addition, we have implemented comprehensive policies and guidelines with respect to public relations during an emergency situation, such as a material medical dispute that, regardless of its veracity, could be detrimental to our brand image. Our human resources and other personnel in charge are required to strictly follow these procedures throughout the emergency situations to minimize any material adverse impact these events may have on our reputation and day-to-day operations.

We may continue to face potential legal proceedings and claims in our operations. See the section headed "Risk Factors—Risks Relating to Our Business and Industry—The Hospitals have been and could become the subject of litigation, claims and governmental investigations, including medical disputes brought by patients, which may harm our reputation and our business."

As of Latest Practicable Date, we were not a party to any material ongoing litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business, financial conditions or results of operations. As of the same date, our Directors were not involved in any actual or threatened material claims or litigation.

Non-compliance Incidents

Except as disclosed below, our operations were in material compliance with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. The table below sets forth a summary of incidents of certain non-compliance with the applicable laws and regulations during the Track Record Period.

Non-compliance incidents and reasons for non-compliance	Legal consequences and potential maximum penalties	Remedial Measures Taken/To be Taken
1. Defective titles to our properties		
There are title defects with certain properties owned or leased by us. Please see "—Our Properties" for details.	Please see "—Our Properties" for details.	Please see "—Our Properties" and "—Risk Management and Internal Control" for details.
Due to lack of the land use right certificate for Land 28, Weikang Investment was unable to obtain the construction works planning permit (建設工程規劃許可證) or works commencement permit (建築工程施工許可證) in respect of the construction of the buildings on Land 28 used for the operations of Yangsi Hospital as at the Latest Practicable Date. Consequently, Weikang Investment has not applied for an inspection upon completion of the construction project pursuant to the Regulations on Quality Management of Construction (建設工程質量管理條例).	Our PRC Legal Advisors have advised us that, in the case that the construction can be remedied to conform to the relevant planning rules, the planning authority may order the developer to rectify the construction in a prescribed period of time and impose a fine up to 10% of the total construction cost. Where the construction cannot be remedied to conform to relevant planning rules, the planning authority may order that such construction be demolished, or where demolition is not possible, forfeit the illegal property or illegal income derived from the property and impose a fine up to 10% of the construction cost. Our PRC Legal Advisors have further advised us that Weikang Investment may be required to demolish the buildings on Land 28 within a prescribed period of time and may be subject to a fine. With respect to the commencement of construction work without obtaining the construction works commencement permit, the building developer may be ordered to rectify the construction within a prescribed period of time and a fine up to 2% of the total construction cost may be imposed. With respect to the delivery and use of the buildings without processing the inspection of the completed construction works, the building developer may be ordered to rectify the activity in prescribed period of time and a fine up to 4% of the total construction cost may be imposed. Pursuant to the above requirements, the maximum amount of penalty that could be imposed on Weikang Investment is approximately RMB2,324,000, calculated based on the total construction cost for the buildings located on Land 28 incurred by Weikang Investment. Our PRC Legal Advisors have further advised us that Land 28 and the buildings located on it cannot be bought, sold or accepted as security for mortgages, without the relevant land use right certificate and the building ownership certificates. See the section headed "Risk Factors—Risk Relating to Our Business and Industry— There are risks associated with the land and buildings on which Yangsi Hospital operates, and we would face disruption to our business if Yangsi Hospital were required to find alternative premises" for more details on the risks associated with defective titles.	The Construction and Transportation Committee of the Shanghai Pudong New District, Shanghai (上海市浦東新區建設和交通委員會) (which, as confirmed by our PRC Legal Advisors, competent and in-charge authority for administering construction affairs in Pudong New District of Shanghai), issued a letter on January 29, 2016 to confirm that no penalties have been imposed on Yangsi Hospital or Weikang Investment in Pudong New District since 2004, when Yangsi Hospital was at the early stage of its formation, on Land 28 (together with Land 32) for any violation of property or construction-related laws or policies. In order to assess the safety condition of the properties in Land 28, our Company obtained a property condition inspection report (房屋完損檢測報告) issued by CSTC Standards Technical Services (Shanghai) Co., Ltd. (a competent independent inspection company approved by the Shanghai City Housing and Urban and Rural Construction Management Committee (上海市住房和城鄉建設管理委員會)) on February 18, 2016, confirming that there is no structural defect on the buildings on Land 28 and such buildings are in a good state of repair and can fulfill their functions under normal usage. Based on the property condition inspection report and the safety records of Yangsi Hospital, our Directors believe that the properties on Land 28 are fit and safe for the operations of Yangsi Hospital.

Non-compliance incidents and reasons for non-compliance	Legal consequences and potential maximum penalties	Remedial Measures Taken/To be Taken
2. Social insurance and housing provident fund contributions by Honghe Ruixin		
The mandatory social insurance contributions in accordance with the Law on Social Insurance (社會保險法) and the housing provident fund contributions in accordance with the Regulations on Management of Housing Provident Fund (住房公積金管理條例) for certain of Honghe Ruixin's employees were made in the name of a third party during the Track Record Period, which amounted to approximately RMB0.6 million and RMB0.7 million in 2015 and the nine months ended September 30, 2016, respectively. Full contributions to social insurance and housing provident fund had been made for all of Honghe Ruixin's employees, and no penalties or punishments had been imposed upon Honghe Ruixin by relevant government authorities as of the Latest Practicable Date. This non-compliance was because certain employees of Honghe Ruixin would like their social insurance and housing provident fund contributions to be made in locations other than the residing city of Honghe Ruixin—Dazi, Tibet. As Honghe Ruixin was unable to make social insurance and housing provident fund contributions in locations other than its residing city, it had to engage a third party to assist with the contributions.	(1) With respect to social insurance contributions Our PRC Legal Advisors have advised us that, under relevant PRC laws and regulations, the social insurance authority may order Honghe Ruixin itself to make social insurance contributions that are legally required of Honghe Ruixin within a prescribed time limit, together with an overdue fine at a daily rate of 0.05% on the outstanding amount. If there are still any outstanding social insurance contributions after the prescribed time limit, the relevant authority may impose a fine of up to three times of the outstanding amount on Honghe Ruixin. (2) With respect to housing provident fund contributions Our PRC Legal Advisors have advised us that, under the relevant PRC laws and regulations, the housing provident fund management center (住房公積金管理中心) may order Honghe Ruixin itself to make any housing provident fund contributions that are legally required of Honghe Ruixin within a prescribed time limit. If there are still any outstanding housing provident fund contributions after the prescribed time limit, the housing provident fund management center may seek an order for payment from the relevant Chinese courts. Based on (i) the fact that as at the Latest Practicable Date, full contribution had been made for all Honghe Ruixin's employees, and (ii) the written confirmation from Lhasa Housing Provident Fund Management Center (拉薩市公積金管理中心), our PRC Legal Advisors are of the view that it is highly unlikely that a fine would be imposed on Honghe Ruixin by the relevant housing provident fund management center. Honghe Ruixin did not make a provision for these non-compliances.	On May 11, 2016, the management unit of Lhasa Housing Provident Fund Management Center (拉薩市公積金管理中心), the relevant authority for administering housing provident fund-related affairs in Lhasa, confirmed in writing that (i) no administrative investigations or penalties had been imposed on Honghe Ruixin in relation to the housing provident fund contributions, (ii) there were no outstanding housing provident fund contributions due from Honghe Ruixin, and (iii) there was no dispute between Lhasa Housing Provident Fund Management Center and Honghe Ruixin in relation to the housing provident fund contributions. We have implemented various measures to prevent the occurrence of similar non-compliance incidents: (i) we have dedicated personnel who closely monitor legislative and regulatory developments in all relevant regions to ensure that we are kept abreast of, and are in compliance with, all applicable laws and regulations relating to social insurance and housing provident fund contribution, and (ii) we have formulated detailed internal policies and guidelines and have established channels for our employees to report any irregularities related to our social insurance and housing provident fund contribution. Honghe Ruixin plans to begin making the required contributions to social insurance and housing provident fund itself for all of its employees as soon as reasonably practicable. The head of Honghe Ruixin's human resources department will consult our PRC Legal Advisors on the relevant laws and regulations from time to time.
3. illegal performance of medical surgery by non-medical professional staff		
On April 5, 2014, a trainee doctor of Fuhua Hospital, who had not obtained the relevant health professional qualification, performed Chinese medical treatment for two patients under the supervision of a senior doctor, including moxibustion, massage, acupuncture and electro-acupuncture, which violated the Administrative Measures on Medical Institutions (醫療機構管理條例).	Fuhua Hospital paid a fine of RMB2,000.	After this incident, the trainee doctor was dismissed and Fuhua Hospital no longer employs any trainee doctors.

The following discussion should be read in conjunction with (1) the consolidated financial statements of our Group, together with the accompanying notes, as of December 31, 2014, December 31, 2015 and September 30, 2016, and for the period from February 21, 2014 (date of incorporation of the Company) to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016, set forth in Appendix IA to this prospectus and (2) the consolidated financial statements of Weikang Investment, together with the accompanying notes, as of December 31, 2013, 2014 and 2015, September 30, 2014 and September 30, 2016, and for the year ended December 31, 2013, the nine months ended September 30, 2014, the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016, set forth in Appendix IB to this prospectus. The financial statements included in the accountant's reports in Appendices IA and IB from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, have been prepared in accordance with IFRS.

The following discussion contains forward-looking statements that reflect our current view with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a hospital operation and management group, led by a professional team with extensive hospital management experience. Through our operation and management of hospitals, we plan to consolidate medical resources in the regions where our hospitals are located and establish regional medical service centers providing consistent, systematic, easy-to-access, high quality and comprehensive medical services to residents of these regions. We serve as the core platform for the hospital operation and management business of Hony Capital. We focus on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. We have a dedicated management team with extensive experience and strong execution skills, in particular comprehensive experience in hospital management. Our core management team primarily includes members with experience in Class III hospitals as well as key medical professionals of the hospitals under our management with extensive hospital management experience. We implement our standardized and streamlined management system, taking into account the background and circumstances of each individual hospital, to improve the hospitals' overall management, capabilities and operational efficiency.

We have extensive investment experience that will enable us to expand through mergers and acquisitions. We target Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have demonstrated advanced performance in medical specialties and are located in areas with sizeable populations and attractive economic conditions. With these hospitals as a starting point, we are committed to consolidating medical resources in a region by investing in target hospitals to form a regional medical service center, and we seek to further develop it into a high quality regional medical service center covering healthcare services, rehabilitative services and geriatric services. Our ultimate goal is to create a nationwide medical services network through strategic mergers and acquisitions across China. We have identified our management of Yangsi Hospital as the core component of our strategic plan with our operation of Fuhua Hospital as an extension of this plan. According to the Frost & Sullivan Report, Yangsi Hospital is Shanghai's largest non-public hospital in terms of revenue in 2015. It provides medical services in the Yangsi area, which has a population of approximately 300,000. Fuhua Hospital is a general hospital that extends the coverage of medical services offered by Yangsi Hospital. The operations of these two hospitals in Shanghai complement each other, and we will further consolidate medical resources in the region to gradually establish a regional medical service center.

We recorded significant growth during the Track Record Period. We had revenue of RMB23.7 million, RMB142.5 million and RMB115.4 million in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2016, respectively. We had net profit of RMB4.3 million, RMB67.3 million and RMB30.8 million in these respective periods. Our Predecessor Entities had revenue of RMB46.4 million, RMB80.4 million, RMB89.2 million and RMB63.8 million in 2013, 2014, 2015 and the nine months ended September 30, 2016, respectively. Our Predecessor Entities had net profit of RMB29.1 million, RMB41.0 million, RMB41.3 million and RMB17.8 million in these respective periods.

BASIS OF PRESENTATION

This prospectus includes two accountant's reports, set forth in Appendices IA and IB, both of which have been prepared in accordance with IFRS.

- Appendix IA sets forth the accountant's report of our Group, including the consolidated financial statements of our Company and our subsidiaries, together with the accompanying notes, as of December 31, 2014, December 31, 2015 and September 30, 2016, and for the period from February 21, 2014 (date of incorporation of the Company) to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016; and

- Appendix IB sets forth the accountant's report of Weikang Investment, including the consolidated financial statements of Weikang Investment and its wholly-owned subsidiary, Fuhua Hospital (which Weikang Investment acquired in 2014), together with the accompanying notes, as of December 31, 2013, 2014 and 2015, September 30, 2014 and September 30, 2016 and for the year ended December 31, 2013, the nine months ended September 30, 2014, the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016.

Our Company was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability. Prior to September 30, 2014, we had no significant operations, while among our Predecessor Entities, (1) Weikang Investment provided management and consultancy services to Yangsi Hospital, a non-public not-for-profit general hospital founded (舉辦) by Weikang Investment on January 5, 2007, and (2) Fuhua Hospital, a non-public for-profit general hospital established by Independent Third Parties on October 17, 2007 and 100% acquired by Weikang Investment on January 15, 2014, provided general hospital services. We acquired an 80% equity interest in Weikang Investment on September 30, 2014 from five Independent Third Parties for a total consideration of RMB1,038.4 million, including RMB116.0 million assigned to the fair value of its contractual rights to provide management services to Yangsi Hospital, and as a result, the Predecessor Entities came under our control. Our Group's results include the results of our Predecessor Entities beginning from September 30, 2014. We established Honghe Ruixin in December 2014. Five individuals acquired, in aggregate, 20% equity interest in our subsidiary, Honghe Ruixin, in accordance with a share purchase agreement dated December 25, 2014. Honghe Ruixin began providing consultancy services to Yangsi Hospital in January 2015. See the section headed "History, Development and Corporate Structure" for more information.

Our Group's financial information for the period from February 21, 2014 to December 31, 2014 in Appendix IA reflected primarily operating results of Weikang Investment and Fuhua Hospital (our Predecessor Entities) for the period from October 1, 2014 to December 31, 2014. Our Group's financial information for the year ended December 31, 2015 and the nine months ended September 30, 2016 in Appendix IA primarily reflected operating results of Weikang Investment and Fuhua Hospital (our Predecessor Entities) and Honghe Ruixin for these respective periods. Our Group's financial information for the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016 in Appendix IA also reflected amortization expenses of intangible assets and goodwill that we recognized in connection with our acquisition of Weikang Investment on September 30, 2014, as well as financial information of other entities within our Group (which had no significant operations in 2014) for the same respective periods, and do not include intra-group transactions. Compared to our Predecessor Entities' segment results as disclosed in Appendix IB, we recognized amortization expenses in connection with our acquisition of the Predecessor Entities in arriving at our Group's segment results in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2016 as disclosed in Appendix IA, including amortization of the contractual rights to provide management services for our hospital management services segment and amortization of the medical licenses for our general hospital services segment. On the other hand, since entities within our Group other than Weikang Investment and Fuhua Hospital had no significant operations in 2014, the amounts of some balance sheet items (such as inventories, trade receivables and trade payables) of our Group as of September 30, 2014 were the same as those of our Predecessor Entities as of the same date as disclosed in Appendix IB.

Under applicable accounting standards, our Predecessor Entities' financial information for the nine months ended September 30, 2014 cannot be combined with our Group's financial information for the period from February 21, 2014 to December 31, 2014. This is primarily because our Group's financial information reflected fair values of the Predecessor Entities upon their acquisition by us on September 30, 2014, while the Predecessor Entities' financial information was based on historical carrying values. This is also because our Group's financial information included expenses that we incurred when acquiring Weikang Investment and reflected the elimination of intra-group transactions that were not included in Weikang Investment's financial information. In addition, we do not believe it to be useful to compare our Group's financial information for the period from February 21, 2014 to December 31, 2014 with the year ended December 31, 2015, or to compare our Predecessor Entities' financial statements for the year ended December 31, 2013 with the nine months ended September 30, 2014. Since our Predecessor Entities operated a majority of our underlying business during the Track Record Period, we believe that their financial results, presented on a stand-alone basis, are a meaningful indication of our underlying business. As such, in this prospectus we also present our

Predecessor Entities' financial results for the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016 to help investors analyze our financial results. However, prospective investors should be aware that these do not reflect the actual results of our Group and are not intended to indicate any hypothetical results that could have been achieved by us. In addition, our Predecessor Entities' financial results for the year ended December 31, 2015 and the nine months ended September 30, 2016 did not fully reflect those of our Group for the same respective periods, because in addition to the Predecessor Entities, our Group's financial results also included those of Honghe Ruixin, which began providing consultancy services to Yangsi Hospital in January 2015.

Although Weikang Investment founded and provides hospital management services to Yangsi Hospital, we do not consolidate the financial results of Yangsi Hospital. This is because:

- Yangsi Hospital is a not-for-profit hospital registered as a Privately-funded Non-enterprise Entity in China. Under relevant Chinese law, Weikang Investment, as the founder of Yangsi Hospital, is not entitled to receive economic interests from the hospital through dividends or other distributions, or to receive any of its residual assets upon its liquidation. Yangsi Hospital is only allowed to retain its earnings for its own continued development, and no part of its earnings constitutes "distributable profits" under relevant Chinese law. As advised by our PRC Legal Advisors, the payment of management fees by Yangsi Hospital to us under the Hospital Management Agreements does not constitute distribution of dividends or distribution of other economic interests deemed as dividends in accordance with Chinese law and our fee arrangements with Yangsi Hospital do not violate Chinese law; and

- Yangsi Hospital's articles of association provide for an executive committee as its highest decision-making authority for all material matters, including those that may significantly affect its business operations and financial performance. According to Yangsi Hospital's rules of procedure for the executive committee, its executive committee comprises nine members, including six members nominated by Weikang Investment (according to the Hospital Management Agreements, Weikang Investment's nomination of the executive committee members requires prior consent of Honghe Ruixin beginning from 2015), two employee representatives and one independent member. According to Yangsi Hospital's articles of association and its rules of procedure for the executive committee, the quorum at each meeting of the executive committee is two-thirds of the members, and resolutions of the executive committee require approval of at least two-thirds of the votes cast at the meeting, including at least one vote from the employee representatives and the vote of the independent member. As a result, the employee representatives (as a group) and the independent member effectively have veto rights in respect of all material matters of Yangsi Hospital. See the sections headed "Business—Our Business Model—Our Hospital Management Business" and "Risk Factors—Risks Relating to Our Business and Industry—If a hospital we manage terminates or does not renew our management agreements with it, or if we fail to maintain the level of management service fees we charge, our revenue and profitability may suffer" for more information.

Following a similar analysis, the financials of Yixin Research Centre, which was established by Yangsi Hospital as a non-enterprise entity to carry out research and development activities, are consolidated into Yangsi Hospital's financial statements and are not consolidated into our Group's financial statements in accordance with IFRS.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China's Healthcare Reforms, Price Control and Medical Insurance Policies

Our success depends on China's healthcare reforms regarding (1) private capital investment in public hospitals and (2) professional hospital management service providers like us. China's healthcare policies encourage private investors (including foreign investors) to invest in medical institutions and participate in the reform of China's existing public hospitals by converting them into non-public medical institutions. According to the Frost & Sullivan Report, the total revenue of China's non-public hospitals increased at a CAGR of 25.9% from RMB81.1 billion in 2011 to RMB203.6 billion in 2015 and is expected to increase at a CAGR of 22.0% from 2015 to RMB549.9 billion in 2020. These increases compare to the total revenue of China's public hospitals increasing at CAGRs of 15.7% from RMB1,164.1 billion in 2011 to RMB2,084.3 billion in 2015 and 9.1% from 2015 to RMB3,215.8 billion in 2020. China's public hospital reforms present us with both opportunities and challenges in expanding our hospital network, including expanding our hospital management business.

Under relevant Chinese law, prices for basic healthcare services provided by not-for-profit medical institutions, including Yangsi Hospital, must conform with pricing guidelines promulgated by governmental price control authorities. Prices for healthcare services provided by for-profit medical institutions (including Fuhua Hospital) and certain special categories of healthcare services provided by not-for-profit medical institutions (such as VIP services provided by Yangsi Hospital, the prices of which are required to be filed with the local pricing authorities) may be determined by the market.

The retail prices of pharmaceuticals sold by a medical institution generally may not exceed 115% or, for ready-for-use Chinese herbs, 125%, of the medical institution's actual procurement costs. The retail prices of these pharmaceuticals may also be subject to price ceiling guidelines promulgated by local price bureaus, healthcare authorities, local medical insurance offices and other relevant government authorities.

As Medical Insurance Designated Medical Institutions, Yangsi Hospital and Fuhua Hospital, when charging fees for medical services covered by public medical insurance programs, must comply with the pricing guidelines set by the relevant local healthcare government authorities in respect of medical services, pharmaceuticals, medical consumables and medical devices. See the sections headed "Business—The Hospitals—Yangsi Hospital—Pricing and price controls," "Business—The Hospitals—Fuhua Hospital—Pricing and price controls" and "Risk Factors—Risks Relating to Doing Business in China—Changes in government policies in China with respect to the pricing of pharmaceuticals and medical services may impact our revenue and profitability" for more information.

Changes in the policies and regulations relating to prices of medical services, pharmaceuticals, medical consumables and medical devices may significantly affect our results of operations.

Expansion of Our Hospital Network

Our financial results are affected by our ability to expand our hospital network by, for example, acquiring or entering into management agreements with additional hospitals or expanding and upgrading the healthcare facilities of the hospitals that we own or manage. For example, our Predecessor Entities' revenue increased by 73.1% from RMB46.4 million in 2013 to RMB80.4 million in 2014, due in part to Weikang Investment's acquisition of Fuhua Hospital in January 2014. Our Predecessor Entities' revenue increased by 11.0% to RMB89.2 million in 2015, due in part to Fuhua Hospital's retrofitting of wards in the second half of 2014, which helped increase in-patient revenue.

We may expand our hospital network through strategic cooperation with reputable hospitals by entering into hospital management agreements or merger, acquisition or other alliance arrangements. See the section headed "Business—Expansion and Management of Our Hospital Network" for more information. Our ability to expand our hospital network will depend on a number of factors, such as: (1) changes to China's healthcare regulations and policies, (2) reputation and track records of the existing hospitals that we own or manage and those of their medical professionals, (3) our financial resources, (4) our ability to improve the performance of Yangsi Hospital and any additional hospitals under our management, (5) our ability to identify suitable target hospitals, successfully implement our expansion scheme, integrate hospitals we add to our network and improve their operating results, (6) our ability to upgrade and expand facilities of the hospitals that we own or manage, and (7) our ability to attract and retain talented and experienced medical and management professionals.

While we do not have any particular target hospital for acquisition or cooperation, we engage in active discussions with potential targets from time to time.

The performance of any new hospitals that we acquire or manage may be affected by the ramping up of their performance after being acquired by us or us beginning management of them. For example, Weikang Investment acquired Fuhua Hospital in January 2014, and the general hospital services segment of our Predecessor Entities and our Group has comprised the operations of Fuhua Hospital. The general hospital services segment of our Predecessor Entities recorded losses before tax of RMB2.0 million and RMB404 thousand in 2014 and 2015, respectively. These losses were primarily because, prior to the acquisition, Fuhua Hospital was focused on specialties such as gynecology and andrology, which were subject to significant competition and required considerable marketing expenditures. The losses declined from 2014 to 2015, primarily because since 2014, we have been working to diversify and optimize Fuhua Hospital's medical services, better control its marketing expenditures and other costs, recruit medical staff of various specialties to improve its medical capabilities, and enhance Fuhua Hospital's recognition among its customers by providing free clinical services at communities, which helped to increase its in-patient visits. Fuhua Hospital now provides a wide range of out-patient clinic services in several major out-patient specialties including general surgery, internal medicine, gynecology, stomatology and Chinese medicine, and comprehensive in-patient services that integrate treatments and rehabilitation services. We have also endeavored to improve Fuhua Hospital's out-patient service quality and retrofitted its wards to attract in-patient visits. We plan for Fuhua Hospital to focus on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. See "Business—The Hospitals—Fuhua Hospital" for more information on our plans to improve Fuhua Hospital's business prospects and financial performance.

Our Group's general hospital services segment recorded losses before tax of RMB0.8 million and RMB0.2 million in the nine months ended September 30, 2015 and 2016, respectively. This decrease in losses before tax was primarily due to Fuhua Hospital's greater economies of scale as its in-patient and out-patient visits continued to increase.

Number of Patient Visits and Average Revenue per Patient Visit

Our revenue depends significantly on the number of patient visits at Fuhua Hospital, Yangsi Hospital and any new hospital that we may acquire, which in turn depends on these hospitals' ability to provide quality healthcare services to the patients. The number of Yangsi Hospital's out-patient visits increased by 3.1% from 1,427,802 in 2013 to 1,471,857 in 2014 and by 2.0% to 1,501,416 in 2015, and increased slightly from 1,086,795 in the nine months ended September 30, 2015 to 1,089,420 in the same period of 2016. The number of Yangsi Hospital's in-patient visits increased by 8.9% from 16,200 in 2013 to 17,647 in 2014 and by 8.0% to 19,062 in 2015, and increased by 12.3% from 13,747 in the nine months ended September 30, 2015 to 15,434 in the same period of 2016. Due in part to these increases, Yangsi Hospital's revenue grew by 15.6% from RMB399.4 million in 2013 to RMB461.7 million in 2014 and by 16.5% to RMB538.0 million in 2015, and increased by 14.3% from RMB388.2 million in the nine months ended September 30, 2015 to RMB443.6 million in the same period of 2016. The increases in Yangsi Hospital's out-patient visits and in-patient visits from 2013 to 2015 and from the nine months ended September 30, 2015 to the same period of 2016 were primarily due to Yangsi Hospital's improved medical service quality as a result of strengthened on-the-job training, internal controls and attention to nursing services, application of new therapeutic treatments and enlarged medical service scope in response to market demand, and increased hospital bed turnover rate. The increases in Yangsi Hospital's out-patient visits and in-patient visits from the nine months ended September 30, 2015 to the same period of 2016 were also due to its increased cooperation with nursing homes and increased attention to in-home care services. The number of Fuhua Hospital's out-patient visits increased by 77.1% from 24,237 in 2014 to 42,932 in 2015, and by 29.9% from 26,661 in the nine months ended September 30, 2015 to 34,644 in the same period of 2016. The number of Fuhua Hospital's in-patient visits increased significantly from 198 in 2014 to 523 in 2015, and by 16.6% from 331 in the nine months ended September 30, 2015 to 386 in the same period of 2016. Due in part to these increases, the revenue of our Predecessor Entities' general hospital services segment increased by 59.8% from RMB14.7 million in 2014 to RMB23.4 million in 2015, and the revenue of our Group's general hospital services segment increased by 32.8% from RMB15.9 million in the nine months ended September 30, 2015 to RMB21.1 million in the same period of 2016. The increases in Fuhua Hospital's out-patient visits and in-patient visits from 2014 to 2015 and from the nine months ended September 30, 2015 to the same period of 2016 were primarily due to our efforts to diversify and optimize the medical services that Fuhua Hospital provides, improve its medical capabilities, enhance its recognition among customers by providing free clinical services at communities and retrofit its wards to attract in-patient visits. The increases in Fuhua Hospital's out-patient visits and in-patient visits from the nine months ended September 30, 2015 to the same period of 2016 were also as a result of our efforts to provide a combination of nursing and medical services to the elderly.

The average revenue per patient visit at the hospitals that we own or manage also affects our revenue. Yangsi Hospital's average revenue per out-patient visit increased by 8.4% from RMB167 in 2013 to RMB181 in 2014 and by 12.7% to RMB204 in 2015, and increased by 13.7% from RMB202 in the nine months ended September 30, 2015 to RMB230 in the same period of 2016. Yangsi Hospital's average revenue per in-patient visit increased by 10.6% from RMB9,973 in 2013 to RMB11,035 in 2014 and by 10.0% to RMB12,140 in 2015, and increased by 2.2% from RMB12,245 in the nine months ended September 30, 2015 to RMB12,513 in the same period of 2016. The increases in Yangsi Hospital's average revenue per out-patient and in-patient visit from 2013 to 2015 and from the nine months ended September 30, 2015 to the same period of 2016 were primarily due to changes in the mix of pharmaceuticals sold and increases in Yangsi Hospital's medical service fees, as a result of its increased attention to medical services to the elderly — the group of patients that typically have relatively more complicated and severe diseases and increases in demand for Yangsi Hospital's VIP and other higher-priced medical services. The increases in Yangsi Hospital's average revenue per out-patient visit and average revenue per in-patient visit from the nine months ended September 30, 2015 to the same period of 2016 were also due to the Shanghai pricing authority raising guideline prices for certain basic pharmaceuticals. Fuhua Hospital's average revenue per out-patient visit decreased by 18.9% from RMB456 in 2014 to RMB370 in 2015. Fuhua Hospital's average revenue per in-patient visit decreased by 21.3% from RMB18,343 in 2014 to RMB14,444 in 2015. These decreases were primarily because after we acquired the Predecessor Entities, we revised Fuhua Hospital's operating strategy for it to provide quality medical services at prices consistent with local residents' demands and living standards. Fuhua Hospital's average revenue per out-patient visit increased by 2.7% from RMB399 in the nine months ended September 30, 2015 to RMB410 in the same period of 2016. Its average revenue per in-patient visit increased by 12.9% from RMB15,792 in the nine months ended September 30, 2015 to RMB17,826 in the same period of 2016. These increases were primarily due to the Shanghai pricing authority raising guideline prices for certain basic pharmaceuticals and an increase in demand for medical services from patients with complicated and severe diseases, as Fuhua Hospital's recognition among patients improved. The average revenue per patient visit depends on the prices of medical services, pharmaceuticals, medical consumables and medical devices, all of which are subject to government regulation, including those applicable to Medical Insurance Designated Medical Institutions. See the sections headed "Business—The Hospitals—Yangsi Hospital—Pricing and price controls," "Business—The Hospitals—Fuhua Hospital—Pricing and price controls" and "—Significant Factors Affecting Our Results of Operations—China's Healthcare Reforms, Price Control and Medical Insurance Policies" for more information.

Our success also depends significantly on our ability to improve the operating efficiencies of the hospitals we own or manage. During the establishment and ramping-up stages of these hospitals, we typically make structural upgrades and renovations, upgrade facilities and implement highly standardized operating procedures and policies. Our ability to timely complete these processes and help the hospitals to quickly achieve their designed operating capacity will affect our revenue generating capability and profitability.

Revenue Mix

Our gross profit margin is significantly affected by the revenue mix of our two business segments, as their gross profit margins differ considerably. Our hospital management services segment accounted for 77.7%, 83.5%, 83.8% and 81.7% of our total revenue and had gross profit margins of 84.9%, 83.4%, 82.8% and 69.1% in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. Our general hospital services segment accounted for 22.3%, 16.5%, 16.2% and 18.3% of our total revenue and had gross profit margins of 5.6%, 7.8%, 6.7% and 5.7% in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. Our overall gross profit margin was 67.2%, 71.0%, 70.4% and 57.5% in these same respective periods. The increase in our overall gross profit margin from the period from February 21, 2014 to December 31, 2014 to the year ended December 31, 2015 was primarily because the higher-margin hospital management services segment accounted for a greater percentage of our total revenue. The decrease in our overall gross profit margin in the nine months ended September 30, 2016 compared to the same period of 2015 was in part due to (1) a lower gross profit margin of our hospital management services segment due to a significant increase in our employee benefit expenses that have been included in our cost of revenue; and (2) a higher portion of our total revenue coming from the general hospital services segment, which has a significantly lower gross profit margin compared to our hospital management services segment.

The hospital management services segment accounted for 100%, 81.7% and 73.7% of our Predecessor Entities' total revenue and had gross profit margins of 86.7%, 88.0% and 82.4% in 2013, 2014 and 2015, respectively. Our Predecessor Entities did not have any general hospital services business prior to Weikang Investment's acquisition of Fuhua Hospital in January 2014. The general hospital services segment accounted for 18.3% and 26.3% of our Predecessor Entities' total revenue in 2014 and 2015, respectively, with a gross loss in 2014 and a gross profit margin of 9.3% in 2015. Our Predecessor Entities' gross profit margin was 86.7%, 71.2% and 63.2% in 2013, 2014 and 2015, respectively. The decrease in our Predecessor Entities' gross profit margin from 2013 to 2014 was primarily due to Weikang Investment's acquisition of Fuhua Hospital in January 2014, as the general hospital services provided by Fuhua Hospital had a lower gross profit margin than Weikang Investment's hospital management services business. The decrease in our Predecessor Entities' gross profit margin from 2014 to 2015 was primarily due to a decrease in gross profit margin for the hospital management services segment, because in 2015 Weikang Investment provided a narrower range of services to Yangsi Hospital and Honghe Ruixin began providing consultancy services to Yangsi Hospital.

Our overall gross profit margin may be subject to change as we acquire additional hospitals for our hospital management services segment and our general hospital services segment.

Employee-Related Costs and Expenses

Our profitability is affected by our costs and expenses relating to employees. Our hospital management services segment's employee benefit expenses (including wages, bonuses, share-based compensation expenses, social security contributions and other benefits) relate primarily to employees of Weikang Investment and Honghe Ruixin who provide management and consultancy services to

Yangsi Hospital and any new hospitals that we may enter into hospital management agreements with. Our general hospital services segment's employee benefit expenses are mainly related to doctors and other staff of Fuhua Hospital. Our total employee benefit expenses (including those recorded in both cost of revenue and administrative expenses) were RMB5.6 million, RMB17.3 million, RMB12.2 million and RMB30.1 million in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively, accounting for 23.8%, 12.1%, 12.4% and 26.1% of our revenue in these respective periods. Our Predecessor Entities' total employee benefit expenses were RMB2.3 million, RMB6.8 million and RMB11.6 million in 2013, 2014 and 2015, accounting for 4.9%, 8.5% and 13.0% of our Predecessor Entities' revenue, respectively. The increase in our Predecessor Entities' employee benefit expenses from 2013 to 2014 was primarily due to Weikang Investment's acquisition of Fuhua Hospital in January 2014. The increase in our Predecessor Entities' employee benefit expenses from 2014 to 2015 was primarily because we increased employee remuneration to attract and retain quality personnel. The increase in our Group's employee benefit expenses in the nine months ended September 30, 2016 compared to the same period of 2015 was primarily due to our grant of share options, share appreciation rights and other share-based awards to certain senior management members that provided hospital management services at Honghe Ruixin and Weikang Investment and increases in average employee benefits for Honghe Ruixin, Fuhua Hospital and Weikang Investment to attract and retain quality personnel. For details with respect to the share-based compensation, please see Note 16 to the Accountant's Report included in Appendix IA to this prospectus. As we are striving to attract and retain medical and management professionals to support the expansion of our hospital network and ramp-up of hospitals we own or manage, we expect our employee benefit expenses to continue to increase in the foreseeable future.

Seasonality

We experience seasonal fluctuations in our results of operations. We typically have more patients in the fourth quarter, as people are more susceptible to diseases in cold weather, and in March, in anticipation of medical insurance programs' annual quota expirations. We typically have fewer patients during and around the Chinese New Year festival in January or February, because Chinese people typically avoid seeing doctors during the period. Consequently, hospitals we own or manage (including Yangsi Hospital and Fuhua Hospital) may have lower revenue in the first half of each year than in the second half of the year. In addition, based on the Long Term Hospital Management Agreement and the annual hospital management agreements, since the beginning of 2015, both Weikang Investment and Honghe Ruixin's management service fees are based on formulas that have a fixed component and a performance-based floating component (prescribed by a cap rate and a floor rate). These management service fees are recognized quarterly (or in any other way as agreed by the parties) in the first three quarters of each year based on formulas using the floor rate (or as otherwise agreed by the parties) in the floating component and based on estimates of Yangsi Hospital's quarterly revenue. The amounts paid in the first three quarters are adjusted for differences within the three months following year-end based on the audited full-year revenue of Yangsi Hospital. As a result, we may be entitled to higher or lower management service fee rates in the fourth quarter than the average of the first three quarters, depending on Yangsi Hospital's audited full-year revenue and Yangsi Hospital's performance relative to the specified criteria for the year relevant to the floating component of the fee. See the sections headed "Business—Our Business Model—Our Hospital Management

Business," "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements," and "—Discussion of Certain Items From the Consolidated Balance Sheets—Intangible Assets" for more information on terms of the Hospital Management Agreements. Given these adjustments, our interim financial results may not reflect our annual financial results.

Taxation and Government Subsidies

Our profitability is significantly affected by preferential tax treatments and government subsidies received by our Chinese subsidiaries. Among our Chinese subsidiaries, (1) Honghe Ruixin is subject to a preferred 9% corporate income tax rate from January 1, 2015 to December 31, 2017; (2) Honghe Zhiyuan is subject to a preferred 9% corporate income tax rate from January 1, 2015 to December 31, 2017; and (3) Fuhua Hospital was exempt from business tax from January 1, 2013 to December 31, 2015 and this exemption has been renewed to cover the period from January 1, 2016 to September 28, 2017; from May 1, 2016, after the promulgation of the Notice of Replacing Business Tax with Value-added Tax, Fuhua Hospital became subject to value-added tax (instead of business tax) and this exemption continues to apply to its value-added tax during the remainder of the term. See "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations Related to Taxation in China—Value-added Tax" for more information. In addition, the local government in Dazi, Tibet has agreed to provide government subsidies to Honghe Ruixin and Honghe Zhiyuan, each equal to 60% of the business tax and 50% of the value-added tax payable by Honghe Ruixin or Honghe Zhiyuan (as applicable). Honghe Ruixin and Honghe Zhiyuan had no significant business operations from their respective establishment dates in 2014 to December 31, 2014. Honghe Ruixin, a subsidiary of Honghe Zhiyuan, began providing hospital management services to Yangsi Hospital from January 1, 2015. We received government grants and subsidies of RMB1.1 million from the finance bureau of Dazi, Tibet in the nine months ended September 30, 2016. Honghe Ruixin might provide a wider range of consultancy services to Yangsi Hospital, and as a result, Honghe Ruixin's management service fee rate as a percentage of Yangsi Hospital's revenue might be higher in the foreseeable future. See the sections headed "Business—Our Business Model—Our Hospital Management Business" and "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" for more information. As Fuhua Hospital's operating efficiency increases, its contribution to our total revenue and net profit might be higher in the foreseeable future. As a result of the foregoing, our overall tax burden might be reduced in the foreseeable future. However, we can offer no assurance that these expectations will be realized or that we will continue to enjoy these preferential tax treatments or government subsidies. See the section headed "Risk Factors—Risks Relating to Doing Business in China—Preferential tax treatment and financial subsidies that we have enjoyed may be changed or terminated."

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our and our Predecessor Entities' consolidated financial statements. Some of our accounting policies and those of our Predecessor Entities involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our and our Predecessor Entities' financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of these policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Set forth below are those accounting policies that we believe involve the most significant estimates and judgments used in preparing our and our Predecessor Entities' financial statements. The significant accounting policies, which are important for you to understand our and our Predecessor Entities' financial condition and results of operations, are set forth in detail in Notes 2 and 4 to Appendices IA and IB to this prospectus, respectively.

Consolidation

A subsidiary is an entity (including a structured entity) over which we have control. We control an entity when we are exposed to, or have rights to, variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. We consolidate subsidiaries from the date on which control is transferred to us. We deconsolidate them from the date that control ceases.

Business Combination

We apply 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 us. 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.

We recognize any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. For 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, we measure those interests at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. We measure all other components of non-controlling interests at their acquisition date fair value, unless another measurement basis is required by IFRS.

We expense acquisition-related costs as incurred.

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

We recognize any contingent consideration to be transferred by us 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 are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. We do not re-measure contingent consideration that is classified as equity, and we account for its subsequent settlement within equity.

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

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with our accounting policies.

Intangible Assets

Goodwill

Goodwill arising from acquisitions 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, we allocate goodwill acquired in a business combination 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. We monitor goodwill at the operating segment level. See Note 7 to the Accountant's Report in Appendix IA to this prospectus for more information on our allocation of goodwill among operating segments.

We undertake goodwill impairment reviews annually or more frequently if events or changes in circumstances indicate a potential impairment. We compare the carrying value of the CGU containing the goodwill to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. It is not always necessary to determine both the fair value less costs to sell of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount. We recognize any impairment immediately as an expense and do not subsequently reverse the impairment.

Medical Licenses

We recognize medical licenses acquired in a business combination at fair value at the acquisition date. These medical licenses have a finite useful life and are carried at cost less accumulated amortization. We calculate amortization using the straight-line method to allocate the cost of licenses over their estimated useful lives of approximately 13 years.

Contractual Rights to Provide Management Services

Contractual rights to provide management services are the rights to provide management services to a hospital. We recognize these contractual rights acquired in a business combination at fair value at the acquisition date. These contractual rights have a finite useful life and are carried at cost less accumulated amortization. We calculate amortization using the straight-line method over the contractual term of 50 years (of the Hospital Management Framework Agreement and the Letter of Intent) starting from October 1, 2014.

Share-based Payments

Equity-settled share-based payment transactions

We operate an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for our equity instruments (including shares or share options) of our Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments 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 save or hold shares for a specified period of time).

At the end of each reporting period, we revise our estimates of the number of share options that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Cash-settled share-based payment transactions

We operate a number of cash-settled share-based compensation plans, under which we receive services from employees by incurring liabilities for amounts that are based on the price (or value) of our shares or other equity instruments (the share appreciation rights). The employee services received and the liability incurred are measured at the fair value of the liability.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At the end of each reporting period and at the date of settlement, we re-measure the fair value of the liability, with any changes in fair value recognized in profit or loss for the period.

Share-based payment transactions with cash alternatives

We operate a share-based compensation plan, under which we receive services from employees and the terms of the arrangement provide the employees with a choice of whether we settle the transaction in cash or by issuing equity instruments.

For this kind of share-based payment transactions, we are considered to have issued a compound financial instrument, which includes a debt component (the employees' right to demand payment in cash) and an equity component (the employees' right to demand settlement in equity instruments rather than in cash).

We measure the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted. To apply this, we first measure the fair value of the debt component, and then measure the fair value of the equity component, taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components.

We account separately for the services received in respect of each component of the compound financial instrument. For the debt component, we recognize the services received and a liability to pay for those services in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component, we recognize the services received and an increase in equity in accordance with the requirements applying to equity-settled share-based payment transactions.

At the date of settlement, we re-measure the liability to its fair value. If we issue equity instruments on settlement rather than paying cash, the liability shall be transferred directly to equity, as the consideration for the equity instruments issued. If we pay in cash on settlement rather than issuing equity instruments, such payment shall be applied to settle the liability in full. Any equity component previously recognized shall remain within equity.

Share-based payment transactions among group entities

A share-based payment transaction where another entity in our Group receives the goods or services shall be recognized by our Company as an equity-settled share-based payment transaction only if it is settled in our Company's own equity instruments. Otherwise, the transaction will be recognized as a cash-settled share-based payment transaction.

In its separate financial statements, our Company records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by our Company.

Critical Accounting Estimates and Judgments

Estimated Impairment of Goodwill

We test annually whether goodwill has suffered any impairment, in accordance with the accounting policy in Note 2.6 of the Accountant's Report in Appendix IA to this prospectus. We select the appropriate calculation method to perform the goodwill impairment testing for our operating segments. We determine the recoverable amounts of the general hospital services segment and the hospital management services segment based on value-in-use calculations.

Under International Accounting Standards, the main difference between the fair value and value-in-use models is that the fair value model takes into account the estimated cash inflows and outflows expected to arise from future restructurings and from enhancements or improvements in the assets' performance, whereas the value-in-use model excludes these estimated future cash inflows and outflows. Although (i) we acquired Weikang Investment with the intention of creating synergies by replicating Weikang Investment's business model to other hospitals that we own or manage through future mergers and acquisitions, and such resulting synergistic effect is considered as one of the factors leading to the goodwill arising from the Weikang Acquisition, and (ii) we have been proactively looking into, reviewing and evaluating potential hospital targets, we have not identified any specific acquisition target as of the Latest Practicable Date, nor have we entered into any binding letter of intent or any other definitive agreement in connection with any mergers or acquisitions. Given the inherent uncertainties in future mergers and acquisitions, we have used the value-in-use calculations when performing the goodwill impairment assessment of the operating segments, which excludes cash inflows and outflows for future mergers and acquisitions and the synergistic effects and cash inflows expected to be created by replicating Weikang Investment's business model to other hospitals that we own or manage through future mergers and acquisitions.

Value-in-use is a rule-based calculation under IAS 36 as explained below. In accordance with IAS 36 Paragraph 44, when using value-in-use calculations, future cash flows shall be estimated for the asset in its current conditions. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from (a) a future restructuring to which an entity is not yet committed or (b) improving or enhancing the asset's performance.

We determine the recoverable amounts of cash-generating units based on value-in-use calculations. These calculations require the use of estimates. When applying this valuation technique, we rely on a number of factors and judgments, including historical results, business plans, forecasts and market data.

In accordance with IAS 36 Paragraph 35, because detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available, management's estimates of future cash flows are typically based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

We consider that the eight-year-forecast-period (from 2016 to 2023) financial budget that has been used in the goodwill impairment test is appropriate because:

i) the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of Fuhua Hospital and Yangsi Hospital are longer than eight years;

ii) the key assumptions used in the forecast of future cash flows will be affected by relevant assumptions and estimates, such as the accelerating trend of population aging; increasing chronic, common and/or frequently-occurring diseases; as well as increasing affordability and accessibility of healthcare services. These assumptions and estimates are reliable which are supported by statistics and research information of government and Frost & Sullivan; and

iii) according to the Frost & Sullivan Report, it is shown that as driven by the Chinese government's measures to stimulate private capital investing in healthcare services, Shanghai's non-public hospital market is projected to maintain a high speed growth with a CAGR of 10.7% from 2016 to 2023. As a result, taking into account the transitional development stage and relative small-scale of Fuhua Hospital and the steady and above-industry-average historical growth rate of Yangsi Hospital, we are confident that revenue of Fuhua Hospital and management services fees from Yangsi Hospital will maintain high growth rates in the eight-year forecast period and will not enter into the relatively low long-term growth stage until after the forecast period.

See Note 4 to the Accountant's Report in Appendix IA to this prospectus for the key assumptions we used in our goodwill impairment testing.

The bases for the key assumptions we used in our goodwill impairment testing as of September 30, 2016 (estimated based on our operations during the nine months ended September 30, 2016) are as follows:

(i) *Revenue (% compound growth rates)*

The compound growth rate of revenue for the eight-year forecast period (from 2016 to 2023) was based on our estimated average revenue growth rate for this period. In particular, we have estimated that during this period the compound growth rate of our general hospital services segment's revenue will be 9.69% and the compound growth rate of our hospital management services segment's revenue will be 9.65%. In addition to the existing hospitals, we consider the industry CAGRs, our business transition strategy and other market forecasts in estimating our compound growth rates of revenue. Frost and Sullivan has forecasted that the market size of Shanghai's non-public hospitals will grow at a CAGR of 10.7% from 2016 to 2023. Considering that Fuhua Hospital is experiencing the transitional development stage from the current relative small scale of business, we believe that Fuhua Hospital will continue to maintain a high revenue growth rate in the eight-year forecast period. Taking into account the relatively long-term high growth in the hospital industry, we expect the revenue generated from the hospital management services segment to maintain a high growth rate.

From Yangsi Hospital's operational perspective, the assumption on the compound growth rate for revenue of 9.65% as indicated above is supported by: (i) the steady and above-industry-average historical growth of Yangsi Hospital, (ii) Yangsi Hospital's future development plan and growth potential, and (iii) the stable and sustainable business relationship between us and Yangsi Hospital.

Historical growth of Yangsi Hospital

The growth of Yangsi Hospital's revenue during the Track Record was primarily because of:

- the increases in the numbers of Yangsi's in-patient and out-patient visits, mainly due to (i) improved medical service quality; (ii) increased hospital bed turnover rate; (iii) increased cooperation with nursing homes; (iv) increased attention to in-home care services, and (v) higher revenue contribution from several medical specialties that were established in late 2014; and

- the increases in the average revenue per in-patient and out-patient visit, mainly due to (i) changes in the mix of pharmaceuticals sold; (ii) increases in medical services fees, (iii) increases in demand for VIP and other higher-priced medical services; and (iv) the Shanghai pricing authority raising guideline prices for certain basic pharmaceuticals.

Even during a period of sustained high bed occupancy rate, Yangsi Hospital maintained a steady and above-industry-average historical revenue growth rate and we expect Yangsi Hospital will continue to grow its revenue in the future.

Yangsi Hospital's future development plan and growth potential

Over the next few years, we intend for Yangsi Hospital to expand its business and operations as set forth below, and believe that the revenue of Yangsi Hospital will maintain stable growth, supporting the compound growth rate for revenue of 9.65% for our hospital management services segment for the eight-year forecast period.

- Organic growth of the hospital. According to the Frost & Sullivan Report, from 2011 to 2015, total healthcare spending in China grew from RMB2,436.6 billion to RMB4,097.5 billion, representing a CAGR of 13.9%. As Yangsi Hospital is a general hospital located in Shanghai focusing on the treatment of common diseases, frequently re-occurring diseases and chronic diseases, Yangsi Hospital is expected to achieve sustainable growth in the next few years.

- Expanding scale and optimizing organizational structure. We plan to optimize Yangsi Hospital's organizational structure and expand its scale of operation through:

  (i) adding approximately 20 hospital beds (primarily VIP beds) every year to reach 650 beds in operation by the end of 2019. Due to growing demand, Yangsi Hospital increased the number of beds in operation during the Track Record Period, from 465 as of December 31, 2013 to 550 as of September 30, 2016 and added over 30 hospital beds to its emergency service department in October 2016;

(ii) increasing the number of in-patient visits and average revenue per in-patient visit. We will continue to formulate and implement standardized policies and procedures for the daily operations of the hospital, for example to regulate the process and time frame for admission, inspection, surgery and follow-up treatment of patients, which are expected to help reduce average stay-lengths. Accordingly, we expect to increase the hospital bed turnover rate, which in turn will enhance the operational efficiency of the hospital and increase the number of in-patient visits and average revenue per in-patient visit; and

(iii) increasing the number of out-patient visits and average revenue per out-patient visit. During the Track Record Period, over 50% of Yangsi Hospital's in-patients were over 65 years of age. The number of elderly patients and percentage of elderly patients increased over the Track Record Period. We believe this trend will continue, and Yangsi Hospital is expected to attract larger numbers of elderly patients due to China's accelerating trend of population aging. In addition, as the incidence of chronic, common and/or frequently-occurring diseases increases, we believe that the number of out-patient visits of Yangsi Hospital and the average revenue per out-patient visit will continue to increase. Please see in "Industry Overview—China's Healthcare Service Market Overview—Drivers of the Healthcare Service Market in China" for more information.

- Diversified and additional services and new equipment. Given the increasing affordability and accessibility of healthcare services, Yangsi Hospital plans to (i) increase VIP and other higher-priced medical services; (ii) add 20 hyperbaric chambers and 20 hospital beds for hemodialysis; (iii) establish an ICU department; (iv) expand medical departments/units that generate higher revenue, including medical cosmetology department, stomatology department, anorectal department, liver surgery department and oncology department; (v) increase cooperation with local nursing homes with a target to add 200 beds annually; (vi) develop services that integrate clinical care and rehabilitation services. Yangsi Hospital intends to increase its facilities by a total area of 200 square meters annually to provide clinical care and rehabilitation services to in-patients and the elderly.

Stable and sustainable business relationship between us and Yangsi Hospital

Given our business relationship with Yangsi Hospital is stable and sustainable, we believe we will be able to continue to charge Yangsi Hospital substantial management service fees, taken into account the wide-ranging services that Weikang Investment and Honghe Ruixing anticipate providing to Yangsi Hospital. Please refer to "Business—Our Business Model—Our Hospital Management Business" for more information on the business relationship between us and Yangsi Hospital.

(ii) *Cost and operating expenses (% of revenue) and working capital requirements (% of revenue)*

The cost and operating expenses (% of revenue) for both of our hospital management services segment and general hospital services segment and working capital requirements (% of revenue) for our hospital management services segment for the eight-year forecast period were determined based on our past experience.

(iii) *Long-term growth rate*

The 3% long-term growth rate after the eight-year forecast period was estimated based on China's inflation rate. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

(iv) *Discount rates*

The discount rates for the eight-year forecast period and after that period were determined with reference to discount rates provided by an independent valuer. In our determination of discount rates, although we have a number of options to raise funds, including bank borrowings, bonds, convertible debt and issuance of new shares, for the sake of prudence, we adopted a debt-to-equity ratio of 0% in the forecast, which resulted in a higher discount rate. Using a debt-to-equity ratio of 0%, the weighted average cost of capital of the business is equal to its cost of equity. The cost of equity capital of the business was calculated using the capital asset pricing model, or CAPM, the most commonly adopted method for estimating the required rate of return for equity. Under CAPM, the cost of equity is determined considering the risk-free rate of return, betas of peer companies in China's healthcare sector as a measurement of systematic risk, equity market risk premium, size premium, and unsystematic (also known as company-specific) risk premium associated with the underlying projections. The peer companies were selected with consideration of the following criteria: (i) the company should provide hospital and healthcare services; (ii) the company should have a sufficiently long trading history to derive a meaningful beta; and (iii) the company should have active operations in China and be publicly listed in Hong Kong. Companies that fulfil all the above criteria are China Resources Phoenix Healthcare Holdings Company Limited (a company listed on the Stock Exchange with stock code 1515) and Town Health International Medical Group Limited (a company listed on the Stock Exchange with stock code 3886). The resulting post-tax cost of equity was 13%. The pre-tax discount rate used in the value-in-use calculation to assess the goodwill impairment for the nine months ended September 30, 2016 was 14.7%, which was calculated based on the post-tax cost of equity.

The post-tax cost of equity of China Resources Phoenix Healthcare Holdings Company Limited and Town Health International Medical Group Limited as of June 30, 2016 was 8.8% and 8.1%, respectively, according to Bloomberg Finance LP.

The pre-tax discount rates were used in the value-in-use calculations to assess the goodwill impairment for our general hospital services segment. When using value-in-use calculations, in accordance with IAS 36 Paragraph 50, estimates of future cash flows shall not include (a) cash inflows or outflows from financing activities or (b) income tax receipts or payments. In accordance with IAS 36 Paragraph 55, the discount rate shall be a pre-tax rate that reflects current market assessments of (a) the time value of money and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Based on the standards mentioned above, the future cash flows used in value-in-use calculations to assess the goodwill impairment of the general hospital services segment did not include income tax receipts or payments, and thus the management of the Company used the pre-tax discount rate to match the future cash flows.

Set forth below are discussions on sensitivity analysis for our goodwill impairment testing.

General hospital services segment

The table below sets forth each key assumption for the eight-year forecast period as of each period/year-end (estimated based on our operations for the periods indicated) that we used in our goodwill impairment testing and the breakeven point of such key assumption:

	Period from February 21 to December 31, 2014		**Year ended December 31, 2015**		**Nine months ended September 30, 2016**	
	Key assumption	**Breakeven point**	**Key assumption**	**Breakeven point**	**Key assumption**	**Breakeven point**
Percentage of the compound growth rate of revenue	16.87%	-1.50%	9.69%	-17.19%	9.69%	-19.72%
Percentage of costs and operating expenses over revenue	88.00%	94.32%	85.00%	91.65%	85.00%	91.89%
Percentage of the pre-tax discount rate*	15.78%	23.62%	16.36%	27.35%	16.63%	30.33%

* Same for the eight-year forecast period and after that period.

The decrease in the percentage of the compound growth rate of revenue from 16.87% as of December 31, 2014 to 9.69% as of December 31, 2015 was primarily attributable to the expected high growth rate of the general hospital services segment, which is in a transitional development stage.

Hospital management services segment

The table below sets forth each key assumption for the eight-year forecast period as of each period/year-end (estimated based on our operations for the periods indicated) that we used in our goodwill impairment testing and the breakeven point of such key assumption:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2016	
	Key assumption	Breakeven point	Key assumption	Breakeven point	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	17.45%	16.56%	9.59%	8.68%	9.65%	8.23%
Percentage of costs and operating expenses over revenue	9.95%	13.80%	9.95%	14.20%	10.02%	16.66%
Percentage of the pre-tax discount rate*	14.63%	15.10%	14.67%	15.21%	14.70%	15.62%

* Same for the eight-year forecast period and after that period.

The decrease in the percentage of the compound growth rate of revenue from 17.45% as of December 31, 2014 to 9.59% as of December 31, 2015 was primarily because Honghe Ruixin began providing consultancy services to Yangsi Hospital from January 2015.

The tables below set forth the financial impact on our goodwill impairment testing if each key assumption had been one percentage point higher or lower than its breakeven point for each of our general hospital services segment and hospital management services segment as of September 30, 2016.

Sensitivity Analysis for the General Hospital Services Segment as of September 30, 2016

Key assumptions	Breakeven point of key assumptions	Change of one percentage point for each key assumption	Impact
Revenue (% compound growth rate)	-19.72%	-20.72%	Carrying amount exceeds recoverable amount by RMB0.3 million
Cost and operating expenses (% of revenue)	91.89%	92.89%	Carrying amount exceeds recoverable amount by RMB3.1 million
Pre-tax discount rate (%)	30.33%	31.33%	Carrying amount exceeds recoverable amount by RMB0.8 million

Sensitivity Analysis for the Hospital Management Services Segment as of September 30, 2016

Key assumptions	Breakeven point of key assumptions	Change of one percentage point for each key assumptions	Impact
Revenue (% compound growth rate)...................	8.23%	7.23%	Carrying amount exceeds recoverable amount by RMB76.6 million
Cost and operating expenses (% of revenue)	16.66%	17.66%	Carrying amount exceeds recoverable amount by RMB17.6 million
Pre-tax discount rate (%) ...	15.62%	16.62%	Carrying amount exceeds recoverable amount by RMB108.1 million

For details, please refer to Note 7 to the Accountant's Report in Appendix IA to this prospectus.

For the general hospital services segment, our recoverable amount is approximately RMB39.6 million as of September 30, 2016, including RMB21.9 million attributable to the eight-year forecast period and RMB17.7 million after the eight-year forecast period.

For the hospital management services segment, our recoverable amount is approximately RMB1,511.4 million as of September 30, 2016, including RMB770.5 million attributable to the eight-year forecast period and RMB740.8 million after the eight-year forecast period.

The discussions above represent only bases for the key assumptions we used in our impairment testing. They do not represent a forecast or projection of our future performance or profitability, and they should be considered only in evaluating our impairment testing.

We did not charge any impairment during the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 or the nine months ended September 30, 2016.

As there is no impairment loss based on the respective calculation used by management in the impairment test of the general hospital services segment and hospital management services segment, normally no impairment test using alternative calculation is required.

Purchase Price Allocation

The application of business combination accounting requires the use of significant estimates and assumptions. The purchase method of accounting for business combinations requires us to estimate the fair value of identifiable assets acquired and liabilities assumed. This exercise requires the use of our management's assumptions and judgment, including a presumption of contractual relationship renewal at minimum cost, which would not reflect unanticipated events and circumstances that may occur.

Allocation of the purchase prices affects our results as finite live intangible assets are amortized, whereas indefinite lived intangible assets, including goodwill, are not amortized and could result in differing amortization charges based on the allocation to indefinite lived and finite lived intangible assets.

Among our RMB1,038.4 million cost of acquiring Weikang Investment, we assigned a fair value of RMB116.0 million to Weikang Investment's contractual rights to provide management services to Yangsi Hospital based on the valuation report of an independent valuer. These contractual rights represented the value of the existing contractual relationship between Weikang Investment and Yangsi Hospital as at the date of our acquisition of Weikang Investment (September 30, 2014), which included the then-effective Hospital Management Framework Agreement and Letter of Intent. In accordance with IFRS 3, a customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. However, as at the acquisition date, other than the then-existing contractual relationship between Weikang Investment and Yangsi Hospital, no customer relationships (including the subsequent contractual rights of Honghe Ruixin to provide consultancy services to Yangsi Hospital) met the contractual or legal criteria required for them to be identified as intangible assets arising from our acquisition of Weikang Investment.

In addition, in accordance with IFRS 3, an asset is identifiable if it either: (i) is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (ii) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. In accordance with this standard, the contractual relationship between Honghe Ruixin and Yangsi Hospital was not an identifiable asset as of the acquisition date based on the following reasons:

(i) **Implications of the 51-year Letter of Intent and the Six-year Hospital Management Framework Agreement under PRC laws**

The 51-year Letter of Intent was intended to provide and govern, among other things, the general principles in relation to the service scope, pricing policy and payment terms of the management and consulting services, and the Six-year Hospital management Framework Agreement was intended to provide a high-level framework for the hospital management business relationship between Weikang Investment and Yangsi Hospital and to govern the annual agreements that are separately and subsequently entered into between Weikang Investment and Yangsi Hospital. The specific service scope and management fee rates for these annual hospital management agreements are subject to subsequent negotiation between Weikang Investment and Yangsi Hospital and annual KPI (Key Performance Indicator) review of the management services provided by Weikang Investment by the executive committee of Yangsi Hospital. However, under these hospital management agreements, Yangsi Hospital is not obligated to engage an affiliate of Weikang Investment (including Honghe Ruixin) to provide any services within the general service scope defined under the Letter of Intent. Therefore, as of the time of the acquisition there was no legally binding and enforceable contract, agreement or other contractual arrangement, in relation to Honghe Ruixin providing services to Yangsi Hospital that should be construed or recognized as an intangible asset when allocating the purchase price under the applicable valuation and accounting standards.

For more details of the 51-year Letter of Intent and the Six-year Hospital Management Framework Agreement, please see the section headed "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements".

(ii) **Interpretation of the exclusivity clause**

According to the Letter of Intent, Weikang Investment is the sole management and consultancy services provider to Yangsi Hospital unless otherwise agreed between Weikang Investment and Yangsi Hospital in writing. However, consistent with this agreement, with consent of both Yangsi Hospital and Weikang Investment, a third party, whether or not associated with Weikang Investment, can provide management and consultancy services to Yangsi Hospital. Further, Yangsi Hospital's decision to engage Honghe Ruixin to provide services was not a result of the operation of the exclusivity clause under the Letter of Intent. Instead, the decision was made after negotiations between Honghe Ruixin and Yangsi Hospital (with consent of Weikang Investment), taking into account, among other things, the strategic business plan and proposal that Honghe Ruixin formulated and presented to Yangsi Hospital for further developing Yangsi Hospital and the expertise, competency and capacity of Honghe Ruixin's team.

(iii) **Decision-making process of Yangsi Hospital**

In accordance with the Yangsi Hospital's rules of procedure for its executive committee, passing a resolution in respect of material matters requires votes from at least two-thirds of the members present at the meeting, including at least one vote from an employee representative and the vote of the committee's independent member. When determining the specific management and consulting services scope, service price as well as the services providers, Yangsi Hospital's executive committee, in particular its employee representatives and independent member, consider Yangsi Hospital's actual demand for such services and the competency of the services providers. Please see the section headed "Business—Our Business Model—Our Hospital Management Business" for more details of the decision-making process of Yangsi Hospital.

The current independent member of the executive committee of Yangsi Hospital is Ms. Li Xinyi. She is the former deputy mayor of Sanlin Town, in which Yangsi Hospital is located. She was mainly responsible for the supervision and regulation of the medical and healthcare affairs in the administrative region of Sanlin Town and is familiar with the operations, demands and developments of local hospitals. Therefore, although Weikang Investment has significant influence to Yangsi Hospital, which arises from its right to nominate certain members of Yangsi Hospital's executive committee, it does not have the right to override the decisions of the executive committee and determine the scope, price or providers of the management and consulting services.

As a result, the fair value of Weikang Investment's contractual rights to provide management services to Yangsi Hospital accounted for a relatively low proportion of our total cost of acquiring Weikang Investment.

The fair value of the contractual rights was established using a form of the income approach known as the excess earnings method. In the excess earnings method, value is estimated as the present value of the benefits anticipated from ownership of the subject intangible asset in excess of the returns required on the investment in the contributory assets necessary to realize those benefits. The key assumptions used when valuing the contractual rights as of the acquisition date were:

(i) Revenue compound growth rate of Yangsi Hospital

With consideration of reputation of Yangsi hospital, market demand for healthcare services, industry growth rate and the then-existing management arrangement between Weikang Investment and Yangsi Hospital, the management of the Company estimated that the revenue of Yangsi Hospital would grow at a compound annual growth rate of 10.22% from 2014 to 2022 and 3.00% from 2022 to 2064.

(ii) Management fee ratio

The management of the Company estimated that the ratio of the management fee Yangsi Hospital pays to Weikang Investment as a percentage of Yangsi Hospital's total revenue would decrease gradually from 15.00% in 2015 to 1.00% in 2018 and 1.00% from 2018 to 2064.

This estimate of the decreasing trend of the management fee ratio was based on the following factors:

- As of the acquisition date, Weikang Investment mainly provided management consulting services to Yangsi Hospital to support its daily operations;

- We anticipated that, in the medium-to long-term, as the staff of Yangsi Hospital gradually accumulated knowledge of daily management and operation, its needs for management services would shift from daily operations to strategic advisory (which it would be commercially desirable for other members of our Group to provide);

- Along with the expected decrease in Yangsi Hospital's demand for daily management and operation services, Weikang Investment's services scope and management fee ratio would also decrease.

The estimated trend of the management fee ratio has been generally consistent with the actual change in the management service fees that Yangsi Hospital paid to Weikang Investment in 2015 and 2016.

(iii) Discount rate

The resulting excess earning was discounted at 14.4%. This discount rate was determined based on a market participant's required rate of return for the risks of the acquired business, as determined using the capital asset pricing model, plus relative risk premium of the management service contract. The relative risk premium was determined with consideration of the risk profile of the management service contract, relative to the acquired business' overall weighted average portfolio of the assets.

Consolidation of Not-for-profit Hospital Established by Weikang Investment

Yangsi Hospital, a not-for-profit hospital, was founded by Weikang Investment, a subsidiary we acquired in September 2014. Despite the fact that Weikang Investment founded Yangsi Hospital, it is not entitled to dividends of the hospital in accordance with relevant PRC rules and regulation. We have obtained contractual rights to provide management services to the hospital through the Hospital Management Agreements and are entitled to receive performance-based management fees.

We have exercised significant judgments in determining whether we have control over Yangsi Hospital. In exercising this judgment, we consider the purpose and design of Yangsi Hospital, what the relevant activities are and how decisions about those activities are made, whether our rights give us current ability to direct the relevant activities of Yangsi Hospital, whether rights exercisable by other parties as internal governance body members are substantive, whether we are exposed, or have rights, to variable returns from our involvement with Yangsi Hospital, and whether we have the ability to use our power over Yangsi Hospital to affect the amount of our returns.

After our assessment, we have concluded that we do not have the decision making power over the executive committee of Yangsi Hospital to direct the relevant activities and operations of Yangsi Hospital, and therefore, we do not control and thus do not consolidate it. Instead, agreements are considered as management contracts that generate management service income.

ACCOUNTING TREATMENT FOR CAPITAL INVESTMENTS MADE IN YANGSI HOSPITAL AND FUHUA HOSPITAL

Our subsidiary, Weikang Investment, founded Yangsi Hospital on January 5, 2007 as a not-for-profit hospital and registered Yangsi Hospital as a Privately-funded Non-enterprise Entity. Weikang Investment's start-up funds of RMB30 million in Yangsi Hospital were recognized as other losses, and the effect of these losses was reflected in Weikang Investment's equity when we acquired Weikang Investment in 2014. As advised by our PRC Legal Advisors, given Yangsi Hospital's not-for-profit non-enterprise entity nature, our capital investment in the form of start-up funds in Yangsi Hospital will not be returned to us. Weikang Investment is not required under Chinese law to commit, nor has it committed, any further investment in Yangsi Hospital.

Fuhua Hospital was established by two independent third-party individuals as a for-profit hospital, which was registered as a limited liability company on October 17, 2007. Weikang Investment acquired the entire equity interest in Fuhua Hospital on January 15, 2014. We acquired an 80% equity interest in Weikang Investment on September 30, 2014 at the consideration of RMB1,038.4 million. As such, we have consolidated the results of Fuhua Hospital since September 30, 2014. As advised by our PRC Legal Advisors, our capital investment in Fuhua Hospital may be returned to us upon its liquidation in accordance with applicable PRC laws and regulations.

SELECTED FINANCIAL DATA

Our Group

Comparisons of our results of operations between the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 may not be useful to investors because we did not have significant operations prior to our acquisition of the Predecessor Entities on September 30, 2014 and because Honghe Ruixin began providing consultancy services to Yangsi Hospital in January 2015. The changes in our results of operations from (a) the period from February 21, 2014 to December 31, 2014 to (b) the year ended December 31, 2015 were primarily due to our acquisition of the Predecessor Entities, and, to a lesser extent, because Honghe Ruixin began providing management services to Yangsi Hospital and generated additional revenue from January 2015. Our results of operations at the Group level for the nine months ended September 30, 2015 and the same period of 2016 are comparable because there has not been any material change in our group structure since our acquisition of the Predecessor Entities on September 30, 2014. Our results of operations in any historical period may not be indicative of our results in any future period. The following table sets forth a summary of our consolidated statements of comprehensive income for the periods indicated:

	Period from February 21 to December 31,	Year ended December 31,	Nine months ended September 30,	
	2014	2015	2015	2016
	RMB ('000)	RMB ('000)	RMB ('000) (Unaudited)	RMB ('000)
Revenue	23,653	142,524	97,895	115,367
Cost of revenue	(7,763)	(41,395)	(28,944)	(49,020)
Gross profit	15,890	101,129	68,951	66,347
Selling expenses	—	(1)	(1)	(3)
Administrative expenses	(7,947)	(13,203)	(8,225)	(22,060)
Other (losses)/gains - net	(47)	(342)	(31)	871
Other income	—	2,477	977	1,081
Operating profit	7,896	90,060	61,671	46,236
Finance income - net	584	53	46	119
Profit before income tax	8,480	90,113	61,717	46,355
Income tax expense	(4,185)	(22,788)	(15,862)	(15,581)
Profit for the period/year	4,295	67,325	45,855	30,774

	Period from February 21 to December 31,	Year ended December 31,	Nine months ended September 30,	
	2014	2015	2015	2016
	RMB ('000)	RMB ('000)	RMB ('000) (Unaudited)	RMB ('000)
Other comprehensive income	—	—	—	—
Total comprehensive income	4,295	67,325	45,855	30,774
Profit and total comprehensive income attributable to:				
Owners of the Company	2,067	50,935	34,739	18,141
Non-controlling interests	2,228	16,390	11,116	12,633
	4,295	67,325	45,855	30,774

Our Predecessor Entities

We have presented below the consolidated financial statements of our Predecessor Entities for the year ended December 31, 2013, the nine months ended September 30, 2014, the years ended December 31, 2014 and 2015, and the nine months ended September 30, 2016 to give investors information about the performance of our Predecessor Entities' business during these periods. See the paragraphs headed "—Basis of Presentation" for more information. The financial results of our Predecessor Entities encompassed (1) in 2013, hospital management services provided by Weikang Investment to Yangsi Hospital, and (2) in 2014, 2015 and the nine months ended September 30, 2016, hospital management services provided by Weikang Investment to Yangsi Hospital and general hospital services provided by Fuhua Hospital (which Weikang Investment acquired on January 15, 2014). The operating results of our Predecessor Entities in any historical period may not be indicative of the results that may be expected of us in any future period. In particular, our Predecessor Entities' performance in 2015 does not provide a full picture of our Group's performance and the operating results of our Predecessor Entities in 2015 are not comparable to those in 2014, because Weikang Investment provided a narrower range of hospital management services to Yangsi Hospital in 2015 than it did in 2014 and because our other subsidiary, Honghe Ruixin, began providing consultancy services to the hospital in 2015. Please see "Business—The Hospitals—Yangsi Hospital—Key Information" for a discussion of Yangsi Hospital's financial performance during the Track Record Period. In this prospectus, we have not provided a detailed discussion of the Predecessor Entities' line items for the nine months ended September 30, 2015 and 2016 because we believe that the Group's financials for these periods better represent our operating results.

The table below sets forth a summary of our Predecessor Entities' consolidated statements of comprehensive income for the periods indicated:

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30,	
					2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)	RMB ('000)	RMB ('000) (Unaudited)	RMB ('000)
Revenue	46,443	56,756	80,409	89,234	61,643	63,807
Cost of revenue	(6,170)	(16,260)	(23,166)	(32,831)	(22,683)	(35,160)
Gross profit	40,273	40,496	57,243	56,403	38,960	28,647
Selling expenses	—	(18)	(18)	(1)	(1)	(3)
Administrative expenses	(1,238)	(1,768)	(2,848)	(3,755)	(2,627)	(3,196)
Other (losses)/gains - net	—	(3)	(71)	(111)	(31)	21
Other income	54	137	137	2,477	977	57
Operating profit	39,089	38,844	54,443	55,013	37,278	25,526
Finance income	29	583	1,167	53	46	56
Profit before income tax	39,118	39,427	55,610	55,066	37,324	25,582
Income tax expense	(10,029)	(10,166)	(14,565)	(13,772)	(9,336)	(7,816)
Profit for the year/period	29,089	29,261	41,045	41,294	27,988	17,766
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	29,089	29,261	41,045	41,294	27,988	17,766
Profit and total comprehensive income attributable to:						
Owners of Weikang Investment	29,089	29,261	41,045	41,294	27,988	17,766
Non-controlling interests	—	—	—	—	—	—
	29,089	29,261	41,045	41,294	27,988	17,766

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

The Group

The following discussion summarizes the components of selected income statement line items appearing in the section headed "Appendix IA—Accountant's Report of the Group" to this prospectus that we believe may be helpful in understanding our results of operations.

Revenue

We generate our revenue from two segments: (1) hospital management services, which our subsidiaries, Weikang Investment and Honghe Ruixin, provide to Yangsi Hospital, and (2) general hospital services, which Fuhua Hospital provides to its patients. We acquired Weikang Investment on September 30, 2014, and before that date, we had no significant operations. Our revenue for the hospital management services segment is derived predominantly from management service fees that Weikang Investment and Honghe Ruixin charge Yangsi Hospital. The amounts of these fees are based on fixed rates or formulas in our Hospital Management Agreements with Yangsi Hospital and are dependent on the scope of management services provided by Weikang Investment or Honghe Ruixin (as the case may be) to Yangsi Hospital. Yangsi Hospital's revenue was RMB129.1 million, RMB538.0 million, RMB388.2 million and RMB443.6 million in the period from October 1, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. In the period from October 1, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, the hospital management service fees that Weikang Investment charged Yangsi Hospital were 14%, 12%, 11.6% and 9.8% of Yangsi Hospital's revenue, respectively. In 2015 and the nine months ended September 30, 2015 and 2016, the hospital management service fees that Honghe Ruixin charged Yangsi Hospital were 10.5%, 9.9% and 12.3%, respectively, of Yangsi Hospital's revenue. The management service fees (in 2015 and the nine months ended September 30, 2016 for Honghe Ruixin and beginning from May 2016 for Weikang Investment), net of a 6% value-added tax payable by Honghe Ruixin and Weikang Investment (as applicable), were recognized in our revenue. Our revenue for the general hospital services segment consists of fees generated from Fuhua Hospital's general hospital services.

The following table sets forth our revenue by segment and category during the periods indicated:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30,			
					2015		2016	
	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total
Hospital management services								
Management service fees	18,071	76.4	117,847	82.7	81,123	82.9	93,285	80.8
- Weikang Investment	18,071	76.4	64,557	45.3	44,871	45.8	41,725	36.2
- Honghe Ruixin	—	—	53,290	37.4	36,252	37.0	51,560	44.7
Other service fees(1)	307	1.3	1,230	0.8	897	0.9	993	0.9
Subtotal	18,378	77.7	119,077	83.5	82,020	83.8	94,278	81.7
General hospital services								
Pharmaceutical sales	3,033	12.8	15,207	10.7	9,917	10.1	14,504	12.6
Treatments and general healthcare services	2,242	9.5	8,240	5.8	5,958	6.1	6,585	5.7
Subtotal	5,275	22.3	23,447	16.5	15,875	16.2	21,089	18.3
Total revenue	23,653	100.0	142,524	100.0	97,895	100.0	115,367	100.0

Note:

(1) Include parking charges collected by Weikang Investment from end-customers at a parking lot located in Yangsi Hospital and operated by Weikang Investment.

Cost of Revenue

Our cost of revenue for the hospital management services segment consists of employee benefit expenses, business tax and other transaction taxes, amortization and depreciation and operating lease rental expenses. Our cost of revenue for the general hospital services segment consists of cost of pharmaceuticals, consumables and testing fees; employee benefit expenses; operating lease rental expenses; amortization and depreciation; utilities and office expenses; and other expenses. Employee benefit expenses include primarily wages, bonuses, share-based compensation expenses and social security contributions for staff of Weikang Investment and Honghe Ruixin who provide hospital management services to Yangsi Hospital and those of doctors and other medical professionals of Fuhua Hospital. Business tax and other transaction taxes for the hospital management services segment include business tax (before May 2016) and tax surcharges of Weikang Investment and tax surcharges of Honghe Ruixin. Fuhua Hospital was exempt from business tax (which changed to value-added tax beginning from May 2016; since the change, it has also been exempt from value-added tax) during the Track Record Period. Amortization and depreciation includes contractual rights of Weikang Investment to manage Yangsi Hospital and medical licenses of Fuhua Hospital. See the paragraphs headed "—Discussion of Certain Items from the Consolidated Balance Sheets—Intangible Assets" for more information. Cost of pharmaceuticals, consumables and testing fees includes primarily Fuhua Hospital's costs of pharmaceuticals and, to a lesser extent, its costs of medical consumables and costs of medical testing materials and fees paid to third-party medical testing agencies. Operating lease rental expenses were for the premises of Fuhua Hospital and Honghe Ruixin.

The following table sets forth our cost of revenue by segment and category for the periods indicated:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2015		Nine months ended September 30, 2016	
	RMB ('000)	% of segment total	RMB ('000)	% of segment total	RMB ('000)	% of segment total	RMB ('000)	% of segment total
Hospital management services								
Employee benefit expenses	618	8.0	11,990	29.0	8,503	29.4	24,753	50.5
Business tax and other transaction taxes	983	12.6	3,903	9.4	2,710	9.4	1,254	2.6
Amortization and depreciation	1,181	15.2	3,894	9.4	2,917	10.1	2,967	6.1
Operating lease rental expenses	—	—	—	—	—	—	168	0.3
Subtotal	2,782	35.8	19,787	47.8	14,130	48.8	29,142	59.4

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2015		Nine months ended September 30, 2016	
	RMB ('000)	% of segment total	RMB ('000)	% of segment total	RMB ('000)	% of segment total	RMB ('000)	% of segment total
General hospital services								
Cost of pharmaceuticals, consumables and testing fees	2,746	35.4	12,874	31.1	8,599	29.7	12,636	25.8
Employee benefit expenses	1,058	13.6	3,759	9.1	2,606	9.0	3,183	6.5
Operating lease rental expenses	549	7.1	2,310	5.6	1,690	5.8	1,690	3.4
Amortization and depreciation	380	4.9	1,681	4.1	1,251	4.3	1,321	2.7
Utilities and office expenses	80	1.0	474	1.1	387	1.3	415	0.8
Others	168	2.2	510	1.2	281	1.0	633	1.3
Subtotal	4,981	64.2	21,608	52.2	14,814	51.2	19,878	40.6
Total	7,763	100.0	41,395	100.0	28,944	100.0	49,020	100.0

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of revenue, and our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage.

The following table sets forth our gross profits, gross profit contribution and gross profit margins by segment for the periods indicated:

	Period from February 21 to December 31, 2014			Year ended December 31, 2015			Nine months ended September 30, 2015			Nine months ended September 30, 2016		
	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin
	RMB ('000)	%	%	RMB ('000)	%	%	RMB ('000)	%	%	RMB ('000)	%	%
Hospital management services	15,596	98.1	84.9	99,290	98.2	83.4	67,890	98.5	82.8	65,136	98.2	69.1
General hospital services	294	1.9	5.6	1,839	1.8	7.8	1,061	1.5	6.7	1,211	1.8	5.7
Total	15,890	100.0	67.2	101,129	100.0	71.0	68,951	100.0	70.4	66,347	100.0	57.5

Selling Expenses

We did not have any selling expenses in the period from February 21, 2014 to December 31, 2014. We had selling expenses of RMB1 thousand, RMB1 thousand and RMB3 thousand in the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016, respectively, which were marketing expenses for our general hospital services segment.

Administrative Expenses

Our administrative expenses primarily include operating lease rental expenses for our offices, employee benefit expenses, amortization and depreciation, expenses in relation to the Listing, provision for impairment of trade receivables, traveling and entertainment expenses, utilities and office expenses, and other expenses. Our administrative expenses were RMB7.9 million, RMB13.2 million, RMB8.2 million and RMB22.1 million in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. During these same respective periods, our administrative expenses represented 33.6%, 9.3%, 8.4% and 19.1% of our revenue.

The following table sets forth our administrative expenses by category for the periods indicated:

	Period from February 21 to December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2015		2016	
	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total
Operating lease rental expenses	1,256	15.8	1,817	13.8	1,368	16.6	1,186	5.4
Employee benefit expenses	3,953	49.7	1,525	11.6	1,071	13.0	2,132	9.7
Amortization and depreciation	483	6.1	1,334	10.1	1,007	12.2	1,015	4.6
Expenses in relation to the listing	—	—	5,041	38.2	2,521	30.6	14,887	67.5
Provision for impairment of trade receivables	—	—	994	7.5	680	8.3	—	—
Travelling and entertainment expenses	691	8.7	702	5.3	464	5.6	732	3.3
Utilities and office expenses	72	0.9	529	4.0	351	4.3	950	4.3
Property taxes	515	6.5	500	3.8	375	4.6	471	2.1
Consultancy fees	313	3.9	109	0.8	24	0.3	238	1.1
Property management fees	137	1.7	217	1.6	150	1.8	145	0.7
Expenses for organizing academic conferences	302	3.8	220	1.7	55	0.7	8	0.0
Communication expenses	23	0.3	53	0.4	33	0.4	82	0.4
Office repair and maintenance expenses	19	0.3	10	0.1	5	0.1	5	0.0
Others	183	2.3	152	1.2	122	1.5	208	0.9
Total	7,947	100.0	13,203	100.0	8,225	100.0	22,060	100.0

Other Losses/Gains

Our other gains and losses include foreign exchange gains and losses resulting from foreign currency translation; compensation to certain of Fuhua Hospital's patients to settle disputes with them; and other losses, which were medical insurance payments returned to medical insurance programs pursuant to the requirements of the relevant social security authority. We had net other losses of RMB47 thousand in the period from February 21, 2014 to December 31, 2014, primarily medical insurance payments returned to medical insurance programs, offset in part by foreign exchange gains in respect of amounts due to Hony Capital Fund V, L.P. in U.S. dollars and Hong Kong dollars, which arose from our assumption of Bliss Success's amounts due to Hony Capital Fund V, L.P. when we acquired Bliss Success in 2014. We had net other losses of RMB342 thousand in 2015, primarily foreign exchange losses in respect of amounts due to Vanguard Glory Limited in U.S. dollars for our expenses in relation to the Listing and amounts due to Hony Capital Fund V, L.P. in U.S. dollars and Hong Kong dollars, which arose from our assumption of Bliss Success's amounts due to Hony Capital Fund V, L.P. when we acquired Bliss Success in 2014, as well as compensation and medical insurance payments returned to medical insurance programs. We had net other losses of RMB31 thousand in the nine months ended September 30, 2015, comprising medical insurance payments returned to medical insurance programs and medical compensation. We had net other gains of RMB871 thousand in the nine months ended September 30, 2016, primarily foreign exchange gains in respect of consideration in U.S. dollars and Hong Kong dollars that we received from issuing ordinary shares to Midpoint Honour (which is controlled by certain of our management members) on March 31, 2016; these were offset in part by our net foreign exchange losses in respect of amounts due to Vanguard Glory Limited in U.S. dollars for our expenses in relation to the Listing and amounts due to Hony Capital Fund V, L.P. in U.S. dollars and Hong Kong dollars, which arose from our assumption of Bliss Success's amounts due to Hony Capital Fund V, L.P. when we acquired Bliss Success in 2014. We did not engage in any speculative transactions in foreign currencies during the Track Record Period. During the Track Record Period, our net other losses and gains represented less than 1% of our revenue.

Other Income

Our other income during the Track Record Period included government grants and subsidies and interest income on wealth management products. We did not have any other income in the period from February 21, 2014 to December 31, 2014. We had other income of RMB2.5 million in 2015, comprising RMB1.8 million of government grants and subsidies that the local government provided to us in recognition of our contribution to local economy's development, and RMB0.6 million of interest income on wealth management products. We had other income of RMB1.0 million in the nine months ended September 30, 2015, primarily comprising interest income on wealth management products. We had other income of RMB1.1 million in the nine months ended September 30, 2016, comprising government grants and subsidies that we received from the finance bureau of Dazi, Tibet in recognition of our contribution to local economy's development.

Operating Profit and Operating Profit Margin

We had operating profit of RMB7.9 million, RMB90.1 million, RMB61.7 million and RMB46.2 million in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. During these same respective periods, our operating profit margin ("**EBIT margin**"), which is our operating profit expressed as a percentage of our revenue, was 33.4%, 63.2%, 63.0% and 40.1%.

Finance Income

Our finance income represents interest income on short-term bank deposits and short-term fixed deposits. We had finance income of RMB584 thousand, RMB53 thousand, RMB46 thousand and RMB119 thousand in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. Our net finance income represented 2.5% of our revenue in the period from February 21, 2014 to December 31, 2014 and less than 0.2% of our revenue, in each of the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016.

Profit Before Income Tax and Profit Before Income Tax Margin

We had profit before income tax of RMB8.5 million, RMB90.1 million, RMB61.7 million and RMB46.4 million in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively. During these same respective periods, our profit before income tax margin ("**PBT margin**"), which is our profit before income tax expressed as a percentage of our revenue, was 35.9%, 63.2%, 63.0% and 40.2%.

Income Tax Expense

The following table sets forth our income tax expense by category for the periods indicated:

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)	RMB ('000)
Current income taxation:				
— PRC corporate income tax	4,449	18,454	12,532	14,487
— Deferred income tax (credit)/charge	(264)	4,334	3,330	1,094
Total	4,185	22,788	15,862	15,581

Pursuant to the laws of the Cayman Islands and the British Virgin Islands, neither our Company nor our subsidiaries incorporated in the British Virgin Islands are subject to any income tax in the Cayman Islands or the British Virgin Islands.

Our subsidiaries incorporated in Hong Kong were subject to profits tax at the rate of 16.5% in the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016. We did not make any provision for Hong Kong profits tax in these periods as we had no estimated assessable profit that was subject to Hong Kong profits tax for these periods.

The statutory corporate income tax in China is 25%. During the Track Record Period, among our subsidiaries incorporated in China, Weikang Investment, Fuhua Hospital and Honghe Yixin were subject to a 25% statutory income tax rate, and Honghe Zhiyuan and Honghe Ruixin were subject to a 9% corporate income tax. Honghe Zhiyuan and Honghe Ruixin enjoyed preferred corporate income tax rates because, according to the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Autonomous Region, companies incorporated in Tibet are generally subject to a 15% corporate income tax and are exempted from corporate income tax that belonged to the local government (which is 40% of the total corporate income tax) for the period from January 1, 2015 to December 31, 2017.

According to the EIT Law and its implementation rules, dividends receivable by non-Chinese corporate residents from Chinese enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements. We are subject to a 10% dividend withholding tax rate under Chinese law.

Our effective income tax rate was 49.4%, 25.3%, 25.7% and 33.6% in the period from February 21, 2014 to December 31, 2014, in 2015 and in the nine months ended September 30, 2015 and 2016, respectively.

The Predecessor Entities

Our Predecessor Entities comprise Weikang Investment, which provides hospital management services to Yangsi Hospital; and Fuhua Hospital, which provides general hospital services and was acquired by Weikang Investment on January 15, 2014. The following discussion summarizes the components of selected income statement line items for the years ended December 31, 2013, 2014 and 2015 appearing in the section headed "Appendix IB—Accountant's Report of the Financial Information of Weikang Investment" to this prospectus that we believe may be helpful in understanding the period-to-period discussions that follow. In this prospectus, we have not provided a detailed discussion of the Predecessor Entities' income statement line items for the nine months ended September 30, 2015 and 2016, because we believe that the Group's financials for these periods better represent our operating results.

Revenue

Our Predecessor Entities generate revenue from two segments: (1) hospital management services, which Weikang Investment provides to Yangsi Hospital, and (2) general hospital services, which Fuhua Hospital provides to its patients. Our Predecessor Entities' revenue for their hospital management services segment is derived predominantly from management service fees that Weikang Investment charges Yangsi Hospital, pursuant to the Hospital Management Agreements, which were 11%, 14% and 12% of Yangsi Hospital's revenue in 2013, 2014 and 2015, respectively. During these respective periods, Yangsi Hospital's revenue was RMB399.4 million, RMB461.7 million and RMB538.0 million. Our Predecessor Entities' revenue for the general hospital services segment consists of fees generated from the general hospital services provided by Fuhua Hospital.

The following table sets forth our Predecessor Entities' revenue by segment and category during the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total
Hospital management services						
Management service fees	45,540	98.1	64,642	80.4	64,557	72.3
Other service fees[(1)]	903	1.9	1,092	1.3	1,230	1.4
Subtotal	46,443	100.0	65,734	81.7	65,787	73.7
General hospital services						
Pharmaceutical sales	—	—	8,129	10.1	15,207	17.0
Treatments and general healthcare services	—	—	6,546	8.1	8,240	9.2
Subtotal	—	—	14,675	18.3	23,447	26.3
Total	46,443	100.0	80,409	100.0	89,234	100.0

Note:

(1) Include parking charges collected by Weikang Investment from end-customers at a parking lot located in Yangsi Hospital and operated by Weikang Investment.

Cost of Revenue

Our Predecessor Entities' cost of revenue for their hospital management services segment consists of employee benefit expenses, business tax and other transaction taxes, amortization and depreciation, and other expenses. Our Predecessor Entities' cost of revenue for their general hospital services segment consists of cost of pharmaceuticals, consumables and testing fees; employee benefit expenses; operating lease rental expenses; amortization and depreciation; utilities and office expenses; and other expenses.

The following table sets forth our Predecessor Entities' cost of revenue by segment and category during the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB ('000)	% of segment total	RMB ('000)	% of segment total	RMB ('000)	% of segment total
Hospital management services						
Employee benefit expenses	2,166	35.1	2,344	10.1	6,466	19.7
Business tax and other transaction taxes	2,485	40.3	3,517	15.2	3,520	10.7
Amortization and depreciation	1,519	24.6	1,666	7.2	1,588	4.8
Other expenses	—	—	390	1.7	—	—
Subtotal	6,170	100.0	7,917	34.2	11,574	35.3
General hospital services						
Cost of pharmaceuticals, consumables and testing fees	—	—	7,331	31.6	12,874	39.2
Employee benefit expenses	—	—	3,446	14.9	3,759	11.4
Operating lease rental expenses	—	—	2,138	9.2	2,310	7.0
Amortization and depreciation	—	—	1,061	4.6	1,331	4.1
Utilities and office expenses	—	—	477	2.1	474	1.4
Others	—	—	796	3.4	509	1.6
Subtotal	—	—	15,249	65.8	21,257	64.7
Total	6,170	100.0	23,166	100.0	32,831	100.0

Gross Profit and Gross Profit Margin

Our Predecessor Entities' gross profit represents revenue less cost of revenue, and our Predecessor Entities' gross profit margin represents gross profit divided by revenue, expressed as a percentage.

The following table sets forth our Predecessor Entities' gross profits, gross profit contribution and gross profit margins by segment for the periods indicated:

	Year ended December 31,								
	2013			2014			2015		
	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin	Amount	Contribution	Gross profit margin
	RMB ('000)	%	%	RMB ('000)	%	%	RMB ('000)	%	%
Hospital management services	40,273	100.0	86.7	57,817	101.0	88.0	54,213	96.1	82.4
General hospital services	—	—	—	(574)	(1.0)	(3.9)	2,190	3.9	9.3
Total	40,273	100.0	86.7	57,243	100.0	71.2	56,403	100.0	63.2

Selling expenses

Our Predecessor Entities did not have any selling expenses in 2013. Our Predecessor Entities' selling expenses were RMB18 thousand in 2014 and RMB1 thousand in 2015, which were advertising and marketing expenses for our general hospital services segment. In 2014 and 2015, our Predecessor Entities' selling expenses represented less than 0.1% of their revenue.

Administrative Expenses

Our Predecessor Entities' administrative expenses include employee benefit expenses, provision for impairment of trade receivables, utilities and office expenses, traveling and entertainment expenses, amortization and depreciation in respect of office furniture and fixtures, and other expenses. Our Predecessor Entities' administrative expenses were RMB1.2 million, RMB2.8 million and RMB3.8 million in 2013, 2014 and 2015, respectively, accounting for 2.7%, 3.5% and 4.2% of their revenue in these respective periods.

The following table sets forth our Predecessor Entities' administrative expenses by category for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB ('000)	% of total	RMB ('000)	% of total	RMB ('000)	% of total
Employee benefit expenses	121	9.8	1,038	36.4	1,381	36.8
Provision for impairment of trade receivables	—	—	—	—	994	26.5
Utilities and office expenses	249	20.1	509	17.9	462	12.3
Travelling and entertainment expenses	522	42.1	337	11.8	130	3.5
Amortization and depreciation	11	0.9	144	5.1	168	4.5
Property taxes	—	—	500	17.6	500	13.3
Office repair and maintenance expenses	302	24.4	36	1.3	—	0.0
Expenses for organizing academic conferences	29	2.3	237	8.3	50	1.3
Communication expenses	4	0.3	27	1.0	17	0.5
Others	—	—	20	0.7	52	1.4
Total	1,238	100.0	2,848	100.0	3,755	100.0

Other Losses

Our Predecessor Entities' other losses include compensation to certain of Fuhua Hospital's patients to settle medical disputes with them, as well as other losses, which were medical insurance payments that were returned to medical insurance programs pursuant to the requirement of the relevant social security authority. Our Predecessor Entities did not have any other gains or losses in 2013. Our Predecessor Entities had other losses of RMB71 thousand and RMB111 thousand in 2014 and 2015, respectively. During these same respective periods, our Predecessor Entities' other losses represented less than 0.1% of their revenue.

Other Income

Our Predecessor Entities' other income includes government grants and subsidies, interest income on wealth management products, and write-off of accounts payables. Our Predecessor Entities had other income of RMB54 thousand, RMB137 thousand and RMB2.5 million in 2013, 2014 and 2015, respectively. During these same respective periods, our Predecessor Entities' other income represented 0.1%, 0.2% and 2.8% of their revenue.

Operating Profit and EBIT Margin

Our Predecessor Entities had operating profit of RMB39.1 million, RMB54.4 million and RMB55.0 million in 2013, 2014 and 2015, respectively. During these same respective periods, our Predecessor Entities' EBIT margin was 84.2%, 67.7% and 61.7%.

Finance Income

Our Predecessor Entities' finance income represents interest income on short-term bank deposits and short-term fixed deposits. Our Predecessor Entities had finance income of RMB29 thousand, RMB1.2 million and RMB53 thousand in 2013, 2014 and 2015, respectively. In 2013, 2014 and 2015, our Predecessor Entities' net finance income represented 0.1%, 1.5% and 0.1% of their revenue, respectively.

Profit Before Income Tax and PBT Margin

Our Predecessor Entities had profit before income tax of RMB39.1 million, RMB55.6 million and RMB55.1 million in 2013, 2014 and 2015, respectively. During these same respective periods, our Predecessor Entities' PBT margin was 84.2%, 69.2% and 61.7%.

Income Tax Expense

The following table sets forth our Predecessor Entities' income tax expense by category for the periods indicated:

	Year ended December 31,		
	2013	**2014**	**2015**
	RMB ('000)	**RMB ('000)**	**RMB ('000)**
Current income taxation:			
— PRC corporate income tax	10,029	14,765	14,221
— Deferred income tax (credit)/charge	—	(200)	(449)
Total	10,029	14,565	13,772

As discussed above, both Weikang Investment and Fuhua Hospital were subject to a 25% statutory corporate income tax rate during the Track Record Period. Our Predecessor Entities' effective income tax rate was 25.6%, 26.2% and 25.0% in 2013, 2014 and 2015, respectively.

RESULTS OF OPERATIONS

Our Group

Our operating results in 2015 were not comparable with those in 2014, primarily because of our acquisition of the Predecessor Entities in September 2014 and, to a lesser extent, because Honghe Ruixin began providing consultancy services to Yangsi Hospital and generated additional revenue from January 2015. Please see "Business—The Hospitals—Yangsi Hospital—Key Information" for a discussion of Yangsi Hospital's financial performance during the Track Record Period and "Business—The Hospitals—Fuhua Hospital" for a discussion of Fuhua Hospital's financial performance in 2014, 2015 and the nine months ended September 30, 2016.

The Nine Months Ended September 30, 2016 Compared with the Nine Months Ended September 30, 2015

	Nine months ended September 30,				
	2015		2016		2016 vs. 2015
	RMB('000) (Unaudited)	% of Revenue	RMB('000)	% of Revenue	% Change
Revenue	97,895	100.0	115,367	100.0	17.8
Cost of revenue	(28,944)	(29.6)	(49,020)	(42.5)	69.4
Gross profit	68,951	70.4	66,347	57.5	(3.8)
Selling expenses	(1)	(0.0)	(3)	(0.0)	200.0
Administrative expenses	(8,225)	(8.4)	(22,060)	(19.1)	168.2
Other losses/gains — net	(31)	(0.0)	871	0.8	(2,909.7)
Other income	977	1.0	1,081	0.9	10.6
Operating profit	61,671	63.0	46,236	40.1	(25.0)
Finance income	46	0.0	119	0.1	158.7
Profit before income tax	61,717	63.0	46,355	40.2	(24.9)
Income tax expense	(15,862)	(16.2)	(15,581)	(13.5)	(1.8)
Profit for the year	45,855	46.8	30,774	26.7	(32.9)

Revenue

Revenue increased by 17.8% from RMB97.9 million in the nine months ended September 30, 2015 to RMB115.4 million in the same period of 2016, primarily due to higher revenue from the hospital management services segment and, to a lesser extent, higher revenue from the general hospital services segment.

- Revenue from the hospital management services segment increased by 14.9% from RMB82.0 million in the nine months ended September 30, 2015 to RMB94.3 million in the same period of 2016. This increase was primarily because Yangsi Hospital's revenue increased by 14.3% from RMB388.2 million in the nine months ended September 30, 2015 to RMB443.6 million in the same period of 2016 and because the aggregate management service fee rate that Weikang Investment and Honghe Ruixin charged Yangsi Hospital increased from 21.5% in the nine months ended September 30, 2015 to 22.1% in the same period of 2016. These factors were offset in part by the fact that Weikang Investment became subject to a 6% value-added tax in May 2016, as opposed to business tax that it was previously required to pay; this change in taxation reduced Weikang Investment's management service fees that we recognized as revenue because we report revenue net of value-added tax.

- Revenue from the general hospital services segment increased by 32.8% from RMB15.9 million in the nine months ended September 30, 2015 to RMB21.1 million in the same period of 2016. This increase was primarily due to an RMB4.6 million increase in pharmaceutical sales, which was generally in line with an increase in out-patient visits from 26,661 in the nine months ended September 30, 2015 to 34,644 in the same period of 2016, an increase in in-patient visits from 331 in the nine months ended September 30, 2015 to 386 in the same period of 2016, an increase in average revenue per out-patient visit from RMB399 in the nine months ended September 30, 2015 to RMB410 in the same period of 2016 and an increase in average revenue per in-patient visit from RMB15,792 in the nine months ended September 30, 2015 to RMB17,826 in the same period of 2016. The increases in Fuhua Hospital's out-patient visits and in-patient visits during these periods resulted primarily from our continued efforts to improve Fuhua Hospital's medical service quality, enhance its recognition among local communities and provide a combination of nursing and medical services to the elderly. The increases in Fuhua Hospital's average revenue per out-patient and in-patient visit during these periods were primarily a result of the Shanghai pricing authority raising guideline prices for certain basic pharmaceuticals and an increase in demand for medical services from patients with complicated and severe diseases.

Cost of Revenue

Cost of revenue increased by 69.4% from RMB28.9 million in the nine months ended September 30, 2015 to RMB49.0 million in the same period of 2016, primarily due to higher cost of revenue for the hospital management services segment, as well as higher cost of revenue for the general hospital services segment.

- Cost of revenue for the hospital management services segment increased significantly from RMB14.1 million in the nine months ended September 30, 2015 to RMB29.1 million in the same period of 2016. This increase was primarily due to a significant increase in employee benefit expenses because (i) we granted share options, share appreciation rights and other share-based awards to certain senior management members who provided hospital management services at Honghe Ruixin and Weikang Investment in 2016 (as a result of which the share-based compensation expenses are included in cost of revenue) and (ii) we increased average employee benefits for Honghe Ruixin and Weikang Investment to attract and retain quality personnel. For details with respect to the share-based compensation, please see Note 16 to the Accountant's Report included in Appendix IA to this prospectus.

- Cost of revenue for the general hospital services segment increased by 34.2% from RMB14.8 million in the nine months ended September 30, 2015 to RMB19.9 million in the same period of 2016. This increase was primarily due to an increase in cost of pharmaceuticals, consumables and testing fees as a result of an increase in pharmaceutical sales and a change in the mix of pharmaceuticals sold, and because we increased average employee benefits for Fuhua Hospital to attract and retain quality personnel.

Gross Profit and Gross Profit Margin

Gross profit decreased by 3.8% from RMB69.0 million in the nine months ended September 30, 2015 to RMB66.3 million in the same period of 2016. Our gross profit margin decreased from 70.4% in the nine months ended September 30, 2015 to 57.5% in the same period of 2016, primarily due to (i) a decrease in gross profit margin for the hospital management services segment resulting from a significant increase in our employee benefit expenses that has been included in our cost of revenue, and (ii) a higher portion of our total revenue coming from the general hospital services segment which has a significantly lower gross profit margin compared to the hospital management services segment, and a decrease in gross profit margin for the general hospital services segment.

- Gross profit for the hospital management services segment decreased by 4.1% from RMB67.9 million in the nine months ended September 30, 2015 to RMB65.1 million in the same period of 2016. Gross profit margin for the hospital management services segment decreased to 69.1% in the nine months ended September 30, 2016 compared to 82.8% in the same period of 2015, primarily because (i) we granted share options, share appreciation rights and other share-based awards to certain senior management members who provided hospital management services at Honghe Ruixin and Weikang Investment in 2016 and (ii) we increased average employee benefits for Honghe Ruixin and Weikang Investment to attract and retain quality personnel. For details with respect to the share-based compensation, please see Note 16 to the Accountant's Report included in Appendix IA to this prospectus.

- Gross profit for the general hospital services segment increased from a gross profit of RMB1.1 million in the nine months ended September 30, 2015 to a gross profit of RMB1.2 million in the same period of 2016. Gross profit margin for the general hospital services segment decreased from 6.7% in the nine months ended September 30, 2015 to 5.7% in the same period of 2016. The gross profit margin declined primarily because (i) the cost of pharmaceuticals, consumables and testing fees increased at a greater rate than revenue from the general hospital services segment as a result of a change in the mix of pharmaceuticals sold, and (ii) we increased average employee benefits for Fuhua Hospital to attract and retain quality personnel.

Selling Expenses

Selling expenses were RMB1 thousand and RMB3 thousand in the nine months ended September 30, 2015 and 2016, respectively. In both periods these were marketing expenses for our general hospital services segment. Selling expenses represented less than 0.1% of our revenue in both periods.

Administrative Expenses

Administrative expenses increased significantly from RMB8.2 million in the nine months ended September 30, 2015 to RMB22.1 million in the same period of 2016, primarily due to our incurrence of RMB14.9 million in expenses related to the Listing. As a percentage of revenue, administrative expenses increased from 8.4% in the nine months ended September 30, 2015 to 19.1% in the same period of 2016.

Other Losses/Gains

Other losses of RMB31 thousand in the nine months ended September 30, 2015 reversed to other gains of RMB0.9 million in the same period of 2016. This reversal was primarily a result of foreign exchange gains we recognized in respect of consideration in U.S. dollars and Hong Kong dollars that we received from issuing ordinary shares to Midpoint Honour on March 31, 2016; these were offset in part by our net foreign exchange losses in respect of amounts due to related parties in U.S. dollars and Hong Kong dollars. See the section headed "History, Development and Corporate Structure—Management Subscription—Subscription by Management and Financing Arrangement" for more information. Other losses and other gains represented less than 1% of our revenue in both periods.

Other Income

Other income increased by 10.6% from RMB1.0 million in the nine months ended September 30, 2015 to RMB1.1 million in the same period of 2016, primarily due to the increase in government grants and subsidies that we received from the local government. As a percentage of revenue, other income decreased from 1.0% in the nine months ended September 30, 2015 to 0.9% in the same period of 2016.

Operating Profit and EBIT Margin

As a result of the foregoing, operating profit decreased by 25.0% from RMB61.7 million in the nine months ended September 30, 2015 to RMB46.2 million in the same period of 2016, and EBIT margin decreased from 63.0% in the nine months ended September 30, 2015 to 40.1% in the same period of 2016.

Finance Income

Finance income increased significantly from RMB46 thousand in the nine months ended September 30, 2015 to RMB119 thousand in the same period of 2016, primarily comprising interest income on short-term bank deposits. Finance income as a percentage of revenue was less than 0.2% in both periods.

Profit Before Income Tax and PBT Margin

As a result of the foregoing, profit before income tax decreased by 24.9% from RMB61.7 million in the nine months ended September 30, 2015 to RMB46.4 million in the same period of 2016, and PBT margin decreased from 63.0% in the nine months ended September 30, 2015 to 40.2% in the same period of 2016.

Income Tax Expenses

Income tax expense decreased by 1.8% from RMB15.9 million in the nine months ended September 30, 2015 to RMB15.6 million in the same period of 2016. Our effective income tax rate increased from 25.7% in the nine months ended September 30, 2015 to 33.6% in the same period of 2016. The increase in effective income tax rate from the nine months ended September 30, 2015 to the same period of 2016 was primarily because the higher listing expenses were not deductible for income tax purposes.

Profit for the Period

As a result of the foregoing, net profit decreased by 32.9% from RMB45.9 million in the nine months ended September 30, 2015 to RMB30.8 million in the same period of 2016, and net profit margin decreased from 46.8% in the nine months ended September 30, 2015 to 26.7% in the same period of 2016.

Year Ended December 31, 2015

Revenue

Revenue in 2015 was RMB142.5 million, which was derived primarily from hospital management services provided by Weikang Investment and Honghe Ruixin and, to a lesser extent, general hospital services provided by Fuhua Hospital. In this year,

- Revenue from the hospital management services segment was RMB119.1 million, including RMB64.6 million from Weikang Investment and RMB53.3 million from Honghe Ruixin, for hospital management services provided to Yangsi Hospital, and RMB1.2 million from other service fees; and

- Revenue from the general hospital services segment was RMB23.4 million, related to general hospital services provided by Fuhua Hospital.

Cost of Revenue

Cost of revenue in 2015 was RMB41.4 million, which consisted primarily of costs for general hospital services provided by Fuhua Hospital and, to a lesser extent, costs for hospital management services provided by Weikang Investment and Honghe Ruixin. In this year,

- Cost of revenue for the hospital management services segment was RMB19.8 million, comprising primarily employee benefit expenses of Weikang Investment and Honghe Ruixin's hospital management personnel; and

- Cost of revenue for the general hospital services segment was RMB21.6 million, comprising primarily cost of pharmaceuticals, medical consumables and testing fees of Fuhua Hospital.

Gross Profit and Gross Profit Margin

Gross profit was RMB101.1 million and gross profit margin was 71.0% in 2015. In this year,

- Our hospital management services segment had gross profit of RMB99.3 million and a gross profit margin of 83.4%; and

- Our general hospital services segment had gross profit of RMB1.8 million and a gross profit margin of 7.8%.

Selling Expenses

Selling expenses were RMB1 thousand in 2015, which were marketing expenses for our general hospital services segment.

Administrative Expenses

Administrative expenses were RMB13.2 million in 2015, which consisted primarily of RMB5.0 million of expenses in relation to the Listing, RMB1.8 million of operating lease rental expenses, RMB1.5 million of employee benefit expenses, RMB1.3 million of amortization and depreciation and RMB1.0 million of provision for impairment of trade receivables. Our administrative expenses represented 9.3% of our revenue in this year.

Other Losses

We had other losses of RMB342 thousand in 2015, which included primarily RMB231 thousand of foreign exchange losses resulting from foreign currency translation in respect of amounts due to related parties in U.S. dollars and Hong Kong dollars. Our other losses represented 0.2% of our revenue in this year.

Other Income

We had other income of RMB2.5 million in 2015, which included primarily RMB1.8 million of government grants and subsidies from the local government in recognition of our contribution to local economy's development. Our other income represented 1.7% of our revenue in this year.

Operating Profit and EBIT Margin

As a result of the foregoing, we had operating profit of RMB90.1 million and an EBIT margin of 63.2% in 2015.

Finance Income

We had finance income of RMB53 thousand in 2015.

Profit Before Income Tax and PBT Margin

As a result of the foregoing, we had profit before income tax of RMB90.1 million and a PBT margin of 63.2% in 2015.

Income Tax Expense

We had income tax expense of RMB22.8 million and an effective income tax rate of 25.3% in 2015. This was primarily attributable to withholding tax for a future dividend distribution and tax effect of unrecognized tax losses of our Company and Honghe Zhiyuan, offset in part by the preferential corporate income tax treatment enjoyed by Honghe Ruixin.

Profit for the Year

As a result of the foregoing, we had net profit of RMB67.3 million and a net profit margin of 47.2% in 2015.

Period from February 21, 2014 to December 31, 2014

Revenue

Revenue in the period from February 21, 2014 to December 31, 2014 was RMB23.7 million, which was derived primarily from hospital management services provided by Weikang Investment and, to a lesser extent, general hospital services provided by Fuhua Hospital. In this period,

- Revenue from the hospital management services segment was RMB18.4 million, including RMB18.1 million of Weikang Investment's management service fees charged to Yangsi Hospital and RMB0.3 million of other service fees; and

- Revenue from the general hospital services segment was RMB5.3 million, related to general hospital services provided by Fuhua Hospital.

Cost of Revenue

Cost of revenue in the period from February 21, 2014 to December 31, 2014 was RMB7.8 million, which consisted primarily of costs for general hospital services provided by Fuhua Hospital and, to a lesser extent, costs for hospital management services provided by Weikang Investment. In this period,

- Cost of revenue for the hospital management services segment was RMB2.8 million, which comprised primarily amortization related to Weikang Investment's contractual rights to manage Yangsi Hospital, as well as Weikang Investment's business tax and tax surcharges and employee benefit expenses of Weikang Investment's hospital management personnel; and

- Cost of revenue for the general hospital services segment was RMB5.0 million, which comprised primarily cost of pharmaceuticals, medical consumables and testing fees, as well as employee benefit expenses of Fuhua Hospital.

Gross Profit and Gross Profit Margin

Gross profit was RMB15.9 million and gross profit margin was 67.2% in the period from February 21, 2014 to December 31, 2014. In this period,

- Our hospital management services segment had gross profit of RMB15.6 million and a gross profit margin of 84.9%; and

- Our general hospital services segment had gross profit of RMB0.3 million and a gross profit margin of 5.6%.

Administrative Expenses

Administrative expenses were RMB7.9 million in the period from February 21, 2014 to December 31, 2014, which consisted primarily of RMB4.0 million in employee benefit expenses, as well as RMB1.3 million in operating lease rental expenses for our offices. Our administrative expenses represented 33.6% of our revenue in this period.

Other Losses

We had net other losses of RMB47 thousand in the period from February 21, 2014 to December 31, 2014, which were primarily medical insurance payments returned to medical insurance programs, offset in part by foreign exchange gains resulting from foreign currency translation. Our net other losses represented 0.2% of our revenue in this period.

Operating Profit and EBIT Margin

As a result of the foregoing, we had operating profit of RMB7.9 million and an EBIT margin of 33.4% in the period from February 21, 2014 to December 31, 2014.

Finance Income

We had finance income of RMB584 thousand, primarily interest income on short-term fixed deposits, in the period from February 21, 2014 to December 31, 2014.

Profit Before Income Tax and PBT Margin

As a result of the foregoing, we had profit before income tax of RMB8.5 million and a PBT margin of 35.9% in the period from February 21, 2014 to December 31, 2014.

Income Tax Expenses

We had income tax expense of RMB4.2 million and an effective income tax rate of 49.4% in the period from February 21, 2014 to December 31, 2014. This effective income tax rate was higher than the 25% statutory rate primarily due to the tax effect of unrecognized tax losses of Honghe Zhiyuan, as well as non-deductible expenses.

Profit for the Period

As a result of the foregoing, we had net profit of RMB4.3 million and a net profit margin of 18.2% in the period from February 21, 2014 to December 31, 2014.

Our Predecessor Entities

The operating results of our Predecessor Entities in 2014 were not comparable to those in 2013 because of Weikang Investment's acquisition of Fuhua Hospital in January 2014. In addition, the operating results of our Predecessor Entities in 2015 were not comparable to those in 2014 because in 2015 Weikang Investment provided a narrower range of hospital management services to Yangsi Hospital and because our other subsidiary, Honghe Ruixin, began providing consultancy services to the hospital in 2015. Please see "Business—The Hospitals—Yangsi Hospital—Key information" for a discussion of Yangsi Hospital's financial performance during the Track Record Period and "Business—The Hospitals—Fuhua Hospital" for a discussion of Fuhua Hospital's financial performance in 2014, 2015 and the nine months ended September 30, 2016.

The Year Ended December 31, 2015 Compared with the Year Ended December 31, 2014.

	Year ended December 31,				
	2014		2015		2015 vs. 2014
	RMB ('000)	% of Revenue	RMB ('000)	% of Revenue	% Change
Revenue	80,409	100.0	89,234	100.0	11.0
Cost of revenue	(23,166)	(28.8)	(32,831)	(36.8)	41.7
Gross profit	57,243	71.2	56,403	63.2	(1.5)
Selling expenses	(18)	(0.0)	(1)	(0.0)	(94.4)
Administrative expenses	(2,848)	(3.5)	(3,755)	(4.2)	31.8
Other losses — net	(71)	(0.1)	(111)	(0.1)	56.3
Other income	137	0.2	2,477	2.8	1,708.0
Operating profit	54,443	67.7	55,013	61.7	1.0
Finance income	1,167	1.5	53	0.1	(95.5)
Profit before income tax	55,610	69.2	55,066	61.7	(1.0)
Income tax expense	(14,565)	(18.1)	(13,772)	(15.4)	(5.4)
Profit for the year	41,045	51.0	41,294	46.3	0.6

Revenue

Revenue increased by 11.0% from RMB80.4 million in 2014 to RMB89.2 million in 2015, primarily due to an increase in revenue from the general hospital services segment.

- Revenue from the hospital management services segment remained relatively stable at RMB65.8 million in 2015, compared to RMB65.7 million in 2014. The increase in Yangsi Hospital's revenue from RMB461.7 million in 2014 to RMB538.0 million in 2015 was largely offset by a decrease in Weikang Investment's management service fee rate from 14% in 2014 to 12% in 2015, as in 2015 Weikang Investment provided a narrower range of services and Honghe Ruixin began providing consultancy services to Yangsi Hospital.

- Revenue from the general hospital services segment increased by 59.8% from RMB14.7 million in 2014 to RMB23.4 million in 2015. Please see "Business—The Hospitals—Fuhua Hospital" for more information.

Cost of Revenue

Cost of revenue increased by 41.7% from RMB23.2 million in 2014 to RMB32.8 million in 2015, primarily due to an increase in cost of revenue for the general hospital services segment and, to a lesser extent, an increase in cost of revenue for the hospital management services segment.

- Cost of revenue for the hospital management services segment increased by 46.2% from RMB7.9 million in 2014 to RMB11.6 million in 2015, primarily due to an RMB4.1 million increase in employee benefit expenses, as Weikang Investment's hospital management personnel's average remuneration was relatively low in 2014 and we increased employee remuneration and enhanced the performance evaluation mechanism to help retain and attract quality personnel after we acquired the Predecessor Entities.

- Cost of revenue for the general hospital services segment increased by 39.4% from RMB15.2 million in 2014 to RMB21.3 million in 2015. Please see "Business—The Hospitals—Fuhua Hospital" for more information.

Gross Profit and Gross Profit Margin

Gross profit remained relatively stable at RMB56.4 million in 2015, compared to RMB57.2 million in 2014. Gross profit margin decreased from 71.2% in 2014 to 63.2% in 2015, primarily due to a decrease in the gross profit margin for the hospital management services segment.

- Gross profit for the hospital management services segment decreased by 6.2% from RMB57.8 million in 2014 to RMB54.2 million in 2015. Gross profit margin for the hospital management services segment decreased from 88.0% in 2014 to 82.4% in 2015, primarily because Weikang Investment's management service fee rate declined from 14% in 2014 to 12% in 2015 and because of a significant increase in employee benefit expenses.

- Gross profit for the general hospital services segment reversed from a gross loss of RMB574 thousand in 2014 to a gross profit of RMB2.2 million in 2015. Please see "Business—The Hospitals—Fuhua Hospital" for more information.

Selling Expenses

Selling expenses decreased from RMB18 thousand in 2014 to RMB1 thousand in 2015. In both years, these amounts were for advertising and marketing expenses for the general hospital services segment. Selling expenses represented less than 0.1% of revenue in both years.

Administrative Expenses

Administrative expenses increased by 31.8% from RMB2.8 million in 2014 to RMB3.8 million in 2015, primarily due to the recognition of an RMB1.0 million provision for impairment of trade receivables in 2015 for the general hospital services segment. See the paragraphs headed "—Discussion of Certain Items from the Consolidated Balance Sheets—Trade-nature Receivables." As a percentage of revenue, administrative expenses increased from 3.5% in 2014 to 4.2% in 2015.

Other Losses

Other losses increased by 56.3% from RMB71 thousand in 2014 to RMB111 thousand in 2015, primarily because RMB90 thousand in compensation was paid to certain of Fuhua Hospital's patients to settle disputes with them in 2015. Other losses represented 0.1% of revenue in both years.

Other Income

Other income increased significantly from RMB137 thousand in 2014 to RMB2.5 million in 2015, due to an RMB1.8 million increase in government grants and subsidies and the recognition of RMB0.6 million in interest income on wealth management products in 2015. As a percentage of revenue, other income increased from 0.2% in 2014 to 2.8% in 2015.

Operating Profit and EBIT Margin

As a result of the foregoing, operating profit remained relatively stable at RMB55.0 million in 2015, compared to RMB54.4 million in 2014, and EBIT margin decreased from 67.7% in 2014 to 61.7% in 2015.

Finance Income

Finance income decreased by 95.5% from RMB1.2 million in 2014 to RMB53 thousand in 2015, primarily because in 2014 finance income was recognized from short-term fixed deposits on an RMB80.0 million advance from Yangsi Hospital. As a percentage of revenue, finance income decreased from 1.5% in 2014 to 0.1% in 2015.

Profit Before Income Tax and PBT Margin

As a result of the foregoing, profit before income tax remained relatively stable at RMB55.1 million in 2015, compared to RMB55.6 million in 2014, and PBT margin decreased from 69.2% in 2014 to 61.7% in 2015.

Income Tax Expenses

Income tax expense decreased by 5.4% from RMB14.6 million in 2014 to RMB13.8 million in 2015. Effective income tax rate decreased from 26.2% in 2014 to 25.0% in 2015, primarily because Weikang Investment and Fuhua Hospital had expenses not tax deductible in 2014.

Profit for the Year

As a result of the foregoing, net profit remained relatively stable at RMB41.3 million in 2015, compared to RMB41.0 million in 2014, and net profit margin decreased from 51.0% in 2014 to 46.3% in 2015.

The Year Ended December 31, 2014 Compared with the Year Ended December 31, 2013.

	Year ended December 31,				
	2013		2014		2014 vs. 2013
	RMB ('000)	% of Revenue	RMB ('000)	% of Revenue	% Change
Revenue	46,443	100.0	80,409	100.0	73.1
Cost of revenue	(6,170)	(13.3)	(23,166)	(28.8)	275.5
Gross profit	40,273	86.7	57,243	71.2	42.1
Selling expenses	—	—	(18)	(0.0)	—
Administrative expenses	(1,238)	(2.7)	(2,848)	(3.5)	129.9
Other (losses)/gains — net	—	—	(71)	(0.1)	—
Other income	54	0.1	137	0.2	153.7
Operating profit	39,089	84.2	54,443	67.7	39.3
Finance income	29	0.1	1,167	1.5	3924.1
Profit before income tax	39,118	84.2	55,610	69.2	42.2
Income tax expense	(10,029)	(21.6)	(14,565)	(18.1)	45.2
Profit for the year/period	29,089	62.6	41,045	51.0	41.1

Revenue

Revenue increased by 73.1% from RMB46.4 million in 2013 to RMB80.4 million in 2014, primarily due to an increase in revenue for the hospital management services segment and, to a lesser extent, Weikang Investment's acquisition of Fuhua Hospital in January 2014.

- Revenue from the hospital management services segment increased by 41.5% from RMB46.4 million in 2013 to RMB65.7 million in 2014. This increase was primarily due to a 41.9% increase in management service fees from RMB45.5 million in 2013 to RMB64.6 million in 2014. The increase in management service fees was primarily due to a 15.6% increase in Yangsi Hospital's revenue from RMB399.4 million in 2013 to RMB461.7 million in 2014 and an increase in Weikang Investment's management service fee rate from 11% in 2013 to 14% in 2014.

- Revenue from the general hospital services segment was RMB14.7 million in 2014, related to general hospital services provided by Fuhua Hospital, which Weikang Investment acquired in January 2014.

Cost of Revenue

Cost of revenue increased significantly from RMB6.2 million in 2013 to RMB23.2 million in 2014, primarily due to Weikang Investment's acquisition of Fuhua Hospital and, to a lesser extent, an increase in cost of revenue for the hospital management services segment.

- Cost of revenue for the hospital management services segment increased by 28.3% from RMB6.2 million in 2013 to RMB7.9 million in 2014, primarily due to an RMB1.0 million increase in Weikang Investment's business tax and tax surcharges in line with an increase in its revenue.

- Cost of revenue for the general hospital services segment was RMB15.2 million in 2014, which included primarily cost of pharmaceuticals, consumables and testing fees, as well as employee benefit expenses and operating lease rental expenses of Fuhua Hospital.

Gross Profit and Gross Profit Margin

Gross profit increased by 42.1% from RMB40.3 million in 2013 to RMB57.2 million in 2014. Gross profit margin decreased from 86.7% in 2013 to 71.2% in 2014, primarily due to Weikang Investment's acquisition of Fuhua Hospital.

- Gross profit for the hospital management services segment increased by 43.6% from RMB40.3 million in 2013 to RMB57.8 million in 2014. Gross profit margin for the hospital management services segment increased from 86.7% in 2013 to 88.0% in 2014, primarily due to a 15.6% increase in Yangsi Hospital's revenue from RMB399.4 million in 2013 to RMB461.7 million in 2014 and an increase in Weikang Investment's management service fee rate from 11% in 2013 to 14% in 2014, while cost of revenue for this segment increased at a lower rate.

- Gross profit for the general hospital services segment was negative, as cost of revenue of RMB15.2 million exceeded revenue of RMB14.7 million for this segment in 2014. Gross profit margin was negative 3.9%.

Selling Expenses

Our Predecessor Entities did not have any selling expenses in 2013. Our Predecessor Entities had selling expenses of RMB18 thousand in 2014, which were advertising and marketing expenses for the general hospital services segment. Selling expenses represented less than 0.1% of revenue in 2014.

Administrative Expenses

Administrative expenses increased significantly from RMB1.2 million in 2013 to RMB2.8 million in 2014, primarily due to Weikang Investment's acquisition of Fuhua Hospital in January 2014. As a percentage of revenue, administrative expenses increased from 2.7% in 2013 to 3.5% in 2014.

Other Losses

Our Predecessor Entities did not have any other gains or losses in 2013. Our Predecessor Entities had other losses of RMB71 thousand in 2014, which were medical insurance payments returned to medical insurance programs. Other losses represented less than 0.1% of revenue in 2014.

Other Income

Our Predecessor Entities' other income increased significantly from RMB54 thousand in 2013 to RMB137 thousand in 2014, primarily due to a write-off of accounts payables and an increase in government grants and subsidies. As a percentage of revenue, other income increased from 0.1% in 2013 to 0.2% in 2014.

Operating Profit and EBIT Margin

As a result of the foregoing, operating profit increased by 39.3% from RMB39.1 million in 2013 to RMB54.4 million in 2014, and EBIT margin decreased from 84.2% in 2013 to 67.7% in 2014.

Finance Income

Finance income increased significantly from RMB29 thousand in 2013 to RMB1.2 million in 2014, primarily due to short-term fixed deposits on an RMB80.0 million advance from Yangsi Hospital in 2014. As a percentage of revenue, finance income increased from 0.1% in 2013 to 1.5% in 2014.

Profit Before Income Tax and PBT Margin

As a result of the foregoing, profit before income tax increased by 42.2% from RMB39.1 million in 2013 to RMB55.6 million in 2014, and PBT margin decreased from 84.2% in 2013 to 69.2% in 2014.

Income Tax Expenses

Income tax expense increased by 45.2% from RMB10.0 million in 2013 to RMB14.6 million in 2014. Effective income tax rate increased from 25.6% in 2013 to 26.2% in 2014. The effective income tax rate of 2013 was higher than the statutory rate of 25%, primarily due to expenses not tax deductible of Weikang Investment. The effective income tax rate of 2014 was higher than the statutory rate of 25%, primarily due to expenses not tax deductible of Weikang Investment and Fuhua Hospital.

Profit for the Year

As a result of the foregoing, net profit increased by 41.1% from RMB29.1 million in 2013 to RMB41.0 million in 2014, and net profit margin decreased from 62.6% in 2013 to 51.0% in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our primary uses of cash during the Track Record Period were for working capital and capital expenditures, including retrofitting of wards for Fuhua Hospital. We financed our liquidity requirements mainly with cash flows generated from our operating activities.

The following table sets forth selected cash flow data from our Group's consolidated cash flow statements for the periods indicated:

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2016
	RMB ('000)	RMB ('000)	RMB ('000)
Net cash generated from operating activities	3,033	7,445	155,605
Net cash generated from/(used in) investing activities	(1,036,288)	80,514	(11,189)
Net cash generated from/(used in) financing activities	1,038,400	(80,000)	(24,919)
Net increase in cash and cash equivalents	5,145	7,959	119,497
Cash and cash equivalents at the beginning of year/period	—	5,145	13,104
Cash and cash equivalents at the end of period/year	5,145	13,104	133,135

Cash Flows Generated from Operating Activities

In the nine months ended September 30, 2016, we had net cash generated from operating activities of RMB155.6 million, consisting of RMB62.6 million in net cash inflows generated from operating activities before changes in working capital, net cash inflows of RMB117.4 million relating to changes in working capital, income tax paid of RMB24.6 million and interests received of RMB0.2 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB46.4 million, adjusted for non-cash items, including primarily to add back share-based compensation expenses of RMB12.0 million, depreciation of property, plant and equipment of RMB2.7 million and amortization of intangible assets of RMB2.6 million. Our net cash inflows relating to changes in working capital were primarily attributable to an RMB129.1 million decrease in amounts due from related parties in respect of our management service fees from Yangsi Hospital, and an RMB13.1 million increase in accruals, other payables and provision, primarily accrued listing expenses. These factors were offset in part by an RMB20.5 million decrease in amounts due to related parties, primarily related to our operating expenses, and an RMB5.5 million increase in other receivable, deposits and prepayments, primarily prepayment for professional service fees in respect of listing preparation.

In 2015, we had net cash generated from operating activities of RMB7.4 million, consisting of RMB97.6 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB67.5 million relating to changes in working capital, income tax paid of RMB22.7 million and interests received of RMB53 thousand. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB90.1 million, adjusted for non-cash items, including primarily to add back amortization of intangible assets of RMB3.5 million and depreciation of property, plant and equipment of RMB3.5 million. Our net cash outflows relating to changes in working capital were primarily attributable to an RMB87.1 million increase in amounts due from related parties in respect of our management service fees from Yangsi Hospital, an RMB6.9 million increase in trade receivables as a result of an increase in revenue of general hospital services segment and Fuhua Hospital beginning subject to quota for receivables from medical insurance programs in 2015, and an RMB3.2 million increase in other receivable, deposits and prepayments, primarily prepayments for expenses in relation to the listing. These factors were offset in part by an RMB25.3 million increase in amounts due to related parties, primarily related to our operating expenses and listing expenses, as well as an RMB3.8 million increase in accruals, other payables and provision, primarily accrued listing expenses and an increase in accrued employee benefits.

In the period from February 21, 2014 to December 31, 2014, we had net cash generated from operating activities of RMB3.0 million, consisting of RMB9.9 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB7.5 million relating to changes in working capital and interests received of RMB0.6 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB8.5 million, adjusted for non-cash items, including primarily to add back amortization of intangible assets of RMB1.1 million and depreciation of property, plant and equipment of RMB1.0 million. Our net cash outflows relating to changes in working capital were primarily attributable to an RMB18.1 million increase in amounts due from related parties in respect of our management service fees from Yangsi Hospital. This was offset in part by an RMB9.4 million increase in amounts due to related parties, primarily related to our operating expenses, and an RMB1.2 million increase in accruals, other payables and provision.

Cash Flows Generated from/(Used in) Investing Activities

In the nine months ended September 30, 2016, we had net cash used in investing activities of RMB11.2 million for purchases of property, plant and equipment as a result of construction works for Weikang Investment.

In 2015, we had net cash generated from investing activities of RMB80.5 million. This was attributable to RMB81.6 million in purchase of available-for-sale financial assets, which were wealth management products.

In the period from February 21, 2014 to December 31, 2014, we had net cash used in investing activities of RMB1,036.3 million. This was mainly attributable to RMB954.3 million in net cash used in business combinations, which related to our acquisition of the Predecessor Entities, and, to a lesser extent, RMB81.2 million in purchase of available-for-sale financial assets, which were wealth management products.

Cash Flows Generated from/(Used in) Financing Activities

In the nine months ended September 30, 2016, we had net cash used in financing activities of RMB24.9 million, which was mainly attributable to dividends of RMB53.0 million paid to Weikang Investment's shareholders before it was acquired by us. This was offset in part by proceeds of RMB31.2 million from shares issued under the employee restricted share scheme, which were in respect of ordinary shares that we issued to Midpoint Honour on March 31, 2016 and payment of RMB3.1 million listing expenses.

In 2015, we had net cash used in financing activities of RMB80.0 million, which was our repayment of an advance from Yangsi Hospital.

In the period from February 21, 2014 to December 31, 2014, we had net cash flows generated from financing activities of RMB1,038.4 million, which was capital contribution from our shareholders.

Net Current Assets and Liabilities

The following table sets forth our Group's current assets and current liabilities by category as of the dates indicated:

	As of December 31,		As of September 30,	As of the Indebtedness
	2014	2015	2016	Date
	RMB ('000)	RMB ('000)	RMB ('000)	RMB ('000) (Unaudited)
Current Assets				
Available-for-sale financial assets	81,150	—	—	—
Inventories	851	1,180	1,961	2,098
Trade receivables	1,563	7,490	6,588	4,230
Other receivables, deposits and prepayments	469	3,682	10,045	12,161
Amounts due from related parties	79,787	166,861	37,725	48,006
Cash and cash equivalents	5,145	13,104	133,135	118,484
Total current assets	168,965	192,317	189,454	184,979
Current Liabilities				
Amounts due to related parties	103,998	51,296	22,278	4,062
Trade payables	1,994	2,919	3,992	4,965
Accruals, other payables and provisions	59,710	63,753	29,648	56,029
Current income tax liabilities	22,656	18,453	5,838	1,213
Total current liabilities	188,358	136,421	61,756	66,269
Net current assets/(liabilities)	(19,393)	55,896	127,698	118,710

We had net current liabilities of RMB19.4 million as of December 31, 2014 and net current assets of RMB55.9 million, RMB127.7 million and RMB137.0 million as of December 31, 2015, September 30, 2016 and January 31, 2017 (the "**Indebtedness Date**"), respectively.

Our net current liabilities as of December 31, 2014 were primarily because Weikang Investment declared a dividend of RMB53.0 million to its then shareholders before it was acquired by us. We recorded this dividend payable as payable to non-controlling shareholders of subsidiaries in accruals, other payables and provisions.

Our net current liabilities position as of December 31, 2014 changed to net current assets as of December 31, 2015, primarily due to an RMB87.0 million increase in trade-nature amounts due from Yangsi Hospital in respect of the management service fees and an RMB52.7 million decrease in amounts due to related parties, as we repaid a portion of our amounts due to Yangsi Hospital. These factors were offset in part by an RMB81.2 million decrease in available-for-sale financial assets, which we disposed of in 2015.

Our net current assets increased significantly to RMB127.7 million as of September 30, 2016 compared to December 31, 2015, primarily due to our recognition of RMB93.3 million in management service fees from Yangsi Hospital and our receipt of RMB31.2 million in consideration for our ordinary shares issued to Midpoint Honour in the nine months ended September 30, 2016. Our amounts due from related parties decreased significantly to RMB37.7 million as of September 30, 2016, compared to December 31, 2015, primarily because we collected substantially all of our balance of amounts due from Yangsi Hospital as of December 31, 2015; this was offset in part by our recognition of management service fees from Yangsi Hospital in the nine months ended September 30, 2016. We used part of the funds collected from Yangsi Hospital and the consideration from issuance of shares to pay (1) the dividends payable of RMB53.0 million, which Weikang Investment declared to its then shareholders before we acquired it and which was fully settled in February 2016; and (2) part of our amounts due to related parties.

Our net current assets decreased by 7.0% to RMB118.7 million as of the Indebtedness Date compared to September 30, 2016, primarily due to an RMB26.4 million increase in accruals, other payables and provisions. The increase was primarily due to the amendment to the Subscription Agreement in December 2016, as a result of which the subscription consideration proceeds of approximately RMB31.1 million were recognized as financial liability, instead of equity, in our consolidated balance sheet as of January 31, 2017. For more details, please see "History, Development and Corporate Structure—Management Subscription—Subscription by Management and Financing Arrangement" and Note 16 to the Accountant's Report included in Appendix IA to this prospectus. The decrease in our net current assets was offset in part by (i) an RMB18.2 million decrease in amounts due to related parties, primarily attributable to our settlement of amounts due to Yangsi Hospital and Vanguard Glory Limited, and (ii) an RMB10.3 million increase in amount due from related parties in relation to management service fees payable to us for the hospital management services we provide to Yangsi Hospital for the fourth quarter of 2016 and January 2017.

Working Capital

As of the Indebtedness Date, we did not have any borrowings or banking facilities and we had cash and cash equivalents of RMB118.5 million. Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the estimated net proceeds of the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

After due consideration and discussions with the Company's management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditure, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED BALANCE SHEETS

Intangible Assets

Our intangible assets consisted primarily of goodwill, contractual rights to provide management services and medical licenses. The following table sets forth our intangible assets by category as of the dates indicated:

	As of December 31,		As of September 30,
	2014	2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)
Goodwill	958,864	958,864	958,864
Contractual rights to provide management services	115,231	112,925	111,195
Medical licenses	14,713	13,562	12,700
Total	1,088,808	1,085,351	1,082,759

The goodwill of RMB958.9 million as of December 31, 2014 and 2015 and September 30, 2016 arose from our acquisition of an 80% equity interest in Weikang Investment on September 30, 2014, which included the goodwill recorded when Weikang Investment acquired Fuhua Hospital on January 15, 2014. An acquirer is required to recognize goodwill as of the acquisition date in an amount equal to the excess of (a) the consideration transferred over (b) the net of the fair value of the identifiable assets acquired and the liabilities assumed. Accordingly, goodwill is measured based on the facts that existed at the time of completion of an acquisition and does not take into account events that occurred after the acquisition date. As there were title defect in the land and buildings owned by Weikang Investment, the fair value of these items were not assessed in the calculation of goodwill upon completion of the Weikang Acquisition. In accordance with IAS 36, for the purpose of impairment testing, goodwill that was acquired in a business combination is allocated to each cash-generating units or groups of cash-generating units that is expected to benefit from the synergies of the combination. Each unit or group of units (operating segment) to which the goodwill is so allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and not be larger than an operating segment before aggregation. The goodwill recorded as a result of the Weikang Acquisition was attributable to the hospital management services segment, as well as the general hospital services segment. The goodwill arising from the Weikang Acquisition is mainly attributable to the Company entering into the healthcare industry, potential contractual relationships between the Group and Yangsi Hospital and other hospitals, the business model which the Company believes can be replicated in the future and synergy within the Group.

In accordance with international valuation standards and IFRS3, the additional management services provided by Honghe Ruixin to Yangsi Hospital was not considered as identifiable intangible assets as of the acquisition date because (i) as of the acquisition date, the contractual arrangement and service relationship between Honghe Ruixin and Yangsi Hospital or the additional management services Honghe Ruixin provided to Yangsi Hospital did not exist because Honghe Ruixin had not been set up until December 23, 2014; (ii) the relevant additional service scope and pricing mechanism for the management service fees Yangsi Hospital paid to Honghe Ruixin had not been negotiated or approved by Yangsi Hospital's executive committee until the end of December 2014; (iii) the hospital management agreement between Honghe Ruixin and Yangsi Hospital was signed on January 1, 2015; and (iv) the management and consulting services provided by Honghe Ruixin to Yangsi Hospital were substantially different from the services that Weikang Investment had been offering in both form and substance. Please see the section headed "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" for more details regarding the different services Weikang Investment and Honghe Ruixin provided to Yangsi Hospital. As a result, the contractual rights relating to the additional management services of Honghe Ruixin did not exist on the acquisition date, and there is no customer relationship could be identified as a separate asset to be recognized and valued as of the acquisition date. The benefits that arise from the hospital management agreement between Honghe Ruixin and Yangsi Hospital, which particularly relied on the capability and contribution of the management team of Honghe Ruixin after the acquisition, should be deemed to be the synergistic effect of the acquisition. As a result any synergies and potential benefits attributable to future hospital management agreements expected from the combination have been accounted for as part of goodwill.

The goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. For the impairment test assessment of goodwill in relation to hospital management business, in addition to Weikang Investment's hospital management agreements, the cash flow from the agreements between Honghe Ruixin and Yangsi Hospital are also considered because those agreements were the result of leveraging the synergies from the combination, including the sharing of the hospital management model established by Weikang Investment's hospital management agreements and related workforce. Accordingly, management monitors the goodwill at the operating segment level.

We considered a number of factors to determine the consideration (including the amount of the goodwill) for the acquisition of the Predecessor Entities, including (i) the opportunity for us to quickly enter the hospital management business through acquisition of Weikang Investment; (ii) Weikang Investment's ability to continue procuring hospital management agreements with Yangsi Hospital given it being founder of Yangsi Hospital and its influence at Yangsi Hospital's executive committee; (iii) Weikang Investment's high quality hospital management professionals and replicable hospital management business model; and (iv) business opportunities to further cooperate with Yangsi Hospital taking into consideration its market-leading position and brand recognition as a non-public hospital in Shanghai. No impairment was charged during the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 or the nine months ended September 30, 2016. See Note 7 to the Accountant's Report included in Appendix IA to this prospectus for information on impairment tests for goodwill.

Weikang Investment and Yangsi Hospital entered into the six-year Hospital Management Framework Agreement on January 1, 2013. This agreement was replaced by the ten-year Long Term Hospital Management Agreement that Weikang Investment, Honghe Ruixin and Yangsi Hospital entered into on January 1, 2016. Weikang Investment and Yangsi Hospital also entered into the 51-year Letter of Intent on October 8, 2014 (effective from January 1, 2014 to December 31, 2064). Detailed terms and conditions of the management services are set forth in annual hospital management agreements entered into under the Hospital Management Framework Agreement, the Long Term Hospital Management Agreement and the Letter of Intent. Since our acquisition of the Predecessor Entities, Yangsi Hospital has entered into annual hospital management and consultancy agreements with Weikang Investment in 2014 and with Weikang Investment and Honghe Ruixin in 2015 and 2016. See the sections headed "Business—Our Business Model—Our Hospital Management Business" and "Business—The Hospitals—Yangsi Hospital—Hospital Management Agreements" for more information. As advised by the PRC Legal Advisors, the Letter of Intent is a valid, legally binding and enforceable contract under the PRC laws and regulations. As such, we amortize the contractual rights to provide hospital management services since our acquisition of the Predecessor Entities, using the straight-line method over the contract term of 50 years (of the Hospital Management Framework Agreement and the Letter of Intent) starting from October 1, 2014. We record the amortization expenses for these contractual rights in our cost of revenue for the hospital management services segment.

Our medical licenses came from our acquisition of the Predecessor Entities in respect of the general hospital business of Fuhua Hospital. We amortize these medical licenses using the straight-line method over their estimated useful lives of approximately 13 years. We record the amortization expenses for these medical licenses in our cost of revenue for the general hospital services segment.

Inventories

Our inventories consist primarily of pharmaceuticals and, to a lesser extent, medical consumables for our general hospital services segment. The following table sets forth a summary of our total inventories as of the dates indicated:

	As of December 31,		As of September 30,
	2014	2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)
Pharmaceuticals	759	1,145	1,828
Medical consumables	92	35	133
Total	851	1,180	1,961

Our inventories increased by 38.7% from RMB0.9 million as of December 31, 2014 to RMB1.2 million as of December 31, 2015, primarily due to an RMB0.4 million increase in pharmaceuticals in line with increased revenue of Fuhua Hospital. Our inventories increased by 66.2% to RMB2.0 million as of September 30, 2016, compared to December 31, 2015, primarily due to (1) our increased purchase of pharmaceuticals as Fuhua Hospital's business operations continued to grow; and (2) we purchased a large amount of pharmaceuticals in September 2016 in anticipation of pharmaceutical consumption during the upcoming National Day holidays.

The following table sets forth our inventory turnover days during the period indicated:

	Period from February 21 to December 31, 2014	**Year ended December 31, 2015**	**Nine months ended September 30, 2016**
Inventory turnover days[(1)]	17.6	17.2	21.6

Note:

(1) Inventory turnover days for each one-year period equals the average of the beginning and ending inventory for that year divided by the general hospital services segment's cost of revenue for that year and multiplied by 365 days, and the inventory turnover days for the period from February 21 to December 31, 2014 equals the average of the balances of inventories as of September 30, 2014 and December 31, 2014, respectively, divided by the general hospital services segment's cost of revenue for the period from February 21 to December 31, 2014 and multiplied by 92 days (given that we acquired the Predecessor Entities on September 30, 2014). Inventory turnover days for the nine-month period equals the average of the beginning and ending inventory for that period divided by the general hospital services segment's cost of revenue for that period and multiplied by 273 days.

Our inventory turnover days remained relatively stable at 17.6 days in the period from February 21, 2014 to December 31, 2014 and 17.2 days in 2015. Our inventory turnover days increased to 21.6 days in the nine months ended September 30, 2016 primarily due to the increase in our inventory levels for reasons described above.

As of January 31, 2017, all of our inventory balance amount as of September 30, 2016 had been sold or utilized.

Trade-nature Receivables

Our trade-nature receivables mainly comprise (1) trade-nature amounts due from Yangsi Hospital, a related party, which are receivables of management service fees, and, to a lesser extent, (2) trade receivables, which are predominantly receivables from medical insurance programs for general hospital services provided by Fuhua Hospital, as well as receivables from patients of Fuhua Hospital.

In accordance with our Hospital Management Agreements, we recognize revenue from hospital management services provided to Yangsi Hospital on a quarterly basis (or in any other way as agreed by the parties) and settle differences based on the audited full-year revenue of Yangsi Hospital within three months following year-end. This matching of quarterly revenue recognition and settlement of differences between quarterly and annual amounts within three months is expected to limit the amount of trade-nature receivables due to us from Yangsi Hospital. However, the significant trade-nature amounts due from Yangsi Hospital as of December 31, 2014 and 2015 were primarily because: (1) Weikang Investment historically had irregularities in respect of its financial reporting in 2013 and 2014. See "Business—Risk Management and Internal Control—Financial Reporting Internal Controls" for more information. Weikang Investment did not, within 2015, collect all of its management service fee receivables, as it considered the collection of these amounts to be low risk. However, as a result of our enhanced internal controls on receivables collection management, Weikang Investment collected a substantial majority of its historical receivables of management service fees from Yangsi Hospital in the first quarter of 2016; and (2) Honghe Ruixin was originally approved by the tax authority as a small-scale tax payer for VAT purposes when we established it in December 2014, and the management service fees that Honghe Ruixin was entitled to receive from Yangsi Hospital exceeded the revenue limit and VAT invoice amount limit applicable to a small-scale tax payer until we obtained an approval from the tax authority to change Honghe Ruixin to a general tax payer for VAT purposes in December 2015. The revenue limit and VAT invoice amount limit of Honghe Ruixin were resolved in 2015 when it became a general tax payer for VAT purposes, and therefore only affected our trade-nature receivables turnover days. While our receivables from Yangsi Hospital were relatively high as of December 31, 2014, 2015 and September 30, 2016, we do not consider there to be difficulties in collecting the receivables from Yangsi Hospital, given the good operational efficiency of Yangsi Hospital, our founding of Yangsi Hospital and our influence on its executive committee. As of September 30 ,2016, our receivables from Yangsi Hospital decreased significantly as compared to December 31, 2015. In 2016, we collected hospital management service fees from Yangsi Hospital on a quarterly basis.

According to the relevant medical insurance programs' payment practices in Shanghai, a Medical Insurance Designated Medical Institution is allowed to recover all of its medical service fees covered by the medical insurance programs within the first two years of being so designated. After this two-year period, the Medical Insurance Designated Medical Institution will be subject to a government-approved quota under the UEBMIS for the medical service fees that it is allowed to recover from the UEBMIS. Fuhua Hospital generally settled its receivables of medical service fees with medical insurance programs on a monthly basis in 2013 and 2014. In 2015, Fuhua Hospital generally began settling each month's receivables of medical service fees within the quota with medical insurance programs in the next month. For Fuhua Hospital's receivables of medical service fees in excess of the quota, we may be able to recover a portion of the excess amount the next year and may need to make a provision for impairment of the amount that we estimate to be unrecoverable. As of December 31, 2015 and September 30, 2016, we made provisions of RMB1.0 million and RMB1.0 million for impairment of these trade receivables of Fuhua Hospital, respectively. We also have receivables from Fuhua Hospital's patients. Our receivables from the patients typically arise from a time difference of typically up to two month between revenue recognition and the billing date, largely depending on the patients' length of stay at our facilities.

The following table sets forth a breakdown of our trade-nature receivables as of the dates indicated:

	As of December 31,		As of September
	2014	2015	30, 2016
	RMB ('000)	RMB ('000)	RMB ('000)
Trade-nature amounts due from Yangsi Hospital.	79,782	166,827	37,424
Trade receivables	1,563	8,484	7,582
Less: provision for impairment of trade receivables	—	(994)	(994)
Subtotal	1,563	7,490	6,588
Total trade-nature receivables	81,345	174,317	44,012

Our trade-nature receivables increased significantly to RMB174.3 million as of December 31, 2015 compared to RMB81.3 million as of December 31, 2014, primarily due to an RMB87.0 million increase in trade-nature amounts due from Yangsi Hospital in respect of management service fees. Our trade-nature receivables decreased significantly to RMB44.0 million as of September 30, 2016, primarily due to our collection of management service fees from Yangsi Hospital and our receipt of reimbursement for medical service fees under the UEBMIS from the local medical insurance bureau. Trade-nature amounts due from Yangsi Hospital arising from our hospital management services accounted for 98.1%, 95.7% and 85.0% of our trade-nature receivables as of December 31, 2014 and 2015 and September 30, 2016, respectively.

The following table sets forth an aging analysis of our trade-nature receivables as of the dates indicated, based on the trading dates:

	As of December 31,		As of September
	2014	2015	30, 2016
	RMB ('000)	RMB ('000)	RMB ('000)
Trade-nature amounts due from Yangsi Hospital:			
Within 30 days	18,071	38,444	32,707
30 to 90 days	—	—	—
90 to 180 days	46,571	27,936	4,717
More than 180 days	15,140	100,447	—
Total	79,782	166,827	37,424
Trade receivables:			
1 to 60 days	1,563	4,463	4,624
61 to 180 days	—	4,021	864
181 days to 1 year	—	—	2,094
Total	1,563	8,484	7,582

As of September 30, 2016, a substantial majority of our trade-nature amounts due from Yangsi Hospital were aged within 30 days. In addition, a majority of our trade receivables as of December 31, 2015 were aged within 60 days. We had a significant increase in trade receivables aged above 61 days as of December 31, 2015 compared to December 31, 2014, primarily because Fuhua Hospital became subject to a quota in 2015 for receivables from the local medical insurance bureau under the UEBMIS. A majority of our trade receivables as of September 30, 2016 were aged within 60 days; these were related to medical service fees receivable from the local medical insurance bureau under the UEBMIS.

We did not have any trade receivables past due but not impaired as of December 31, 2014. Our trade receivables past due but not impaired were RMB1.5 million and RMB87 thousand as of December 31, 2015 and September 30, 2016, respectively, which mainly related to the trade receivables of Fuhua Hospital to be claimed under medical insurance programs. We believe that, based on the past payment history, these amounts can be recovered in a reasonable time.

The following table sets forth our trade receivables turnover days during the periods indicated:

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2016
Trade receivables turnover days(1)	25.5	70.5	91.1

Note:

(1) Trade receivables turnover days for each one-year period equals the average of the beginning and ending balances of trade receivables for that year divided by the general hospital services segment's revenue for that year and multiplied by 365 days, and the trade receivables turnover days for the period from February 21 to December 31, 2014 equals the average of the balances of trade receivables as of September 30, 2014 and December 31, 2014, respectively, divided by the general hospital services segment's revenue for the period from February 21 to December 31, 2014 and multiplied by 92 days (given that we acquired the Predecessor Entities on September 30, 2014). Trade receivables turnover days for the nine-month period equals the average of the beginning and ending trade receivables for that period divided by the general hospital services segment's revenue for that period and multiplied by 273 days.

Our trade receivables turnover days increased significantly from 25.5 days in the period from February 21, 2014 to December 31, 2014 to 70.5 days in 2015, primarily due to a significant increase in Fuhua Hospital's trade receivables from medical insurance programs. Our trade receivables turnover days further increased to 91.1 days in the nine months ended September 30, 2016, primarily because our trade receivables as of September 30, 2016 were higher than those as of December 31, 2014, because in 2015 Fuhua Hospital became subject to a quota for receivables under the UEBMIS.

The following table sets forth our trade-nature receivables turnover days during the periods indicated:

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2016
Trade-nature receivables turnover days[(1)]	280.9	327.4	258.3

Note:

(1) Trade-nature receivables turnover days for each one-year period equals the average of the beginning and ending balances of trade-nature receivables (including trade receivables and trade-nature amounts due from Yangsi Hospital) for that year divided by total revenue for that year and multiplied by 365 days, and the trade-nature receivables turnover days for the period from February 21 to December 31, 2014 equals the average of the balances of trade-nature receivables as of September 30, 2014 and December 31, 2014, respectively, divided by total revenue for the period from February 21 to December 31, 2014 and multiplied by 92 days (given that we acquired the Predecessor Entities on September 30, 2014). Trade-nature receivables turnover days for the nine-month period equals the average of the beginning and ending trade-nature receivables for that period divided by total revenue for that period and multiplied by 273 days.

Our trade-nature receivables turnover days increased from 280.9 days in the period from February 21, 2014 to December 31, 2014 to 327.4 days in 2015, primarily due to a significant increase in trade-nature amounts due from Yangsi Hospital in respect of management service fees, as well as a significant increase in Fuhua Hospital's trade receivables from medical insurance programs. Our trade-nature receivables turnover days decreased to 258.3 days in the nine months ended September 30, 2016, primarily due to our collection of management service fees from Yangsi Hospital.

As of January 31, 2017, we had collected RMB6.8 million, or 89.2%, of the balance of our trade receivables (before provision for impairment of trade receivables) as of September 30, 2016, and all of the balance of our trade-nature amounts due from Yangsi Hospital as of September 30, 2016.

Other Receivables, Deposits and Prepayments

Our other receivables, deposits and prepayments consisted primarily of deposits with landlord for our offices and prepayments for rentals of Fuhua Hospital and expenses in relation to the Listing. The following table sets forth our other receivables, deposits and prepayment as of the dates indicated:

	As of December 31,		As of September 30, 2016
	2014	2015	
	RMB ('000)	RMB ('000)	RMB ('000)
Other receivables	57	98	108
Prepayment for professional service fees in respect of listing preparation	—	2,876	8,928
Prepayments for rental	392	484	273
Other prepayment	20	224	237
Deposits	487	487	499
Total	956	4,169	10,045
Less: non-current portion	487	487	—
Current portion	469	3,682	10,045

Our other receivables, deposits and prepayments increased significantly to RMB4.2 million as of December 31, 2015 compared to RMB1.0 million as of December 31, 2014, primarily related to RMB2.9 million in prepayments for professional service fees in respect of the listing preparation. Our other receivables, deposits and prepayments increased significantly to RMB10.0 million as of September 30, 2016, compared to December 31, 2015, primarily due to an RMB6.1 million increase in prepayment for professional service fees in respect of listing preparation.

Available-for-sale Financial Assets

Our available-for-sale financial assets represent short-term wealth management products purchased from a reputable commercial bank. We had available-for-sale financial assets of RMB81.2 million as of December 31, 2014. These included two wealth management products: one for RMB72.9 million, which commenced on December 5, 2014 and matured on January 14, 2015; and the other for RMB8.3 million, which commenced on December 5, 2014 and matured on January 7, 2015. In 2015, we had a wealth management product for RMB81.6 million that commenced on January 27, 2015 and matured on February 12, 2015. We did not have available-for-sale financial assets as of December 31, 2015 or September 30, 2016. The fair value gain/loss on these available-for-sale financial assets was minimal because of the short maturities. See "—Description of Selected Income Statement Line Items—The Group—Other Income" for more information. We may continue to make investments in wealth management products in the future.

Treasury Policy

We have adopted a treasury policy to optimize our use of and returns on short-term surplus funds. On the premises of ensuring the funds' safety, maintaining reasonable liquidity and meeting our operational needs and strategic investment requirements, we may from time to time purchase wealth management instruments from commercial banks. We typically create appropriate investment portfolios and match the terms of the instruments with our funds' potential arrangements to reduce market risk and liquidity risk. The size of the wealth management investments made by us or a subsidiary of ours must not exceed the limit approved by the board of directors or shareholders' meeting of the entity making the investment. We only purchase RMB-denominated short-term (not exceeding 12 months) wealth management products that are principal-protected products (such as structured deposits and high-interest rate deposits with commercial banks) or are low-risk bonds issued by China's central government. We only purchase these wealth management products from qualified and reputable commercial banks, with a priority to banks with whom we have strategic cooperation relationships. We do not purchase wealth management products from non-banking institutions. Our subsidiaries' surplus funds wealth management plans must be reported to our headquarters' financial department and approved by the relevant subsidiary's board of directors or shareholders' meeting. Our headquarters and subsidiaries' finance departments are responsible for implementing the wealth management investments, including selecting banks, determining investment strategies and products, and preparing wealth management proposals for the relevant investing entity's board of directors or shareholders' meeting to approve. Our headquarters and subsidiaries' finance departments are also responsible to monitor the safety of our wealth management investments and timely report to the relevant investing entity's senior management any abnormal circumstances to mitigate our losses. Our headquarters and subsidiaries' finance department heads all have over 10 years of experience in financial management. Our headquarters' audit department conducts regular internal audits and reviews on our wealth management products and relevant accounts, and timely report the results to our senior management and audit committee.

Trade Payables

Our trade payables primarily related to purchases of pharmaceuticals and medical consumables from our suppliers for our general hospital services segment. Certain of our suppliers grant us credit terms ranging between 30 and 60 days from the invoice date.

Our trade payables increased by 46.4% from RMB2.0 million as of December 31, 2014 to RMB2.9 million as of December 31, 2015, as a result of increased inventory purchases by Fuhua Hospital. Our trade payables increased by 36.8% to RMB4.0 million as of September 30, 2016, primarily due to (1) our increased purchase of pharmaceuticals as Fuhua Hospital's business operations continued to grow; and (2) we purchased a large amount of pharmaceuticals in September 2016 in anticipation of pharmaceutical consumption during the upcoming National Day holidays.

The following table sets forth an aging analysis of our trade payables as of the dates indicated, based on the transaction dates:

	As of December 31,		As of September 30, 2016
	2014	2015	
	RMB ('000)	RMB ('000)	RMB ('000)
Less than 60 days	1,804	2,892	3,965
61 to 180 days	—	—	—
181 days to 1 year	190	—	—
Over 1 year	—	27	27
Total	1,994	2,919	3,992

As of December 31, 2014 and 2015 and September 30, 2016, a substantial majority of our trade payables were aged within 60 days.

The following table sets forth our trade payables turnover days for the periods indicated:

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2016
Trade payables turnover days(1)	29.2	41.5	47.5

Note:

(1) Trade payables turnover days for each one-year period equals the average of the beginning and ending trade payables for that year divided by the general hospital services segment's cost of revenue for that year and multiplied by 365 days, and the trade payables turnover days for the period from February 21 to December 31, 2014 equals the average of the balances of trade payables as of September 30, 2014 and December 31, 2014, respectively, divided by the general hospital services segment's cost of revenue for that period and multiplied by 92 days (given that we acquired the Predecessor Entities on September 30, 2014). Trade payable turnover days for the nine-month period equals the average of the beginning and ending trade payables for that period divided by the general hospital services segment's cost of revenue for that period and multiplied by 273 days.

Our trade payables turnover days increased from 29.2 days in the period from February 21, 2014 to December 31, 2014 to 41.5 days in 2015, primarily due to an increase in trade payables as a result of increased inventory purchases by Fuhua Hospital. Our trade payables turnover days increased to 47.5 days in the nine months ended September 30, 2016, primarily due to the increase in our trade payables for reasons described above.

Accruals, Other Payables and Provisions

Our accruals, other payables and provisions include dividends payable to non-controlling shareholders of subsidiaries (which were declared by Weikang Investment to its then shareholders in 2014 before it was acquired by us and in September 2016), duty and tax payable other than corporate income tax, accrued employee benefits, payables to suppliers of plant and equipment (mainly medical devices for Fuhua Hospital), accrued professional service fee in respect of the listing preparation, advance from third parties (which are deposits from patients), and other payables. The following table sets forth our accruals, other payables and provisions as of the dates indicated:

	As of December 31,		As of September
	2014	2015	30, 2016
	RMB ('000)	RMB ('000)	RMB ('000)
Dividends payable to non-controlling shareholders of subsidiaries	53,000	53,000	6,373
Duty and tax payable other than corporate income tax	5,295	6,198	3,054
Accrued employee benefits	386	1,588	6,619
Share-based payments	—	—	9,721
Other payables to suppliers of plant and equipment	582	363	380
Accrued professional service fee in respect of the listing preparation	—	1,534	9,558
Advance from third parties	113	151	151
Others	334	919	3,513
Less: non-current position	—	—	9,721
Total	59,710	63,753	29,648

Our accruals, other payables and provisions increased by 6.8% from RMB59.7 million as of December 31, 2014 to RMB63.8 million as of December 31, 2015, primarily due to incurrence of accrued professional service fees in respect of the listing preparation and an increase in accrued employee benefits as we increased employee remuneration. Our accruals, other payables and provisions decreased by 53.5% to RMB29.6 million as of September 30, 2016 compared to December 31, 2015, primarily because we fully settled dividends payable to non-controlling shareholders of subsidiaries of RMB53.0 million as of December 31, 2015 in February 2016 which was offset by a dividend of RMB6.4 million declared by Weikang Investment to its minority shareholders in September 2016 and recognized as dividends payable to non-controlling shareholders of subsidiaries as of September 30, 2016. This was offset in part by (1) an RMB9.7 million share-based payments in connection with our grant of share-based awards to our management; and (2) an RMB8.0 million increase in accrued professional service fees in respect of the listing preparation.

Current Income Tax Liabilities

Our current income tax liabilities were corporate income taxes payable by us. We had current income tax liabilities of RMB22.7 million, RMB18.5 million and RMB5.8 million as of December 31, 2014 and 2015 and September 30, 2016, respectively. Our current income tax liabilities decreased by 18.5% as of December 31, 2015 compared to the prior year, primarily due to our relatively high corporate income tax liabilities as of December 31, 2014, as a result of our review of accounting errors by Weikang Investment in respect of tax returns for periods before we acquired it, and because of our payment of the relevant corporate income taxes in 2015. See "Business—Risk Management and Internal Control—Financial Reporting Internal Controls" and "—Trade-nature Receivables" for more information. Our current income tax liabilities decreased by 68.4% as of September 30, 2016, compared to December 31, 2015, primarily because of the different length of periods it is related to.

Indebtedness

We did not have any bank loans as of December 31, 2014, December 31, 2015, September 30, 2016 or the Indebtedness Date. As of the Latest Practicable Date, we did not have any plan for material external debt financing. Our ability to obtain adequate external financing will depend on a number of factors, including our financial performance and results of operations, as well as factors beyond our control. See "Risk Factors—Risks Relating to Our Business and Industry—We had net current liabilities as of December 31, 2014 and we cannot assure you that we will not continue to record net current liabilities" for more information.

As of the Indebtedness Date, other than as disclosed in this prospectus, we did not have any outstanding debt securities, charges, mortgages, or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities. Since the Indebtedness Date, there has been no material adverse change in our indebtedness.

Related Party Transactions

Our amounts due from/to related parties were unsecured, interest-free and repayable on demand as of December 31, 2014 and 2015 and September 30, 2016. The following table sets forth our amounts due from related parties as of the dates indicated:

	As of December 31,		As of September 30, 2016
	2014	2015	
	RMB ('000)	RMB ('000)	RMB ('000)
Amounts due from related parties:			
- Trade-in-nature from Yangsi Hospital	79,782	166,827	37,424
- Others from Yangsi Hospital	5	34	283
Grand Roc Holdings Limited	—	—	8
Midpoint Honour Limited	—	—	10
Total	79,787	166,861	37,725

Our trade-nature amounts due from Yangsi Hospital were fees for hospital management services that Weikang Investment and Honghe Ruixin provided to Yangsi Hospital in accordance with the Hospital Management Agreements. See "—Trade-nature Receivables" for more information. Our other amounts due from related parties as of December 31, 2014 and 2015 and September 30, 2016 were primarily due from Yangsi Hospital.

The following table sets forth our amounts due to related parties as of the dates indicated:

	As of December 31,		As of September 30, 2016
	2014	2015	
	RMB ('000)	RMB ('000)	RMB ('000)
Amounts due to related parties:			
Yangsi Hospital	92,662	24,419	12,876
Hony Capital Management (Tianjin) L.P.	9,819	18,650	—
Vanguard Glory Limited	162	6,789	7,923
Hony Capital Fund V, L.P	1,355	1,438	1,479
Total	103,998	51,296	22,278

Our amounts due to related parties of RMB104.0 million as of December 31, 2014 primarily comprised an RMB92.7 million amount due to Yangsi Hospital, which included primarily an RMB80.0 million advance from Yangsi Hospital that we used to purchase wealth management products in December 2014, as well as amounts due to Yangsi Hospital for remuneration of certain of our employees providing management services to, and mainly working in, Yangsi Hospital for whom it paid the salaries and wages, and amounts due to Yangsi Hospital for certain construction works conducted on the facilities used by Yangsi Hospital and owned by Weikang Investment. Please see "Business—Our Customers—Relationship with Yangsi Hospital" for more information on the RMB80.0 million advance from Yangsi Hospital. As of December 31, 2014, we also had amounts due to Hony Capital Management (Tianjin) L.P., which were related to our operating expenses; amounts due to Vanguard Glory Limited, which were related to our expenses in relation to the Listing; and amounts due to Hony Capital Fund V, L.P., which arose from our assumption of certain of our subsidiaries' amounts due to Hony Capital Fund V, L.P. when we acquired those subsidiaries in 2014.

Our amounts due to related parties decreased significantly to RMB51.3 million as of December 31, 2015 compared to RMB104.0 million as of December 31, 2014, primarily due to our repayment of RMB80.0 million to Yangsi Hospital, offset in part by an increase in Weikang Investment's amounts due to Yangsi Hospital for remuneration of the hospital management employees and payment for the construction works mentioned above and an increase in advances from Yangsi Hospital to Fuhua Hospital for its working capital purposes. This was offset in part by an RMB8.8 million increase in amounts due to Hony Capital Management (Tianjin) L.P., which were related to our operating expenses, and an RMB6.6 million increase in amounts due to Vanguard Glory Limited, which we used primarily to pay expenses in relation to the Listing. As advised by our PRC Legal Advisors, the borrowings of our PRC subsidiaries (including Weikang Investment and Fuhua Hospital) from Yangsi Hospital contravened the General Lending Provisions promulgated by the People's Bank of China in 1996. Accordingly, the People's Bank of China can impose a penalty on Yangsi Hospital (the lender) equivalent to one to five times the amount of any interest income that Yangsi Hospital receives from Weikang Investment and Fuhua Hospital on these borrowings. However, because these borrowings are interest-free, our PRC Legal Advisors are of the view that the risk of a penalty being imposed on Yangsi Hospital is remote. In addition, our PRC Legal Advisors are of the view that Weikang Investment and Fuhua Hospital (as the borrowers) are not subject to any penalty for these borrowings under the General Lending Provisions, which only penalize the lender for any inter-company lending.

Our amounts due to related parties decreased to RMB22.3 million as of September 30, 2016, compared to December 31, 2015, primarily due to our repayment of RMB18.7 million to Hony Capital Management (Tianjin) L.P. and our repayment of RMB11.5 million to Yangsi Hospital. These factors were offset in part by an RMB1.1 million increase in amounts due to Vanguard Glory Limited, which were used primarily to pay expenses relating to the Listing.

All of our amounts due to related parties during the Track Record Period were non-interest bearing. We will settle all amounts due to related parties before Listing with internally generated cash flows.

Capital Expenditures

The following table sets forth our capital expenditures for the periods indicated:

	Period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30,	
			2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)	RMB ('000)
Purchase of property, plant and equipment	884	1,275	1,025	11,189
Total capital expenditures	884	1,275	1,025	11,189

Our capital expenditures during the Track Record Period comprised expenditures on the retrofitting of wards and purchases of medical devices for Fuhua Hospital and construction works for Weikang Investment. During the Track Record Period, we financed our capital expenditures primarily with cash flows generated from operating activities. We expect our aggregate capital expenditures in the year ended December 31, 2016 to be RMB13.1 million, relating primarily to purchases of medical and other equipment, upgrading and improvements of medical facilities, and upgrading and improvements of information technology systems. We plan to finance these capital expenditures mainly with cash flows generated from operating activities and proceeds from the Global Offering.

Operating Lease Commitments

We lease premises for Fuhua Hospital and our offices. The following table sets forth our future aggregate minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As of December 31,		As of September 30,
	2014	2015	2016
	RMB ('000)	RMB ('000)	RMB ('000)
Not later than one year	4,059	4,140	2,908
Later than one year and not later than five years	10,178	8,025	7,868
Later than five years	5,071	3,084	1,557
Total	19,308	15,249	12,333

We plan to finance our operating lease commitments primarily with cash flows from operating activities.

OTHER KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the periods indicated:

	Period from February 21 to December 31,	Year ended December 31,	Nine months ended September 30,	
	2014	2015	2015	2016
Gross profit margin(1)	67.2%	71.0%	70.4%	57.5%
EBIT margin(2)	33.4%	63.2%	63.0%	40.1%
Net profit margin(3)	18.2%	47.2%	46.8%	26.7%
Return on equity(4)	N/A(5)	6.1%	5.7%	3.6%
Return on assets(6)	N/A(5)	5.2%	4.8%	3.2%

	As of December 31,		As of September 30,
	2014	2015	2016
Current ratio(7)	0.9x	1.4x	3.1x
Quick ratio(8)	0.9x	1.4x	3.0x
Debt ratio(9)	17.2%	13.3%	8.5%

Notes:

(1) Equals gross profit for the period divided by revenue for that period and multiplied by 100%.

(2) Equals operating profit for the period divided by revenue for that period and multiplied by 100%.

(3) Equals profit for the period divided by revenue for the period and multiplied by 100%.

(4) Equals profit for a year divided by the average of the beginning and ending total equity for that year and multiplied by 100%. Return on equity for the nine months ended September 30, 2016 is an annualized number (multiplying the amount for the nine months by 365/273) based on profit for the nine months ended September 30, 2016, and hence may not be comparable to the ratio number based on the full-year profit for 2015.

(5) This number is not meaningful as it is not comparable to the annual numbers.

(6) Equals profit for a year divided by the average of the beginning and ending total assets for that year and multiplied by 100%. Return on assets for the nine months ended September 30, 2016 is an annualized number (multiplying the amount for the nine months by 365/273) based on profit for the nine months ended September 30, 2016, and hence may not be comparable to the ratio number based on the full-year profit for 2015.

(7) Equals current assets divided by current liabilities as at the respective financial period-end date.

(8) Equals current assets less inventories and divided by current liabilities as at the respective financial period-end date.

(9) Equals total liabilities divided by total assets as at the respective financial period-end date.

Since we only consolidated the last quarter's financial results of the Predecessor Entities in the year ended December 31, 2014 and we had no significant operations before September 30, 2014, our return on equity and return on assets ratios between the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 are not directly comparable.

Our current ratio increased from 0.9x as of December 31, 2014 to 1.4x as of December 31, 2015. Our quick ratio increased from 0.9x as of December 31, 2014 to 1.4x as of December 31, 2015. Our debt ratio decreased from 17.2% as of December 31, 2014 to 13.3% as of December 31, 2015. These changes were all primarily due to an RMB87.0 million increase in amounts due from related parties in respect of management service fees from Yangsi Hospital and an RMB52.7 million decrease in amounts due to related parties, offset in part by an RMB81.2 million decrease in available-for-sale financial assets.

Our current ratio increased from 1.4x as of December 31, 2015 to 3.1x as of September 30, 2016. Our quick ratio increased from 1.4x as of December 31, 2015 to 3.0x as of September 30, 2016. Our debt ratio decreased from 13.3% as of December 31, 2015 to 8.5% as of September 30, 2016. These changes were all primarily due to an RMB71.9 million increase in net current assets as of September 30, 2016 compared to December 31, 2015. This increase was primarily because we recognized RMB93.3 million in management service fees from Yangsi Hospital and received RMB31.2 million in consideration for our ordinary shares issued to Midpoint Honour in the nine months ended September 30, 2016.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any material off-balance sheet transactions.

FINANCIAL RISK DISCLOSURE

We are exposed to various types of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Market Risk

We conduct our business inside China, where we derive our revenue. The functional currency for all of our operating subsidiaries is RMB. As a result, we believe that the foreign exchange risk to our financial performance is low.

We are not exposed to significant commodity price risk. The wealth management products we held during the Track Record Period were classified as available-for-sale financial assets. In view of the short maturity and relative stable prices of those wealth management products, we assess our price risk to be low.

Borrowings obtained at variable rates would expose us to cash flow interest rate risk, which may be offset in part by cash and wealth management products held at variable rates. Borrowings obtained at fixed rates would expose us to fair value interest rate risk. We are not exposed to significant interest rate risk as we have no borrowings.

Credit Risk

We are exposed to credit risk mainly in relation to our short-term deposits; bank balance; amounts due from Yangsi Hospital, a related party; and trade and other receivables. Our maximum exposure to credit risk is represented by the carrying amounts of our financial assets in our 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 financial institutions in China. We provide hospital management services to Yangsi Hospital, and Yangsi Hospital was our largest customer during the Track Record Period. Management service fees from Yangsi Hospital accounted for approximately 76%, 83% and 81% of our revenue in the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively. The settlement of management fees from Yangsi Hospital may take three to six months. We make periodic collective and individual assessments on the recoverability of trade and other receivables, including management fees, based on our historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of trade and other receivables. We make individual assessments on the recoverability of amounts due from related parties based on our historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of amounts due from related parties.

Liquidity Risk

We are exposed to liquidity risk. We aim to maintain sufficient cash and cash equivalents to meet our operating capital requirements. The following table sets forth the maturity profile (based on the remaining period from the balance sheet date to the contractual maturity date) of our financial liabilities, presented in the form of contractual undiscounted cash flows, as of the dates indicated:

	As of December 31,		As of September 30, 2016
	2014	2015	
	RMB ('000)	RMB ('000)	RMB ('000)
Less than 1 year	159,908	110,031	46,094
Between 1 and 2 years	—	—	—
Between 2 and 5 years	—	—	—
After 5 years	—	—	—
Total	159,908	110,031	46,094

Capital Risk Management

Our primary objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns to the shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. We actively and regularly review and manage our capital structure to maintain a balance between the higher equity shareholders' returns that might be possible with higher levels of borrowings and the advantage and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. We monitor our capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. Our liability-to-asset ratio was approximately 17% as of December 31, 2014, 13% as of December 31, 2015 and 8% as of September 30, 2016. There were no changes in our approach to capital management during the Track Record Period. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

DIVIDEND POLICY

As a Cayman Islands company, any dividend recommendation will be at the absolute discretion of our Directors. We may declare dividends after taking into account our results of operations and earnings, our capital requirements and surplus, our general financial condition, contractual restrictions, and other factors as our Directors may deem relevant at such time.

Chinese laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS. Some of our subsidiaries in China that are foreign-invested enterprises set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant Chinese laws and the provisions of their respective articles of association. These portions of our subsidiaries' net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into. Since we rely on our Chinese subsidiaries' dividends as the source of funds to pay dividends, these restrictions may limit or completely prevent us from paying dividends.

Any declaration and payment, as well as the amount of dividends, will be subject to our Articles of Association and the Cayman Companies Law. Our Shareholders in general meetings may approve and make any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend may be declared or paid except out of our profits or reserves set aside from profits in our Directors' discretion. Dividends may also be declared and paid out of our share premium account in accordance with the Cayman Companies Law and our Articles of Association, provided that no dividend may be paid out of our share premium account unless we will be able to pay our debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be paid.

We declared no dividends to our shareholders in the period from February 21, 2014 to December 31, 2014 or in the year ended December 31, 2015. Our subsidiary, Weikang Investment, declared an RMB31.9 million dividend on September 12, 2016, out of which RMB6.4 million was declared to be distributed to its minority shareholders. The dividend payable to Weikang Investment's minority shareholders amounting to RMB6.4 million had been recognized as our liability as of September 30, 2016, and was paid in February 2017. Our subsidiary, Honghe Ruixin, declared an RMB38.3 million dividend on November 25, 2016, out of which RMB7.7 million was declared to be distributed to its minority shareholders. The dividend payable to Honghe Ruixin's minority shareholders was paid in January 2017. Subject to the limitations described above, as a dividend policy, our Directors expect to pay dividends from time to time in an aggregate amount of approximately 30% of profits attributable to owners of our Company. Any future declaration of dividends may or may not reflect our prior declarations of dividends.

LISTING EXPENSES

We incurred approximately RMB28.8 million of listing expenses during the Track Record Period, among which approximately RMB8.9 million was recorded as prepayments and approximately RMB19.9 million was recorded as expenses. We expect to incur approximately an additional RMB40.1 million of listing expenses (including underwriting commission) after the Track Record Period, of which approximately RMB0.7 million and RMB22.3 million will be capitalized and approximately RMB2.0 million and RMB15.1 million will be recognized as expenses in the fourth quarter of 2016 and in the first quarter of 2017, respectively. Our estimated listing expenses recorded in our consolidated statements of comprehensive income for 2016 will be approximately RMB16.9 million.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is a pro forma presentation of the unaudited adjusted consolidated net tangible assets, which has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Global Offering as if it had taken place on September 30, 2016 and based on the consolidated net tangible assets attributable to the owners of the Company as at September 30, 2016 as shown in the Accountant's Report, the text of which is set out in Appendix IA to this prospectus, and adjusted as described below.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at September 30, 2016 or any future date.

	Audited consolidated net tangible assets attributable to the owners of the Company as at September 30, 2016[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB ('000)	RMB ('000)	RMB ('000)	RMB	HK$[(5)]
Based on the Offer Price of HK$12.80 per Share	83,695	329,224	412,919	3.10	3.51
Based on the Offer Price of HK$15.00 per Share	83,695	393,915	477,610	3.59	4.07

Notes:

1. The audited consolidated net tangible assets attributable to the owners of the Company as of September 30, 2016 is extracted from "Appendix IA—Accountant's Report of the Group" to this prospectus, which is based on the audited consolidated equity attributable to the owners of the Company as of September 30, 2016 of RMB1,141.7 million less intangible assets attributable to the owners of the Company as of September 30, 2016 of RMB1,058.0 million.

2. The estimated net proceeds from the Global Offering are based on an estimated Offer Price of HK$12.80 or HK$15.00 per Share, being the low end to high end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by our Group, as adjusted by the amount of about RMB5.0 million and RMB14.9 million which were incurred in the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively, and do not take account of any Shares which may be issued pursuant to the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 133,194,000 Shares are in issue, assuming the Global Offering had been completed on September 30, 2016 but do not take account of any Shares which may be issued upon the exercise of the Over-allotment Option.

4. No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to September 30, 2016, including the amendments to the Subscription Agreement dated December 4, 2016 and January 23, 2017 which reclassified the proceeds from the Management Subscribers of RMB31,152,000 from equity to financial liability. Had the amendment to the Subscription Agreement been taken into account for, the unaudited pro forma adjusted consolidated net tangible asset value per Share would be decreased.

5. For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK$1.00 to RMB0.8822. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2016

We have prepared the following profit estimate for the year ended December 31, 2016.

For the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2016, our unaudited pro forma estimated earnings per Share for the year ended December 31, 2016 has been prepared based on of the notes set out below. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial results for the year ended December 31, 2016 or for any future period.

Estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2016(1)(3)	Not less than RMB19.3 million (approximately HK$21.9 million)
Unaudited pro forma estimated earnings per Share for the year ended December 31, 2016(2)(3)	Not less than RMB0.15 (approximately HK$0.17)

Notes:

(1) The bases on which the above profit estimate has been prepared are summarized in Part A of Appendix IIB to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2016 based on the audited consolidated results of our Group for the nine months ended September 30, 2016, the unaudited consolidated results based on management accounts of our Group for the two months ended November 30, 2016 and an estimate of the consolidated results of our Group for the month ended December 31, 2016. The profit estimate has been prepared on a basis consistent in all material respects with accounting policies as presently adopted and as set out in Note 2 of Section II of the Accountant's Report of the Group, the text of which is set out in Appendix IA to this prospectus.

(2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit for the year ended December 31, 2016 attributable to owners of the Company by the weighted average number of 132,577,770 Shares that had been assumed in issue for the year ended December 31, 2016, assuming that a total of 33,334,000 Shares under the Global Offering and Shares under the Capitalization Issue had been in issue as at January 1, 2016. The calculation of the estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The estimated consolidated profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share are converted into Hong Kong dollars at the exchange rate of HK$1.00 to RMB0.8822. No presentation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure required under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this prospectus, except as disclosed above, there has been no material adverse change in our financial or trading position or prospects since September 30, 2016, and there is no event since September 30, 2016 that would materially and adversely affect the audited financial information in the sections headed "Appendix IA—Accountant's Report of the Group" and "Appendix IB—Accountant's Report of the Financial Information of Weikang Investment" to this prospectus.

GENERAL

The following table sets forth certain information concerning our Directors and members of our senior management:

Name	Age	Position/Title	Role and Responsibility	Date of Appointment as Director	Date of Joining our Group
Executive Directors					
Mr. Zhang Xiaopeng	55	executive Director and chief executive officer	being responsible for overall business operation and strategic planning of our Group as well as overseeing investment, supervising public affairs management, resources development and logistics management of our Group	February 21, 2014	February 2014
Mr. Lu Wenzuo	71	executive Director	being responsible for overall hospital operation and management of Yangsi Hospital	December 16, 2015	December 2003
Non-Executive Directors					
Mr. Zhao John Huan	54	Chairman, non-executive Director, chairman of the Nomination Committee of the Board	being responsible for overseeing the corporate development and strategic planning of our Group	February 21, 2014	February 2014
Mr. Yuan Bing	48	non-executive Director, member of the Audit Committee of the Board	being responsible for overseeing the corporate development and strategic planning of our Group	December 16, 2015	December 2015

Name	Age	Position/Title	Role and Responsibility	Date of Appointment as Director	Date of Joining our Group
Mr. Lin Sheng	42	non-executive Director, member of the Remuneration Committee of the Board	being responsible for overseeing the corporate development and strategic planning of our Group and supervising overall business and operations of our Group	February 21, 2014	February 2014
Mr. Lin Tun	42	non-executive Director	being responsible for overseeing the corporate development and strategic planning of our Group	June 30, 2015	June 2015
Independent Non-Executive Directors					
Ms. Chen Xiaohong	65	independent non-executive Director, chairman of the Remuneration Committee and member of the Nomination Committee of the Board	being responsible for providing independent opinion and judgment to the Board	December 13, 2016	December 2016
Mr. Shi Luwen	53	independent non-executive Director, member of the Audit Committee and Nomination Committee of the Board	being responsible for providing independent opinion and judgment to the Board	December 13, 2016	December 2016

Name	Age	Position/Title	Role and Responsibility	Date of Appointment as Director	Date of Joining our Group
Mr. Zhou Xiangliang	36	independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee of the Board	being responsible for providing independent opinion and judgment to the Board	December 13, 2016	December 2016

Senior Management

Name	Age	Position/Title	Role and Responsibility	Date of Appointment	Date of Joining our Group
Mr. Yang Wen	53	deputy general manager of Weikang Investment, chief medical service officer of Weikang Investment	being responsible for overseeing medical education and training activities of the Hospitals and the upgrading and maintenance of medical facilities and infrastructure of the Hospitals as well as overseeing quality control of medical services of the Hospitals	September 2014 (deputy general manager of Weikang Investment), August 2016 (chief medical service officer of Weikang Investment)	May 2005
Ms. Le Meifen	56	deputy general manager of Weikang Investment	being responsible for supervising general administrative affairs and human resources and nursing services of the Hospitals	April 2008	August 2003

Name	Age	Position/Title	Role and Responsibility	Date of Appointment	Date of Joining our Group
Ms. Yuchi Min	63	deputy general manager of Weikang Investment	being responsible for supervising research and development of the Hospitals and overseeing the clinical education of the Hospitals	April 2008	March 2004
Mr. Zang Chuanbo	45	deputy general manager of our Company	being responsible for overseeing medical management of our Group and assisting the chief executive officer	February 2016	March 2014
Ms. Pang Jiayi	63	financial director of Weikang Investment	being responsible for supervising corporate financing of the Hospitals	January 2004	January 2004
Ms. Ding Yue	44	chief nursing officer of our Company	being responsible for supervising the healthcare quality management of our Company	March 2014	March 2014

Name	Age	Position/Title	Role and Responsibility	Date of Appointment	Date of Joining our Group
Ms. Xia Yuanqing[Note 1]	48	deputy general manager of our Company	being responsible for overseeing investment, supervising public affairs management, resources development and logistics management of our Group and assisting the chief executive officer	October 2015	October 2015
Mr. Zou Bingchuan[Note 2]	54	chief medical service officer of Weikang Investment	being responsible for overseeing quality control of medical services of the Hospitals	July 2008	July 2008

Notes:

(1) Ms. Xia ceased to be a member of the senior management team of our Company for personal reasons from August 2016.

(2) Mr. Zou ceased to be a member of the senior management team of our Company for personal reasons from August 2016.

DIRECTORS

The Board currently consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

Executive Directors

Mr. Zhang Xiaopeng (張曉鵬), aged 55, is the executive Director and chief executive officer of our Company and was appointed as a Director on February 21, 2014. Mr. Zhang is primarily responsible for overall business operation and strategic planning of our Group and is also responsible for overseeing investment, supervising public affairs management, resources development and logistics management of our Group.

In November 2013, Mr. Zhang served as the vice hospital administrator, the chief physician and professor at Beijing Cancer Hospital (北京大學腫瘤醫院), a Class IIIA special hospital located in Beijing, from August 2000 to October 2013. Prior to the work at Beijing Cancer Hospital, Mr. Zhang worked at the First Hospital of China Medical University (中國醫科大學附屬第一醫院), a Class IIIA general hospital providing comprehensive medical services located in Shenyang, Liaoning Province, from July 1987 to July 2000, and served as the chief physician and professor from September 1999 to July 2000.

Mr. Zhang is the first chairman of committee of the Chinese Society to Oncoradiology of the Chinese Anti-cancer Association (中國抗癌協會腫瘤影像專業委員會) from November 2004 to September 2014, and was a member of the standing committee of Chinese Society of Radiology (中華醫學會放射學分會) from October 2008 to October 2014, vice chairman of committee of Beijing Society of Radiology (北京醫學會放射學分會) from April 2010 to April 2013, and chairman of committee of Beijing Society to Oncoradiology of the Chinese Anti-cancer Association (北京抗癌協會腫瘤影像專業委員會) from January 2010 to January 2013.

Mr. Zhang obtained a Doctoral degree in Surgery in July 1996, a Master's degree in Medicine in July 1987 and a Bachelor's degree in Medicine in December 1982 from China Medical University (中國醫科大學) in China.

Mr. Lu Wenzuo (陸文佐), aged 71, is an executive Director of our Company and was appointed as a Director on December 16, 2015. Mr. Lu is responsible for overall hospital operation and management of Yangsi Hospital. He joined our Group in December 2003. He currently serves as a director of Weikang Investment and also held the position as the hospital administrator of Yangsi Hospital upon its establishment. As the hospital administrator of Yangsi Hospital, Mr. Lu is primarily responsible for overall management and operations of Yangsi Hospital. Mr. Lu has significant decision-making authority in administrative matters in Yangsi Hospital, including the decision-making authority in daily operations, hiring and promotion of personnel and remuneration. Mr. Lu is also responsible for the implementation of plans and financial auditing of Yangsi Hospital. Furthermore, Mr. Lu is also responsible for overseeing and executing the tasks formulated by the Chinese government and the Group.

Mr. Lu has more than 33 years of experience in hospital management. Prior to joining our Group, he worked as the deputy hospital administrator for the First People's Hospital of Nantong (南通市第一人民醫院), a Class IIIA general hospital located in Nantong, Jiangsu Province, from July 1983 to March 1987. He joined Shanghai Punan Hospital (上海浦南醫院), a Class II general hospital located in Shanghai, in April 1987 and served as the deputy hospital administrator from January 1992 to December 2003.

Mr. Lu graduated from Shanghai Medical College (復旦大學上海醫學院) (previously known as Shanghai First Medical College (上海第一醫學院)) in China in August 1969 and majored in Medicine. Mr. Lu received the qualification of chief physician (主任醫師) from the Medical Technical Worker Advanced Qualifications Review Committee of Shanghai (上海衛生技術人員高級職稱評審委員會) in December 1996. He was awarded as one of the Top Ten Outstanding Administrators in Shanghai by Shanghai Association for Non-government Medical Institutions (上海市社會醫療機構協會) in November 2013.

Non-executive Directors

Mr. Zhao John Huan (趙令歡), aged 54, is the Chairman and non-executive Director of our Company and was appointed as a Director on February 21, 2014. Mr. Zhao is responsible for overseeing the corporate development and strategic planning of our Group. He is currently the chairman and chief executive officer of Hony Capital.

Mr. Zhao has extensive experience in senior management positions at several companies in the United States and PRC. Prior to joining our Group, he was the advisor to the chief executive officer of Lenovo Group Limited from 2002 to 2003. From January 2003 to December 2009, Mr. Zhao served as a vice president, and from January 2010 to May 2010, a senior vice president of Legend Holdings Limited (聯想控股有限公司). From May 2010 to December 2011, he served as a director and a senior vice president of Legend Holdings Limited, and from January 2012 to present, a director and an executive vice president of Legend Holdings Limited (now known as Legend Holdings Corporation).

Mr. Zhao is currently a non-executive director of Lenovo Group Limited (Stock Code: 0992), the chairman of the board of China Glass Holdings Limited (Stock Code: 3300), a director and an executive vice president of Legend Holdings Corporation (Stock Code: 3396), a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (Stock Code: 1157) and an executive director, the chairman of the board and the chief executive officer of Best Food Holding Company Limited (Stock Code: 1488), which are listed on the Hong Kong Stock Exchange, and a deputy chairman of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) (Stock Code: 600649), a company listed on the Shanghai Stock Exchange, and a director of Shanghai Jin Jiang International Hotels Development Co., Ltd. (上海錦江國際酒店發展股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600754 (A shares) and 900934 (B shares)). He once served as a director of Wumart Stores, Inc., a company listed on the Main Board of Hong Kong Stock Exchange (Stock Code: 1025) prior to December 2015 (listed on the GEM Board of the Hong Kong Stock Exchange prior to May 2011 (Stock Code: 8277)) from November 2009 to June 2014, a director of Fiat Industrial S.p.A., a company listed on MTA Italian Stock Exchange from January 2011 to September 2013, a non-executive director of New China Life Insurance Company Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 1336) from November 2012 to March 2015, a non-executive director of Chinasoft International Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 0354) from July 2011 to April 2015, an executive director of CSPC Pharmaceutical Group Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1093), from December 2008 to May 2015, and a director of Jiangsu Phoenix Publishing & Media Corporation Limited (江蘇鳳凰出版傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601928), from June 2009 to June 2012.

Mr. Zhao obtained his Bachelor's degree in Science from Nanjing University (南京大學) in China in July 1984 and dual Master's degrees of Science from Northern Illinois University in the United States in May 1990 and a Master of Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in June 1996.

Mr. Yuan Bing (袁兵), aged 48, is a non-executive Director of our Company and was appointed as a Director on December 16, 2015. He is primarily responsible for overseeing the corporate development and strategic planning of our Group. Mr. Yuan has more than 13 years of experience in the investment banking industry and has extensive knowledge in corporate financing, listing and mergers and acquisitions transactions. Mr. Yuan joined Hony Capital in April 2009 and has served as the managing director of the investment department of its Hong Kong office since January 2010. Currently, he is also a director of Top Amuse Holding Limited and a non-executive and non-independent director and a member of the audit and the risk management committees of Biosensors International Group, Ltd., a company listed on the Singapore Stock Exchange. He is also a non-executive director and a member of the audit committee of Hydoo International Holdings Limited (Stock Code: 1396) and a non-executive director and the chairman of the risk management and corporate governance committee of Haichang Holdings Ltd. (Stock Code: 2255), which are both listed on the Hong Kong Stock Exchange. Prior to joining Hony Capital, Mr. Yuan served as the managing director of the fixed income division of Morgan Stanley Asia Limited from October 2006 to 2009. Before that, Mr. Yuan served as the managing director of the PRC enterprises corporate financing department of Morgan Stanley Asia Limited from April 2004 to 2006. Mr. Yuan also served as the vice president of Credit Suisse First Boston (Hong Kong) Limited from September 2001 to March 2004.

Mr. Yuan received a Bachelor of Arts degree in English from Nanjing University in China in July 1990. He also obtained a Master's degree in International Relations in June 1993 and a Juris Doctorate's Degree in October 1998 from Yale University in the United States.

Mr. Lin Sheng (林盛), aged 42, is a non-executive Director of our Company and was appointed as a Director on February 21, 2014. Mr. Lin is responsible for overseeing the corporate development and strategic planning of our Group and supervising overall business and operations of our Group. He joined Hony Capital in April 2003 and was mainly responsible for pharmaceutical services and medical devices, medical services, media, telecommunications and technology industry research and investment. Mr. Lin has extensive experience in business operation, product marketing and management and has extensive expertise in information technology.

From July 29, 2011 to April 27, 2015, Mr. Lin had been a non-executive director of Chinasoft International Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 0354).

Mr. Lin obtained a Master's degree in Technical Economy and Management in July 1999, and a dual Bachelor's degree in Engineering Physics and Business Administration from Tsinghua University (清華大學) in China in July 1997.

Mr. Lin Tun (林暾), aged 42, is a non-executive Director of our Company and was appointed as a Director on June 30, 2015. Mr. Lin is primarily responsible for overseeing the corporate development and strategic planning of our Group. He joined our Group in June 2015.

Mr. Lin has extensive experience in strategy research, market analysis and investment. Prior to joining our Group, he worked as the executive general manager of the research department for China International Capital Corporation Hong Kong Securities Limited from October 2010 to June 2013. He also served as a natural resources economist for the Asian Development Bank (亞洲開發銀行) from June 2005 to September 2010.

Mr. Lin obtained a Doctoral degree in Philosophy and a Master's degree in Philosophy in October 2005 from the University of Cambridge in England, a Master's degree in Science from the University of Vermont in the United States in May 1999, and a Bachelor's degree in International Business and Trade from Renmin University of China (中國人民大學) in China in July 1997.

Independent non-executive Directors

Ms. Chen Xiaohong (陳曉紅), aged 65, was appointed as an independent non-executive Director of our Company on December 13, 2016 with effect from the Listing Date. Ms. Chen served as the vice hospital administrator of Chinese People's Liberation Army General Hospital (中國人民解放軍總醫院) from December 2003 to December 2009. She was accredited with the title of chief physician by the Department of Cadres of the Chinese People's Liberation Army General Hospital's Political Division in September 1999.

Ms. Chen currently holds positions in the following organizations:

Name of organization/project	Position	Time of commencement
Branch of Chinese Hospital Association Maternity Hospital Management (中國醫院協會婦產醫院管理分會)	honorary chairwoman	November 2015
Guangdong Medical Safety Association (廣東省醫療安全協會)	consultant	September 2015
Construction of modern hospital management system - enhancement project of maternity hospital management quality (現代醫院管理制度建設—婦產醫院管理質量提升項目)	project specialist	October 2014
Nursing Management Professional Commission of Chinese Hospital Association (中國醫院協會護理管理專業委員會)	honorary chairwoman	April 2011
Out-patient Emergency Management Professional Commission of Chinese Hospital Association (中國醫院協會門急診管理專業委員會)	honorary chairwoman	2012

Ms. Chen graduated from the People's Liberation Army Second Military Medical University in China (中國人民解放軍第二軍醫大學) majoring in Military Health Management through distance learning with correspondence courses, received her college diploma through the self-taught higher education examination (高等教育自學考試) and obtained a graduation certificate in Psychology from the Peking University in China in December 2000. She served as the chief physician of the Health Department of People's Liberation Army General Logistics Department in May 1999.

Mr. Shi Luwen (史錄文), aged 53, was appointed as an independent non-executive Director of our Company on December 13, 2016 with effect from the Listing Date. Mr. Shi has served as the dean of the Department of Pharmacy Administration and Clinical Pharmacy of Peking University School of Pharmaceutical Sciences (北京大學藥學院) since 2000 and as the director of the International Research Center for Medical Administration of Peking University (北京大學醫藥管理國際研究中心) since 2002.

Mr. Shi currently holds positions in various organizations, including those set out below:

Name of organization/project	Position	Time of commencement
China Pharmaceutical Innovation and Research Development Association Medicine Policy Professional Committee (中國醫藥創新促進會醫藥政策專業委員會)	chairman	2015
Chinese Hospital Association Expert Committee of Clinical Pharmacists Practice 中國醫院協會臨床藥師工作專家委員會	committee member	2014
China Nonprescription Medicines Association Expert Committee (中國非處方藥物協會專家委員會)	committee member	2014
Pharmacy Administration Professional Commission of Beijing Association of Chinese Medicine (北京中醫藥協會藥事管理專業委員會)	vice chairman	2012

In addition, Mr. Shi had held positions in various organizations, including those set out below:

Name of organization/project	Position	Period of time
Medical and Health System Reform Intensifying Expert Advisory Panel of the Ministry of Health of the PRC (中國衛生部深化醫藥衛生體制改革專家諮詢組)	expert	2010-2012
Basic Medical Insurance System for Urban Resident Joint Conference of the State Council (國務院城鎮居民基本醫療保險部聯席會議)	pilot evaluation expert	2007-2010

Mr. Shi has been an independent non-executive director of China Meheco Co., Ltd. (中國醫藥健康產業股份有限公司, a company listed on the Shanghai Stock Exchange, Stock Code: 600056) since December 2015.

Mr. Shi was awarded the Scientific Chinese Person (2011) (科學中國人(2011)年度人物) by Scientific Chinese Magazine in 2012, the Hospital Science and Technology Innovation Award (醫院科技創新獎) by the Chinese Hospital Association in 2011 and the Xue Muqiao Price Research Award (薛暮橋價格研究獎) by the Price Association of China (中國價格協會) in 2010. He was awarded the Beijing Science and Technology Award (北京市科學技術獎) by the People's Government of Beijing Municipality in 2002.

Mr. Shi obtained his Bachelor's degree in Science from Peking University Health Science Center (北京大學醫學部) (formerly known as Peking Medical University in China (中國北京醫科大學)) in July 1987 and his Master's degree in Health Professions Education from the University of Illinois in the United States in July 1992.

Mr. Zhou Xiangliang (周向亮), aged 36, was appointed as an independent non-executive Director of our Company on December 13, 2016 with effect from the Listing Date. Mr. Zhou has served in Beijing Science Technology Co., Ltd. (北京中環信科科技股份有限公司) as the chief financial officer since July 2010 and has also held the position of board secretary since August 2011. Prior to working in Beijing Scienco Technology Co., Ltd., Mr. Zhou worked as a consultant in KPMG Huazhen LLP.

Mr. Zhou obtained his Bachelor's degree in Management from the Central University of Finance and Economics (中央財經大學) in China in June 2003. He was qualified as a Chinese Certified Public Accountant (中國註冊會計師) by Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in July 2007 and as a board secretary by the Shenzhen Stock Exchange in November 2012.

GENERAL

Save as disclosed above, each of our Directors has confirmed that:

(i) he does not and has not held any other directorships in listed companies during the three years immediately prior to the date of this prospectus;

(ii) there is no other information in respect of our Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and

(iii) there is no other matter that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

Mr. Yang Wen (楊文), aged 53, was appointed as a deputy general manager and chief medical service officer of Weikang Investment in September 2014 and August 2016, respectively, and is primarily responsible for overseeing medical education and training activities of the Hospitals, the upgrading and maintenance of medical facilities and infrastructure of the Hospitals and overseeing quality control of medical services of the Hospitals. He joined our Group in May 2005 and has worked for over 11 years in Weikang Investment. He served as the head of the department of respiratory medicine from 2005 to 2014 and has served as the head of the department of internal medicine since 2010 and has been in charge of overseeing the organization of educational activities of the Group since March 2010. Apart from his position in Weikang Investment, Mr. Yang, in the capacity of the deputy hospital administrator of Yangsi Hospital, is also responsible for business and infrastructure work, medical dispute resolutions and regular inspection of service performance of Yangsi Hospital.

Mr. Yang obtained a Bachelor's degree in Medicine from Wannan Medical College in China in July 1986. He was accredited with the title of chief physician (主任醫師) by the Medical Technical Worker Advanced Qualifications Review Committee of Anhui Province (安徽省衛生技術高級職務評審委員會) in December 2005.

Ms. Le Meifen (樂美芬), aged 56, was appointed as a deputy general manager of Weikang Investment in April 2008 and is primarily responsible for supervising general administrative affairs and human resources and nursing services of the Hospitals. She joined our Group in August 2003 and has worked for 12 years in Weikang Investment where she served as the director of the human resources and administration department. Apart from her position in Weikang Investment, Ms. Le, in the capacity of the deputy hospital administrator of Yangsi Hospital, is also responsible for assisting hospital administrator in general administrative work and internal coordination of Yangsi Hospital.

Ms. Le received her graduation certificate through the self-taught higher education examination from the School of Nursing of Fudan University (復旦大學護理學院), majoring in Nursing, in China in December 2004. She was accredited with the title of associate chief nurse by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組) in December 2004.

Ms. Yuchi Min (尉遲敏), aged 63, was appointed as a deputy general manager of Weikang Investment in April 2008 and is primarily responsible for supervising research and development of the Hospitals and overseeing the clinical education of the Hospitals. She joined our Group in March 2004 and has worked for 12 years in Weikang Investment where she currently serves as the head of the departments of gastroenterology and endoscope. Apart from her position in Weikang Investment, Ms. Yuchi, in the capacity of the deputy hospital administrator of Yangsi Hospital, is responsible for design of devising scientific research plans and clinical research.

Ms. Yuchi obtained a Bachelor's degree in Medicine from Wannan Medical College in China in August 1982. She was accredited with the title of chief physician by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組) in November 1999.

Mr. Zang Chuanbo (臧傳波), aged 45, was appointed as a deputy general manager of our Company in February 2016. He is primarily responsible for overseeing medical management of our Group and assisting the chief executive officer. Mr. Zang has more than 22 years of experience in the medical industry. He joined our Group in March 2014 and has served as the chief medical officer since then. Prior to joining our Group, Mr. Zang served as the deputy chief of medical division from August 2007, deputy chief of cadres division from July 2008, and chief of postgraduate and training division from July 2010 at the Chinese People's Liberation Army General Hospital in Beijing, a Class IIIA general hospital and as the deputy director of the medical department of the Chinese People's Liberation Army General Hospital Hainan Branch from July 2011. Mr. Zang also worked as a doctor in the department of general surgery of the Chinese People's Liberation Army General Hospital, from July 1994 to August 2007.

Mr. Zang obtained an EMBA degree in June 2013 from Nankai University (南開大學) in China, a Master's degree in General Surgery in July 2000 from the Military Medical School of People's Liberation Army of China (中國人民解放軍軍醫進修學院) in China and a Bachelor's degree in Clinical Medicine in July 1994 from Xi'an Jiaotong University Health Science Centre (西安交通大學醫學部) (previously known as Xi'an Medical University (西安醫科大學)) in China.

Ms. Pang Jiayi (龐家漪), aged 63, was appointed as the financial director of Weikang Investment when she joined our Group in January 2004 and is primarily responsible for supervising corporate financing of the Hospitals. Ms. Pang also is the chief financial officer of Yangsi Hospital responsible for business development and financial budgeting and cost control. From January 1982 to December 2003, she worked for Shanghai Punan Hospital, a Class II hospital in Shanghai, and had served as the deputy chief of the financial department from April 1988, the chief of the financial department from July 1992 and the deputy director of the economic management department from April 2001.

Ms. Pang received a college diploma in Financial Accounting from Shanghai Jingan District College (上海市靜安區業餘大學) in China in January 1990. She was accredited with the title of accountant in July 1992 by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組).

Ms. Ding Yue (丁玥), aged 44, was appointed as the chief nursing officer (護理總監) of our Company in March 2014. She is primarily responsible for supervising the healthcare quality management of our Company. She joined our Group in March 2014. Prior to joining our Group, Ms. Ding served as nursing supervisor (護理主管) of the hospital management office in Peking University Health Science Center (北京大學醫學部醫院管理處) from July 2012 to February 2014. From August 1996 to June 2012, Ms. Ding worked at Beijing Cancer Hospital as the head of the nursing department and the deputy head of the nursing department.

Ms. Ding obtained her Bachelor's degree in Medicine in July 1996 from the School of Nursing of Peking University in China.

None of our senior management members held any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

RESIGNED SENIOR MANAGEMENT

Ms. Xia Yuanqing (夏遠青), aged 48, was appointed as the deputy general manager of our Company in October 2015 and ceased to be a member of the senior management team of the Company for personal reasons from August 2016. She was primarily responsible for overseeing investment, supervising public affairs management, resources development and logistics management of our Group and assisting the chief executive officer. Ms. Xia has more than 23 years of experience in the medical industry. She joined our Group in October 2015 and has served as the deputy general manager since then. Prior to joining our Group, from September 2012 to October 2015, Ms. Xia served as a senior director in the department of strategic investment in China Resources Healthcare Group Ltd. (華潤醫療集團有限公司), a healthcare investment group. From April 1996 to May 2012, Ms. Xia served as a medical information consultant, a northern area sales manager, a northern area major customer manager and a national major customer manager in Shanghai Roche Pharmaceutical Company Limited (上海羅氏製藥有限公司), a sino-foreign joint pharmaceutical company registered in Shanghai. From July 1993 to April 1996, Ms. Xia worked as a doctor in Beijing Obstetrics and Gynecology Hospital of Capital Medical University (首都醫科大學附屬北京婦產醫院), a Class IIIA special hospital in Beijing.

Ms. Xia obtained an MBA degree in September 2008 from China Europe International Business School (中歐國際工商學院) in China and a Bachelor's degree in Clinical Medicine in July 1993 from Guizhou Medical University (貴州醫科大學) (previously known as Guiyang Medical Collage (貴陽醫學院)) in China.

Mr. Zou Bingchuan (鄒冰川), aged 54, was appointed as the chief medical service officer of Weikang Investment in July 2008 and ceased to be a member of the senior management team of the Company from August 2016 in order to pursue other career opportunities. He was primarily responsible for overseeing quality control of medical services of the Hospitals. He had held the position since he joined our Group.

Mr. Zou obtained a Bachelor's degree in Medicine from Jiangxi Medical College of Nanchang University (南昌大學江西醫學院) (previously known as Jiangxi Medical College (江西醫學院)) in China in July 1985. He was accredited with the title of chief physician by Jiangxi Province Qualifications Affairs Office (江西省職稱工作辦公室) in March 2004.

Our Directors confirmed that to the best of their knowledge and information available to them, Ms. Xia Yuanqing and Mr. Zou Bingchuan resigned as senior management due to their respective personal reasons and there is no disagreement or any matter which needs to be drawn to the attention of the Stock Exchange in respect of their resignations from senior management.

Our Directors are of the view that the departure of Ms. Xia and Mr. Zou has no material impact on the Company's ability to meet the management continuity requirement under Rule 8.05(1)(b) of the Listing Rules on the following grounds:

(i) our daily operation was managed and supervised collectively by our core management team, which comprises of our two executive Directors and the senior management as set out above (the "**Core Management Team**"). The Core Management Team has been led and supervised by Mr. Lu Wenzuo, our executive Director and the hospital administrator of Yangsi Hospital, who joined our Group in December 2003, and Mr. Zhang Xiaopeng, our executive Director and chief executive officer, who joined our Group in February 2014. The departure of Ms. Xia and Mr. Zou has no material impact on the functionalities of the Core Management Team as a whole.

(ii) Ms. Xia joined our Group in October 2015 and her roles and duties have been assumed by Mr. Zhang Xiaopeng and Mr. Zou's roles and duties have been assumed by Mr. Yang Wen, and both Mr. Zhang Xiaopeng and Mr. Yang Wen are existing members of the Core Management Team.

(iii) Mr. Zhang Xiaopeng and Mr. Yang Wen have sufficient knowledge, experience and capacity to take over the roles and responsibilities of Ms. Xia and Mr. Zou. Mr. Zhang Xiaopeng is equipped with profound understanding of China's healthcare industry through his extensive experience in the overall operations of distinguished Class III hospitals in China. Since joining our Group, Mr. Zhang, with assistance of a working team with relevant investment knowledge, is responsible for strategic planning of our Group, and participates in the evaluation, assessment, risk identification, and decision-making process of investments of our Group. We believe that Mr. Zhang's in-depth knowledge of China's healthcare industry, and his profound familiarity with the management and operations of hospitals in China and the ability to leverage on specialized expertise in China's healthcare industry are essential to the success of our Group's future investments. In addition, an investment decision to acquire any target hospitals will be discussed, reviewed and approved at the board level of our Company. Mr. Yang Wen has been primarily responsible for overseeing medical education and training activities of the Hospitals, and as the deputy hospital administrator of Yangsi Hospital, has also been in charge of regular inspection of service performance of Yangsi Hospital, which enables him to assume Mr. Zou's main responsibilities in overseeing quality control of medical services of the Hospitals. Both Mr. Zhang Xiaopeng and Mr. Yang Wen participate in the daily management and operation of our Group and are able to devote sufficient time and efforts to take more responsibilities, including those roles and duties assumed from Ms. Xia and Mr. Zou, respectively.

(iv) Mr. Zhang Xiaopeng and Mr. Yang Wen perform their respective duties and functions assumed from Ms. Xia and Mr. Zou with support and assistance of the working team, the majority members of which have remained in our Group throughout the Track Record Period and up to the Latest Practicable Date.

(v) Although Ms. Xia and Mr. Zou were members of the Core Management Team during the Track Record Period, after their departure, our current Core Management Team maintained eight members, including two executive Directors, and a majority of our current Core Management Team, namely five out of eight members, have remained in their managerial positions in the Group throughout the Track Record Period and up to the Latest Practicable Date.

Based on the above, the Sole Sponsor concurs with the view of the Directors.

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne (鄺燕萍) was appointed as the company secretary of our Company on May 10, 2016.

Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of SW Corporate Services Group Limited, a company focusing on the provision of listing company secretarial and compliance services. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Kwong received a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University in Hong Kong in November 1997. She has been a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators since December 2012.

BOARD COMMITTEES

We have established the Audit Committee, the Remuneration Committee and the Nomination Committee in our Board of Directors. The committees operate in accordance with their respective terms of reference established by our Board of Directors.

Audit Committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Mr. Zhou Xiangliang (chairman), Mr. Shi Luwen and Mr. Yuan Bing. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group.

Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, namely Ms. Chen Xiaohong (chairman), Mr. Lin Sheng and Mr. Zhou Xiangliang. The primary duties of the Remuneration Committee are to evaluate and make recommendations to our Board on the remuneration policies covering our Directors and senior management of our Group.

Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Zhao John Huan (chairman), Mr. Shi Luwen and Ms. Chen Xiaohong. The primary duties of the Nomination Committee are to review and make proposals with respect to the structure, size and composition of our Board, identify individuals suitably qualified to become Board members and recommend to our Board as to matters relating to appointment or re-appointment of Directors and succession planning of our Board.

DIRECTORS' INTEREST IN HOSPITAL INVESTMENT OF HONY FUND VIII

As at the Latest Practicable Date, each of Mr. Zhang Xiaopeng, Mr. Yuan Bing and Mr. Lin Sheng is a director of Zhejiang Guangsha Medical Technology Co., Ltd (浙江廣廈醫療科技有限公司) ("**Guangsha Medical**"), a hospital investment of Hony Capital Fund VIII (Cayman), L.P. ("**Hony Fund VIII**") in Zhejiang Province. None of them is involved in the day-to-day operation and management of Guangsha Medical or the hospitals managed by it.

Guangsha Medical is held as to 75% by Hony Fund VIII. As of the Latest Practicable Date, Guangsha Medical, as one of the founders of Guangsha Hospitals (as defined below) had paid 80%, 80% and 65% start-up funds in Zhejiang Jinhua Guangfu Oncological Hospital (浙江金華廣福腫瘤醫院) ("**Jinhua Guangfu**"), Dongyang Guangfu Hospital (東陽廣福醫院) ("**Dongyang Guangfu**") and Yongkang Hospital (永康醫院), respectively (collectively, the "**Guangsha Hospitals**"). To the best of the knowledge of our Directors, after this acquisition, Guangsha Hospitals remained under the operation and management by their existing management team. Jinhua Guangfu is constructed and developed as a Class IIIB special hospital and registered as a Privately-funded Non-enterprise Entity providing oncology and cancer treatments, located in Jinhua City of Zhejiang Province. Dongyang Guangfu is constructed and developed as a Class II general hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services, located in Jinhua City, Zhejiang Province. Yongkang Hospital is constructed and developed as a Class IIB general hospital and registered as a public institution providing comprehensive medical services, located in Yongkang City, Zhejiang Province. The aggregate annual unaudited revenue of the Guangsha Hospitals amounted to RMB597 million for the financial year of 2015.

Independent Fund Investment Management

Guangsha Medical and our Group are controlled, operated and managed by two groups of controlling shareholders. Guangsha Medical is held as to 75% by Hony Fund VIII following the aforementioned acquisition, which is an exempted limited partnership formed under the laws of the Cayman Islands and ultimately managed by Hony Capital Fund VIII GP (Cayman) Ltd.. As of the Latest Practicable Date, our Company is held as to 97.14% by Hony Fund V, which is ultimately managed by Hony Capital Fund V GP Limited. Hony Fund VIII and Hony Fund V have different groups of limited partners, and their respective general partners, when making any decision relating to the fund investments, are under fiduciary duties to act for the best interests of their own limited partners.

No Competition between Guangsha Medical and our Group

Our Directors are of the view that Guangsha Medical does not compete, or is not likely to compete, either directly or indirectly, with the businesses of our Group on the following grounds and factors:

(a) *Geographical separation*. The locations of the Guangsha Hospitals are geographically different from that of our Hospitals, and are all situated in Zhejiang Province, whereas our Hospitals are all situated in Shanghai. Due to such geographical separation, the Guangsha Hospitals do not compete with our Hospitals in terms of patients and medical professionals. During the Track Record Period, given that patients generally tend to visit hospitals that are in close proximity to their residence, the patients of Guangsha Hospitals were substantially from Jinhua City and rural areas surrounding Jinhua City, and the medical professionals recruited by the Guangsha Hospitals were primarily residents in those respective local cities.

(b) *Suppliers*. During the Track Record Period, there was no overlap of suppliers of medicines and medical facilities between the Guangsha Hospitals and our Group.

(c) *Business delineation*. There is a clear delineation between our Group and the Guangsha Hospitals for the following reasons:

(i) the Guangsha Hospitals have a core management team, which is comprised of their existing management team, responsible for their day-to-day management, which is separate and independent from our Group;

(ii) the Guangsha Hospitals and our Group have independent financial and technical systems;

(iii) the Guangsha Hospitals and our Group have independent human resources systems with different operational personnel and staff; and

(iv) all essential administrative functions of the Guangsha Hospitals have been and will be carried out independently of our Group.

Enhanced Corporate Governance

Notwithstanding the grounds and factors as described above, our Company will adopt a set of enhanced corporate governance measures to avoid potential conflict of interests between our Company and our Directors and between our Company and our Shareholders and safeguard the interests of our Shareholders as a whole. The detailed enhanced corporate governance measures are set out in the paragraph headed "Relationship with our Controlling Shareholders—Corporate Governance Measures".

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of fees, salaries, bonuses, other allowances and benefits in kind, including our contribution to the pension scheme on their behalf. We determine the salaries of our Directors based on each Director's responsibilities, qualification, position and seniority.

The aggregate amount of remuneration which was paid to our Directors for the years ended December 31, 2013, 2014, 2015 and the nine months ended September 30, 2016 was approximately RMB0.2 million, RMB1.7 million, RMB2.6 million and RMB2.2 million, respectively. It is estimated that remuneration and benefits in kind equivalent to approximately RMB7.0 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2017 under arrangements in force at the date of this prospectus. For further details of our Directors' compensation, please refer to the section headed "Statutory and General Information—C. Further Information About our Directors and Substantial Shareholders—2. Particulars of Service Contracts" in Appendix IV to this prospectus.

The aggregate amount of remuneration which was paid by us to our five highest paid individuals (including both employees and Directors) for the years ended December 31, 2013, 2014, 2015 and the nine months ended September 30, 2016 was approximately RMB0.7 million, RMB3.2 million, RMB4.9 million and RMB3.7 million, respectively.

No remuneration was paid to our Directors or to the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period. Save as disclosed above, the Directors are not entitled to receive any other special benefits from the Company. The compensation of the Directors is determined by the Board which, following Listing, will receive recommendation from the Remuneration Committee which will take into account applicable laws, rules and regulations.

PRE-IPO SHARE APPRECIATION RIGHTS SCHEME

We have adopted the Pre-IPO Share Appreciation Rights Scheme. Please see the section headed "Statutory and General Information—D. Share Appreciation Rights Schemes—1. Pre-IPO Share Appreciation Rights Scheme" in Appendix IV to this prospectus for details of the Pre-IPO Share Appreciation Rights Scheme.

POST-IPO SHARE APPRECIATION RIGHTS SCHEME

We have adopted the Post-IPO Share Appreciation Rights Scheme. Please see the section headed "Statutory and General Information—D. Share Appreciation Rights Schemes—2. Post-IPO Share Appreciation Rights Scheme" in Appendix IV to this prospectus for details of the Post-IPO Share Appreciation Rights Scheme.

EQUITY INCENTIVE TO MR. LU WENZUO

New Pride entered into the service contract with Mr. Lu Wenzuo, pursuant to which, New Pride granted to Mr. Lu Wenzuo (a) certain share awards to acquire up to 3% equity interest in each of Weikang Investment and Honghe Ruixin or receive the cash equivalent; and (b) certain share appreciation rights to receive a cash payment determined based on the appreciation of the notional equity interest in Weikang Investment and Honghe Ruixin. Please see the section headed "Statutory and General Information—E. Service Contract" in Appendix IV to this prospectus.

COMPLIANCE ADVISOR

We have appointed Halcyon Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including Share issues and Share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors consider that, as of the Latest Practicable Date, the Company has fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 to the Listing Rules from the Listing Date.

COMPETENCE OF DIRECTOR AND SENIOR MANAGEMENT

During the Track Record Period, the Company identified certain irregularities in the financial reporting filings of Weikang Investment in 2013 and 2014, which was subsequently rectified.

Although Mr. Lu Wenzuo, as hospital administrator of Yangsi Hospital, has been responsible for the financial auditing of Yangsi Hospital and Ms. Pang Jiayi, as the financial director of Weikang Investment and the chief financial officer of Yangsi Hospital, has supervised corporate financing of Yangsi Hospital, the Company considered that Weikang Investment's financial irregularities have no impact on the competence of Mr. Lu and Ms. Pang to be a Director and/or a member of senior management of our Company for the following reasons:

a) Mr. Lu and Ms. Pang have performed their essential duties through their contributions and involvement in the operations and management of Yangsi Hospital and/or Fuhua Hospital during the Track Record Period and up to the Listing;

b) Mr. Lu and Ms. Pang were not delegated to be in charge of, or involved in the preparation, review and approval of financial accounts of Weikang Investment during the relevant period, and neither of them were involved in the financial reporting affairs of Weikang Investment;

c) under the delegation and authorization of the then board of Weikang Investment, the then financial manager of Weikang Investment was in charge of the overall management over the financial accounts and financial reporting of Weikang Investment and directly reported duties to the then board of Weikang Investment with regards to the financial and tax affairs of Weikang Investment. Ms. Pang did not participate in any part of the internal review and approval in relation to Weikang Investment's financial accounts and financial reporting filings; and

d) neither Mr. Lu nor Ms. Pang participated in the process of preparation, review and approval of the financial accounts of Weikang Investment during the relevant period as a result of the deficiency in internal control of the financial management of Weikang Investment prior to completion of Weikang Acquisition.

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Vanguard Glory and Hony Capital Entities.

As of the Latest Practicable Date, our Controlling Shareholders held 97.14% of our issued share capital. Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), our Controlling Shareholders will be entitled to exercise voting rights of approximately 72.83% of our issued share capital and hence will continue to be our Controlling Shareholders.

The following table sets forth the principal activities and shareholding of each listed company deemed to be interested by Hony Capital Entities as of the Latest Practicable Date:

Name of the listed company	Shareholding percentage	Principal activities
China International Marine Containers (Group) Co., Ltd. (2039.HK)	7.2%	container manufacturing and service business, road transportation vehicle business, energy, chemical and food equipment business, offshore engineering business and airport facilities equipment business.
Haichang Holdings Ltd. (2255.HK)	10.01%	theme park management and related real estate operations
Shanghai Chengtou Holding Co., Ltd. (SHSE:600649)	9.24%	management and disposal of city waste, real estate development as well as private equity investment
Shanghai Jin Jiang International Hotels Development (600754.SH)	12.56%	hotel management services in addition to food and beverage operations
Chongqing New Century Cruise Co Ltd (SZSE: 002558)	6.27%	operating of cruises, provision of travel-related as well as food processing services
Tuniu Corporation (Nasdaq:TOUR)	7.3%	online leisure travel company offering a large selection of packaged tours and travel-related services for leisure travelers through tuniu.com

Save as disclosed in the section headed "Directors and Senior Management—Directors' interest in Hospital Investment of Hony Fund VIII", our Controlling Shareholders and Directors confirm that they do not have any interest in a business which competes with or is likely to compete with our business, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders and their respective associates after the Global Offering.

Management Independence

We carry on our business independently from our Controlling Shareholders from a management perspective. Our Board consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors.

The two Directors, Mr. Zhao John Huan and Mr. Lin Tun, who hold directorship in our Controlling Shareholders, are our non-executive Directors and are not involved in the day-to-day management and operation of our Company. Mr. Zhao John Huan is the chairman of the Nomination Committee of our Board. In addition to attending our Board and the Nomination Committee meetings, Mr. Zhao John Huan is mainly responsible for providing supervision regarding the business and operation of our Group.

The following table sets forth the positions held by our Directors in our Controlling Shareholders and/or its associates:

Name of Director	Position held in our Company	Position held in our Controlling Shareholders and/or their associates
Mr. Zhao John Huan	Chairman, non-executive Director, chairman of the Nomination Committee of the Board	director of Hony Capital Fund V GP Limited
Mr. Lin Tun	non-executive Director	director of Vanguard Glory

Save as disclosed above, none of our Directors holds any position in our Controlling Shareholders or their associates.

Our Board is supported by a team of senior management and the majority of the members of our senior management has been managing our business throughout the Track Record Period. Each of our senior management members possesses relevant management and/or industry-related experience to act as such. Please refer to the section headed "Directors and Senior Management" for details of their management experience. We consider that our Board and senior management will function independently from each of our Controlling Shareholders and that our Company is capable of managing our business independently from our Controlling Shareholders because:

(a) each of our Directors is aware of his or her fiduciary duties as a director which require, among others things, that he or she must act for the benefit of and in the best interests of our Company and our Shareholders as a whole and must not allow any conflict between his or her duties as a Director and his or her personal interests;

(b) each of our independent non-executive Directors has extensive experience in different areas and has been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions;

(c) none of the core management members currently holds any positions in our Controlling Shareholders or their associates;

(d) each of our Directors will not vote in any Board resolution approving any contract or arrangement or any other proposal in which he or she or any of his or her associates has a material interest and shall not be counted in the quorum present at the particular Board meeting; and

(e) we have established an internal control mechanism to identify related party transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions.

Based on the above, our Directors are satisfied that they are able to perform their roles as Directors independently and our business will be managed independently from our Controlling Shareholders after the Listing.

Operational Independence

Our Company has full rights to make all decisions on, and to carry out, our own business operations independently, despite the controlling interest held by our Controlling Shareholders. We have sufficient independent premises, equipment, access to customers and suppliers, employees to operate our business independently from our Controlling Shareholders and their respective associates. We have formed an internal investment department comprised of a team with relevant investment experience, and Mr. Zhang Xiaopeng is responsible for overseeing investment related affairs. This investment department is mainly responsible for identifying potential investment targets, conducting assessment and evaluation over these potential targets and assisting our Board to make decisions on investments. Our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business.

Financial Independence

We have an independent financial system and finance team responsible for our own treasury functions and we have made, and will continue to make, financial decisions based on our own business needs. In addition, we have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations.

As at the date of this prospectus, all outstanding amounts due to our Controlling Shareholders have been fully settled.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

NON-COMPETITION UNDERTAKINGS

In order to ensure that direct and indirect competition does not develop between us and the Controlling Shareholders' other activities, our Controlling Shareholders have entered into a deed of non-competition (the "**Deed of Non-competition**") in favor of our Company. Under the Deed of Non-competition, each of our Controlling Shareholders has undertaken to our Company (for ourselves and for the benefit of our subsidiaries) that other than other interests owned by but not under the control of them and/or their respective associates in a particular company and other business entities from time to time (including companies and other business entities in which the Controlling Shareholders and/or their respective associates hold a stake of not more than 50% and are not involved in their daily operation and management), the Controlling Shareholders, subject to any applicable laws, regulations or Stock Exchange rules, will procure any companies and other business entities (other than the Group) under the control of the Controlling Shareholders and/or their respective associates not to engage in any business with a nature similar to that of our listed business ("**Restricted Business**") in China.

The above undertaking does not preclude the holding by the Controlling Shareholders of interests in any of the companies engaging in any Restricted Business (the "**Subject Company**") where:

(a) the relevant interests held by the Controlling Shareholders or any of its associates is less than 10% of the issued share capital of any company which is listed on any stock exchange; or

(b) any Restricted Business conducted or engaged in by the Subject Company (and assets relating thereto) accounts for less than 10% of the Subject Company's consolidated turnover or consolidated assets, as shown in its latest audited accounts.

If any business opportunity which is the same or similar to our business that may constitute direct or indirect competition with our Group ("**Business Opportunity**") is identified by the Controlling Shareholders in China during the restricted period, they are required to refer such Business Opportunity to us and may not pursue such Business Opportunity unless our Directors or a Board committee (whose members do not have a material interest in the Business Opportunity) declines the relevant Business Opportunity.

Pursuant to the Deed of Non-competition, the above restrictions will cease to have effect on a Controlling Shareholder on the earliest of the following dates on which such Controlling Shareholder ceases to hold directly or indirectly in aggregate 30% or more of all the issued share capital, or otherwise ceases to be a controlling shareholder (as defined under the Listing Rules), of our Company or the Shares cease to be listed and traded on the Hong Kong Stock Exchange.

Furthermore, the independent non-executive Directors will review, on an annual basis, the Controlling Shareholders' compliance with the Deed of Non-competition (in particular, the right of first refusal relating to any Business Opportunity) and the Controlling Shareholders will provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors. We will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition in our annual report or by way of announcement to the public.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following enhanced corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders as a whole:

(a) our Directors will comply with our Articles of Association, which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his respective associates is materially interested;

(b) our Directors will ensure that any material conflict or potential conflict of interests involving the Controlling Shareholders, our Directors and their respective associates will be reported to our independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered and a Board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities;

(c) in respect of the business opportunity involving any material potential conflict of interests with the Controlling Shareholders, our Directors or their respective associates, our independent non-executive Directors will review all information and documents in respect of the same;

(d) we also have an established compliance department headed by Mr. Lu Wenzuo, our executive Director, to identify any material conflict or potential conflict of interests involving the Controlling Shareholders, our Directors or their respective associates and conduct a review on the effectiveness of such internal control measures on an half-yearly basis to ensure due compliance with the Deed of Non-competition and execution of our conflict check mechanism;

(e) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition in accordance with the Listing Rules;

(f) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition in the annual reports of our Company or by way of announcement;

(g) all connected transactions between our Company and our connected persons will be subject to annual review by our independent non-executive Directors as well as the auditors of our Company;

(h) our Company has appointed a compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and internal control; and

(i) pursuant to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules (the "**CG Code**"), our Directors, including the independent non-executive Directors, will be entitled to seek independent professional advice from external parties in appropriate circumstances at the costs of our Company.

Our Company will comply with the CG Code which sets out principles of good corporate governance in relation to, among others, Directors, the chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the CG Code, and will provide details of, and reasons for, any deviation from it in the corporate governance report which will be included in our annual report.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued shares of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering:

As of the Date of this Prospectus

	HK$
Authorized share capital	
500,000,000 Shares	500,000
Issued share capital	
9,986 Shares	9.986

Immediately after the Capitalization Issue

	HK$
Issued share capital	
99,860,000 Shares	99,860

Immediately after Completion of the Global Offering

	HK$
Shares to be issued under the Global Offering	
33,334,000 Shares	33,334
Total issued Shares on completion of the Global Offering	
133,194,000 Shares	133,194

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Capitalization Issue and Global Offering. The above does not take into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed "Structure and Conditions of the Global Offering—Conditions of the Global Offering" in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

(a) a rights issue;

(b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;

(c) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

(i) 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering; and

(ii) the total nominal value of our share capital repurchased by our Company (if any) under the general mandate to repurchase Shares referred to "—General Mandate to Repurchase Shares" below.

This general mandate to issue Shares will expire:

(1) at the conclusion of our next annual general meeting; or

(2) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or

(3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed "Statutory and General Information—A. Further Information About Our Group—4. Resolutions in writing of our Shareholders" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed "Structure and Conditions of the Global Offering—Conditions of the Global Offering", our Directors have been granted a general unconditional mandate to exercise all of our powers to repurchase Shares with a total nominal value of not exceeding 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering.

This general mandate relates only to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information—A. Further Information About Our Group—5. Repurchases of our own securities" in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire:

(i) at the conclusion of our next annual general meeting; or

(ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed "Statutory and General Information—A. Further Information About Our Group—4. Resolutions in writing of our Shareholders" in Appendix IV to this prospectus.

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons will have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of shareholder	Nature of interest	Shares held immediately prior to the Global Offering		Shares held immediately following the completion of the Global Offering[1]	
		Number	Percentage	Number	Percentage
Vanguard Glory	Beneficial owner	9,700	97.14%	97,000,000	72.83%
Hony Fund V	Interest in controlled corporation	9,700	97.14%	97,000,000	72.83%
Hony Capital Fund V GP, L.P.	Interest in controlled corporation	9,700	97.14%	97,000,000	72.83%
Hony Capital Fund V GP Limited	Interest in controlled corporation	9,700	97.14%	97,000,000	72.83%
Hony Group Management Limited	Interest in controlled corporation	9,700	97.14%	97,000,000	72.83%
Hony Managing Partners Limited[2] ...	Interest in controlled corporation; deemed interest	9,950	99.64%	99,500,000	74.70%
Exponential Fortune Group Limited[2].......	Interest in controlled corporation; deemed interest	9,950	99.64%	99,500,000	74.70%
Mr. Zhao John Huan[2]	Interest in controlled corporation ; deemed interest	9,950	99.64%	99,500,000	74.70%

Notes:

(1) Assuming the Over-allotment Option is not exercised.

(2) Aggregating the Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.

(3) Hony Fund V is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Fund V is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan.

FUTURE PLANS

See the section headed "Business—Our Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Assuming an Offer Price of HK$13.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK$380.2 million	HK$449.7 million
Assuming an Offer Price of HK$15.00 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	HK$416.9 million	HK$491.9 million
Assuming an Offer Price of HK$12.80 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	HK$343.6 million	HK$407.6 million

Assuming an offering price of HK$13.90 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we intend to use the net proceeds of the Global Offering for the following purposes:

(i) approximately 50%, HK$190.1 million, is expected to be used for strategic acquisition of hospitals in China. By leveraging our experience and advanced hospital management capability, we believe that we will realize accelerated integration and market expansion. In selecting potential hospital targets, we will make comprehensive evaluations in consideration of cost-related factors and potential market opportunities, and target Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that possess competitive advantages and are located in regions in China with sizeable population and economic activities, with a particular focus on hospitals in Yangtze River Delta region, Pearl River Delta region and Bohai Economic Rim. We will seek for potential targets through internal market research and/or recommendations from our business partners, and target to acquire or invest in one or two hospitals that are comparable to Yangsi Hospital in terms of factors including profitability, medical skills, number of patient visits and growth potential in each year subsequent to the Listing. In carrying out the acquisitions, the consideration will be determined with reference to the market value of the potential hospital targets, and by an independent valuer where appropriate; we may also seek for additional equity and/or debt funding to facilitate the acquisitions, if necessary. As at the Latest Practicable Date, we have not identified any specific targets, or adopted a concrete timetable or expected capital expenditure plan to implement acquisition, and we have not entered into any letter of intent or agreement in relation to any acquisition;

(ii) approximately 18%, HK$68.4 million, is expected to be used for further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals), such as purchase and installation of medical and other equipment, upgrading and improvement of medical facilities, as set out in the following breakdown:

- approximately 11% of the net proceeds for purchases of medical and other equipment, including B-mode colored ultrasound machines, non-invasive hemodynamics detector, respirator machine, automatic biochemistry analyzer, and the upgrading and replacement of various other medical equipment; and

- approximately 7% of the net proceeds for upgrading and improvement of medical facilities, including development and renovation of new medical wards, upgrading of teleconference system for our Group and the hospitals we own or manage, as well as upgrading and replacement of operating room equipment, sterilization equipment and other facilities;

(iii) approximately 15%, HK$57.0 million, is expected to be used for employee training programs at the Hospitals and other hospitals we own or manage from time to time, efforts to recruit talents and academic research activities, as set out in the following breakdown:

- approximately 6% of the net proceeds for human resources expenses, including labor costs and employee benefits;

- approximately 5% of the net proceeds for employing medical professionals and experts in business management; and

- approximately 4% of the net proceeds for conducting academic research activities and developing employee training programs with a focus on management training and professional training;

(iv) approximately 7%, HK$26.6 million, is expected to be used for upgrading and improving our information technology system. See the section headed “Business—Information Technology Systems” for further details; and

(v) the remaining amount of approximately 10%, HK$38.0 million, is expected to be used to provide funding for our working capital, rental and property related expenses and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis if the Over-allotment Option is exercised, or in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement (the "**Cornerstone Investment Agreement**") with, amongst others, Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)) (the "**Cornerstone Investor**"), who agreed to cause China International Capital Corporation Limited, an asset manager that is a qualified domestic institutional investor as approved by the relevant government authorities of the PRC (the "**QDII**"), to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 200 Shares) which may be purchased with an aggregate amount of US$15 million (equivalent to approximately HK$116.4 million) (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at the Offer Price (the "**Cornerstone Placing**").

Assuming an Offer Price of HK$12.80 per Share (being the low end of the Offer Price range set out in this prospectus), the total number of Shares subscribed by the Cornerstone Investor would be approximately 9,094,800, representing approximately (i) 27.3% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 23.7% of the Offer Shares, assuming the Over-allotment Option is exercised in full; (iii) 6.8% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (iv) 6.6% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK$13.90 per Share (being the mid-point of the Offer Price range set out in this prospectus), the total number of Shares subscribed by the Cornerstone Investor would be approximately 8,375,000, representing approximately (i) 25.1% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 21.8% of the Offer Shares, assuming the Over-allotment Option is exercised in full; (iii) 6.3% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (iv) 6.1% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK$15.00 per Share (being the high end of the Offer Price range set out in this prospectus), the total number of Shares subscribed by the Cornerstone Investor would be approximately 7,761,000, representing approximately (i) 23.3% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 20.2% of the Offer Shares, assuming the Over-allotment Option is exercised in full; (iii) 5.8% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (iv) 5.6% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

The QDII is the parent company of China International Capital Corporation Hong Kong Securities Limited ("**CICC**"), which is the Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager of the Global Offering. The QDII acts in accordance with the instructions from the Cornerstone Investor in order to facilitate the participation by the Cornerstone Investor in the Global Offering of the Company. Other than being a client of the QDII, the Cornerstone Investor is an independent third party of CICC. Due to its relationship with CICC, the QDII is considered as a "connected client" of CICC under paragraph 13(7) of Appendix 6 to the Listing Rules, and the participation of the Cornerstone Investor as a cornerstone investor through the QDII is therefore subject to the written consent from the Stock Exchange. The Shares to be allocated and issued to it under the Global Offering will be held by the QDII on a non-discretionary basis on behalf of the Cornerstone Investor. It is confirmed by the Company that the Cornerstone Investor's cornerstone investment agreement does not contain any material terms which are more favourable to the Cornerstone Investor or the QDII than those in other cornerstone investment agreements, if any. In addition, apart from the preferential treatment of assured entitlement under a cornerstone investment,

(i) each of the Company and CICC (as the connected broker and the Sole Bookrunner) has also confirmed that, no preferential treatment has been, nor will be, given to the QDII by virtue of its relationship with CICC; (ii) the QDII has confirmed that, to the best of its knowledge and belief, it has not received and will not receive preferential treatment in the allocation of the Global Offering on behalf of the Cornerstone Investor as a cornerstone investor by virtue of its relationship with CICC; and (iii) CICC, as the Sole Sponsor, has confirmed that, it has no reason to believe that the QDII received any preferential treatment in the allocation of the Global Offering as a cornerstone investor on behalf of the Cornerstone Investor by virtue of its relationship with CICC. An application has been made to the Stock Exchange and the Stock Exchange has granted its consent under paragraph 5(1) of Appendix 6 to the Listing Rules to allow Offer Shares to be placed to the QDII as a "connected client" of CICC and held by the QDII on behalf of the Cornerstone Investor.

The Cornerstone Placing will form part of the International Offering and the Cornerstone Investor will not subscribe for any Offer Share under the Global Offering other than pursuant to the Cornerstone Investment Agreement. The Offer Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any board representation in the Company, nor will the Cornerstone Investor become a substantial shareholder of the Company. The Offer Shares to be subscribed for by the Cornerstone Investor may be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed "Structure and Conditions of the Global Offering—The Hong Kong Public Offering" in this prospectus.

To the best knowledge of the Company, the Cornerstone Investor is an Independent Third Party, and it is not a connected person or an existing shareholder of the Group or their respective close associate (as defined under the Listing Rules).

Details of the allocations to the Cornerstone Investor will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on or about March 15, 2017.

CORNERSTONE INVESTOR

We set out below a brief description of the Cornerstone Investor:

The Cornerstone Investor is a limited partnership incorporated under the laws of the PRC. It is a private equity investment fund managed by Anhui Zhong'an Health Investment Management Co., Ltd. ("**Anhui Zhong'an**"). The Cornerstone Investor mainly engages in elderly care industry investment, equity investment, venture capital investment, corporate investment management, corporate investment consultation and corporate asset management business. Anhui Zhong'an is jointly held as to 50% by Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)) (which is collectively owned by four PRC individuals), as to 45% by Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司) and as to 5% by Tibet Hongzhi Investment Advisory Partnership (Limited Partnership) (西藏弘志投資顧問合夥企業(有限合夥)). Anhui Zhong'an mainly engages in healthcare industry investment, venture capital investment, equity investment, corporate investment management, corporate investment consultation and corporate asset management business.

CONDITIONS PRECEDENT

The subscription of the Cornerstone Investor is subject to, among other things, the satisfaction that:

a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement shall have been entered into and become effective and all of the conditions precedent to completion set forth therein shall have been satisfied and having become unconditional (or waived by the relevant parties) by no later than the time and date as specified in the Underwriting Agreements;

b) the Hong Kong Underwriting Agreement and the International Underwriting Agreement shall not have been terminated in accordance with their respective terms;

c) the Offer Price having been agreed upon between the Company and the Sole Global Coordinator;

d) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

e) no law having been enacted or promulgated by a government authority which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the subscription contemplated under the Cornerstone Investment Agreement and there shall be no order or injunction of a court of competent and relevant jurisdiction in effect precluding or prohibiting the consummation of such transactions hereunder; and

f) the representations, warranties, undertakings, acknowledgements and confirmations of the Cornerstone Investor under the Cornerstone Investment Agreement are accurate and true in all respects and not misleading and that there is no breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investor.

RESTRICTIONS ON THE DISPOSAL OF SHARES BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed and undertaken to the Company and the Sole Global Coordinator that it will not, and will procure the QDII not to, whether directly or indirectly, at any time during the period of six months following the Listing Date, effect any disposal (as defined in the Cornerstone Investment Agreement) of any of the Shares subscribed for by it pursuant to the Cornerstone Investment Agreement.

The Cornerstone Investor may transfer the Shares so subscribed in certain limited circumstances as set out in the Cornerstone Investment Agreement, such as transfer to a wholly-owned subsidiary of the Cornerstone Investor, provided that, among other things, such wholly-owned subsidiary undertakes in writing that such wholly-owned subsidiary be bound by the Cornerstone Investor's obligations under the Cornerstone Investment Agreement and subject to the restrictions on disposal imposed on the Cornerstone Investor.

HONG KONG UNDERWRITER

Sole Lead Manager

China International Capital Corporation Hong Kong Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 3,333,600 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter has agreed to subscribe or procure subscribers for its applicable proportion of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

One of the conditions is that the Offer Price must be agreed between us and the Sole Global Coordinator on behalf of the Hong Kong Underwriter. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten by the International Underwriter. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator on behalf of the Underwriters, the Global Offering will not proceed.

Grounds for Termination

The obligations of the Hong Kong Underwriter to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If, at any time prior to 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or comes into force:

(i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, currency market, credit, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the

Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Cayman Islands, Hong Kong, China, the United States, the United Kingdom, the European Union (taken as a whole), Singapore or Japan (each a "Relevant Jurisdiction"); or

(ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority, in or affecting a Relevant Jurisdiction; or

(iii) any event or series of events or circumstances in the nature of force majeure (including, without limitation, acts of government, labor disputes, strikes, lock-outs, riot, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, MERS, SARS, swine or avian flu, H5N1, H1N1 and such related/mutated forms, economic sanction, in whatever form directly or indirectly, in or affecting a Relevant Jurisdiction; or

(iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting a Relevant Jurisdiction; or

(v) (A) any moratorium, suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Exchange Limited, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or payment or clearance services in or affecting any of the Relevant Jurisdictions; or

(vi) any (A) material change or prospective material change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in taxation, in a Relevant Jurisdiction adversely affecting an investment in the Shares; or

(vii) a Director other than an independent non-executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of the Company; or

(viii) saved as disclosed in this prospectus, any material litigation or claim being threatened or instigated against any member of the Group or Yangsi Hospital; or

(ix) save as disclosed in this prospectus, any order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or

(x) any materialization of any of the risks set out in the section headed "Risk Factors" of this prospectus;

which, individually or in the aggregate, and in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter):

(A) is or is likely to or will be materially adverse to, or materially affect, the business or financial position of the Company and its subsidiaries as a whole; or

(B) has or is likely to or will have a material adverse effect on the success of the Global Offering; or

(C) makes or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented in accordance with their terms; or

(b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriter after the date of the Hong Kong Underwriting Agreement:

(i) any breach of, or event rendering untrue, incorrect or misleading in any material respect, any of the representations, warranties and undertakings given on the part of our Company under the Hong Kong Underwriting Agreement; or

(ii) any material breach on the part of our Company of any of the provisions under the Hong Kong Underwriting Agreement; or

(iii) any statement contained in this prospectus, the Application Forms, or any notices, announcements issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) which was when it was issued or has become untrue, incorrect, inaccurate or misleading in any material respect; or

(iv) any matter that has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission therefrom this prospectus; or

(v) any event, act or omission which gives or is likely to give rise to any liability of the Company and the Controlling Shareholders pursuant to the indemnities given under the Hong Kong Underwriting Agreement; or

(vi) that, as a result of market conditions or otherwise, a material portion of the orders in the bookbuilding process at the time the International Underwriting Agreement is entered into, have been withdrawn or cancelled, and the Sole Global Coordinator, in their sole discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or

(vii) any material adverse change or prospective material adverse change in the assets, liabilities, business, results of operations, position or condition, financial or otherwise of the Company and its subsidiaries as a whole; or

(viii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued or sold (including any Shares that may be sold and transferred pursuant to the exercise of the Over-Allotment Option) under the Global Offering and the Shares to be issued pursuant to the Capitalization Issue is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(ix) any expert, whose consent is required for the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the withdrawal of consent by the Sole Sponsor without a reason) prior to the issue of this prospectus; or

(x) the Company withdraws this prospectus or the Global Offering,

then the Sole Global Coordinator may (for itself and on behalf of the Hong Kong Underwriter) in its sole and absolute discretion and upon giving notice orally or in writing to the Company terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by us

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for Shares issued pursuant to the Global Offering (including any exercise of the Over-allotment Option) or any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that, except pursuant to any lending of Shares by Vanguard Glory pursuant to the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered Shareholder(s) shall not:

- in the period commencing from the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which it is shown by this prospectus to be the beneficial owner; and

- during the period of six months commencing on the date on which the period referred to in the immediate preceding paragraph above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in the immediately preceding paragraph above to such an extent that immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder.

Note 2 to Rule 10.07 of the Listing Rules provides that such rule does not prevent a Controlling Shareholder from using the Shares beneficially owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to the Company and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will immediately inform us and the Stock Exchange of:

- any pledges or charges of any Shares or securities of our Company beneficially owned by it in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, and the number of such Shares or securities of our Company so pledged or charged; and

- any indication received by it, either verbal or written, from the pledgee or chargee that any Shares or other securities of our Company pledged or charged will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders (or its respective shareholders) and disclose such matters by way of an announcement which is published on the website of the Stock Exchange as soon as possible after being so informed by any of the Controlling Shareholders (or its respective shareholders).

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Our Company has also undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Hong Kong Underwriter that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six-Month Period**"), our Company will not, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other securities of the Company or any Shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase any share capital or other securities of the Company, as applicable), or deposit any share capital or other securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above;

(iv) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six-Month Period). The Company further agrees that, in the event the Company enters into any of the transactions described in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Company will, create a disorderly or false market for any Shares or other securities of the Company.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders agrees and undertakes to each of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Hong Kong Underwriter that, save as the lending of Shares pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) and unless in compliance with the Listing Rules:

(a) during the First Six-Month Period, it will not:

(i) sell, offer to sell, contract or agree to sell, assign, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over or contract or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly (through a chain of companies or not), conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of the Company) held by it as of the date of the Hong Kong Underwriting Agreement; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any such capital or securities or any interest therein; or

(iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or

(iv) offer to or agree to, or announce any intention to enter into any transaction described in paragraphs (i), (ii) or (iii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise (whether or not such transaction will be completed with the First Six-Month Period); and

(b) (A) during the Second Six-Month Period, it will not enter into any of the foregoing transactions in paragraphs (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transactions if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, any of the Controlling Shareholders will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company; and

(B) until the expiry of the Second Six-Month Period, in the event that it enters into any of the foregoing transactions in paragraphs (a)(i), (ii) or (iii) above or offers to or agrees to, or announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the securities of the Company.

For the avoidance of doubt, the foregoing restrictions shall not prevent any of the Controlling Shareholders from purchasing additional Shares and disposing any Shares thus purchased in the relevant period, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float.

The International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriter. Under the International Underwriting Agreement, the International Underwriter will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

Our Company is expected to grant to the International Underwriter the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriter at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 5,000,000 additional Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over-allocations (if any) in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Total Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriter will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriter but will instead be paid, at the rate applicable to the International Offering, to the International Underwriter. Our Company may, at our sole discretion, pay to the Sole Global Coordinator for its respective accounts an incentive fee up to 0.5% of the Offer Price for each Offer Share.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$13.90 per Share (being the mid-point of the indicative offer price range of HK$12.80 to HK$15.00 per Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering (collectively the "**Commissions and Fees**") are estimated to be approximately HK$83.1 million in total.

Each of the Company and the Controlling Shareholders has agreed to indemnify the Hong Kong Underwriter and International Underwriter for certain losses which they may suffer, including liabilities under the U.S. Securities Act, losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company of the Underwriting Agreements.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "**Syndicate Members**", and their affiliates may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- the Syndicate Members (except for China International Capital Corporation Hong Kong Securities Limited, as the Stabilizing Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described in the sections headed "Structure and Conditions of the Global Offering—The International Offering—Over-allotment Option" and "Structure and Conditions of the Global Offering—The International Offering—Stabilization." These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Hong Kong Underwriter's Interests in our Company

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, the Hong Kong Underwriter does not have any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Underwriter and its affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Other Services to our Company

The Sole Global Coordinator, the Hong Kong Underwriter or its respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to our Company and our respective affiliates, for which such Sole Global Coordinator, Hong Kong Underwriter or its respective affiliates have received or will receive customary fees and commissions.

Over-Allotment and Stabilization

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the sections headed "Structure and Conditions of the Global Offering—The International Offering—Stabilization", and "Structure and Conditions of the Global Offering—The International Offering—Over-allotment Option".

Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of 3,333,600 Offer Shares in Hong Kong as described in the paragraph headed "—The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of initially 30,000,400 Shares, consisting of the offering of our Shares outside the United States in reliance on Regulation S under the U.S. Securities Act. At any time from the Listing Date until 30 days after the last day for lodging of applications in the Hong Kong Public Offering, the Sole Global Coordinator, as representative of the International Underwriter, have an option to require our Company to allot and issue up to 5,000,000 additional Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.62% of the Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25.02% of the enlarged issued share capital of the Company immediately after the completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.74% of the enlarged issued share capital immediately after the completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed "—The International Offering—Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the paragraph headed "—The Hong Kong Public Offering—Reallocation and clawback" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 3,333,600 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The Hong Kong Offer Shares will represent approximately 2.5% of the Company's enlarged share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed "—Conditions of the Global Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 1,666,800 Offer Shares for pool A and 1,666,800 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 1,666,800 Offer Shares are liable to be rejected.

Reallocation and clawback

The allocation of the Offers Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 10,000,400 Offer Shares (in the case of (i)), 13,333,600 Offer Shares (in the case of (ii)) and 16,667,200 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$15.00 per Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "—Pricing of the Global Offering" below, is less than the maximum price of HK$15.00 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for the Hong Kong Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 30,000,400 Offer Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering and approximately 22.52% of the Company's enlarged share capital immediately after the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "—Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriter exercisable by the Sole Global Coordinator on behalf of the International Underwriter.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the Listing Date until 30 days after the last date for lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 5,000,000 additional Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocation in the International Offering, if any. If the

Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.62% of our Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for lodging of applications under the Hong Kong Public Offering. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 5,000,000 Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Ordinance include:

a) over-allocation for the purpose of preventing or minimising any reduction in the market price;

b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any deduction in the market price;

c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

d) purchasing, or agreeing to purchase, the Shares for the sole purpose of preventing or minimising any reduction in the market price;

e) selling the Shares to liquidate a long position held as a result of those purchases; and

f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Saturday, April 8, 2017. As a result, demand for the Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilise, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Ordinance will be made within seven days of the expiration of the stabilizing period.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may choose to borrow up to 5,000,000 Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, from Vanguard Glory to cover over-allocations (being the maximum number of additional Shares which may be allotted and issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising of the Over-allotment Option.

If such Stock Borrowing Arrangement is entered into, it will only be effected by the Stabilizing Manager, its affiliates or any person acting for it for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with.

PRICING OF THE GLOBAL OFFERING

The International Underwriter will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, March 9, 2017 and in any event on or before Thursday, March 9, 2017, by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$15.00 per Share and is expected to be not less than HK$12.80 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and on the website of our Company (**www.hcclhealthcare.com**) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Sole Global Coordinator (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Sole Global Coordinator may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting commissions and other expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$343.8 million, assuming an Offer Price per Share of HK$12.80, or approximately HK$417.1 million, assuming an Offer Price per Share of HK$15.00 (or if the Over-allotment Option is exercised in full, approximately HK$407.8 million, assuming an Offer Price per Share of HK$12.80, or approximately HK$492.1 million, assuming an Offer Price per Share of HK$15.00).

The Offer Price for Shares under the Global Offering is expected to be announced on Wednesday, March 15, 2017. The indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, March 15, 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and on the website of our Company (**www.hcclhealthcare.com**).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed "Underwriting."

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for the Hong Kong Offer Shares." In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Wednesday, March 15, 2017 but will only become valid certificates of title at 8:00 a.m. on Thursday, March 16, 2017 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" has not been exercised.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, March 16, 2017, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, March 16, 2017. Our Shares will be traded in board lots of 200 Shares each and the stock code of our Shares will be 3869.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are a close associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. from Tuesday, February 28, 2017, until 12:00 noon on Thursday, March 9, 2017 from:

(i) *the following office of the Hong Kong Underwriter:*

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

(ii) *any of the branches of the following receiving bank:*

Wing Lung Bank Limited

District	Branch Name	Branch Address
Hong Kong Island....	Head Office	45 Des Voeux Road Central, Central
	Johnston Road Branch	118 Johnston Road, Wan Chai
	Kennedy Town Branch	28 Catchick Street, Kennedy Town
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road, Mong Kok
	Tsim Sha Tsui Branch	4 Carnarvon Road, Tsim Sha Tsui
	San Po Kong Branch	8 Shung Ling Street, San Po Kong
New Territories	Tsuen Wan Branch	251 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. from Tuesday, February 28, 2017 until 12:00 noon on Thursday, March 9, 2017 from the Depository Counter of **HKSCC** at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Wing Lung Bank (Nominees) Limited — Hospital Corporation Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, February 28, 2017 - 9:00 a.m to 5:00 p.m.
- Wednesday, March 1, 2017 - 9:00 a.m to 5:00 p.m.
- Thursday, March 2, 2017 - 9:00 a.m to 5:00 p.m.
- Friday, March 3, 2017 - 9:00 a.m to 5:00 p.m.
- Monday, March 6, 2017 - 9:00 a.m to 5:00 p.m.
- Tuesday, March 7, 2017 - 9:00 a.m to 5:00 p.m.
- Wednesday, March 8, 2017 - 9:00 a.m to 5:00 p.m.
- Thursday, March 9, 2017 - 9:00 a.m to 12:00 noon

The application for the Hong Kong Offer Shares will commence on Tuesday, February 28, 2017 through Thursday, March 9, 2017, being slightly longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, March 9, 2017, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, the Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfill the criteria mentioned in "— 14. Despatch/collection of Share Certificates and Refund Monies — Personal collection" in this section to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Terms and Conditions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" in this section may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** service to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** service at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, February 28, 2017 until 11:30 a.m. on Thursday, March 9, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, March 9, 2017 or such later time under the "— 10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "Hospital Corporation of China Limited" **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support the funding of "Source of Dongjiang-Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System **(https://ip.ccass.com)** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Global Coordinator and our Hong Kong Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

- (If the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisors and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies(including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, February 28, 2017 — 9:00 a.m. to 8:30 p.m.[(1)]

- Wednesday, March 1, 2017 — 8:00 a.m. to 8:30 p.m.[(1)]

- Thursday, March 2, 2017 — 8:00 a.m. to 8:30 p.m.[(1)]

- Friday, March 3, 2017 — 8:00 a.m. to 8:30 p.m.[(1)]

- Monday, March 6, 2017 — 8:00 a.m. to 8:30 p.m.[(1)]

- Tuesday, March 7, 2017 — 8:00 a.m. to 8:30 p.m.[(1)]

- Wednesday, March 8, 2017 — 8:00 a.m. to 8:30 p.m.[(1)]

- Thursday, March 9, 2017 — 8:00 a.m.[(1)] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, February 28, 2017 until 12:00 noon on Thursday, March 9, 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, March 9, 2017, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "—6. Applying by Giving Electronic Application Instructions to HKSCC Via CCASS—Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** service to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Bookrunner, the Sole Sponsor, the

Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, March 9, 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Global Offering—The Hong Kong Public Offering—Allocation."

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or

- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, March 9, 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, March 9, 2017 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in "Expected Timetable," an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, March 15, 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at **www.hcclhealthcare.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.hcclhealthcare.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Wednesday, March 15, 2017;

- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, March 15, 2017 to 12:00 midnight on Tuesday, March 21, 2017;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, March 15, 2017 to Saturday, March 18, 2017;

- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, March 15, 2017 to Friday, March 17, 2017 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure and Conditions of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believes that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$15.00 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure and Conditions of the Global Offering—Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, March 15, 2017.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, March 15, 2017. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, March 16, 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) ***If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Pubic Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, March 15, 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, March 15, 2017, by ordinary post and at your own risk.

(ii) ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, March 15, 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, March 15, 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

  For Hong Kong Public Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, March 15, 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) ***If you apply through the White Form eIPO Service***

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, March 15, 2017, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, March 15, 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) ***If you apply via Electronic Application Instructions to HKSCC***

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, March 15, 2017, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Wednesday, March 15, 2017. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, March 15, 2017 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, March 15, 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, March 15, 2017.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

February 28, 2017

The Directors
Hospital Corporation of China Limited

China International Capital Corporation Hong Kong Securities Limited

Dear Sirs,

We report on the financial information of Hospital Corporation of China Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at December 31, 2014 and 2015 and September 30, 2016, the balance sheets of the Company as at December 31, 2014 and 2015 and September 30, 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the period from February 21, 2014 (date of incorporation) to December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix IA to the prospectus of the Company dated February 28, 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. On January 26, 2016, the Company changed its registered name from "Grand Accordia Healthcare Group Co. Limited" to "Hospital Corporation of China Limited". Pursuant to the acquisition as described in Note 1.2 of Section II headed "Acquisition of Listing Business" below, which was completed on September 30, 2014, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company has direct or indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies, or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

No statutory audited financial statements have been prepared by the Company as there is no statutory audit requirement in the Cayman Islands. The statutory audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Company as at December 31, 2014 and 2015 and September 30, 2016, and of the Group's consolidated financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix IA to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended September 30, 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2014 and 2015 and September 30, 2016, and for the period from February 21, 2014 (date of incorporation of the Company) to December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016 (the "Financial Information").

The Financial Information is presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand yuan (RMB'000), unless otherwise stated.

CONSOLIDATED BALANCE SHEETS

		As at December 31,		As at September 30,
	Note	2014	2015	2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	23,798	23,625	23,605
Intangible assets	7	1,088,808	1,085,351	1,082,759
Deferred income tax assets	19	—	249	397
Other receivables, deposits and prepayments	12	487	487	—
Total non-current assets		1,113,093	1,109,712	1,106,761
Current assets				
Available-for-sale financial assets	8	81,150	—	—
Inventories	9	851	1,180	1,961
Trade receivables	11	1,563	7,490	6,588
Other receivables, deposits and prepayments	12	469	3,682	10,045
Amounts due from related parties	13	79,787	166,861	37,725
Cash and cash equivalents	14	5,145	13,104	133,135
Total current assets		168,965	192,317	189,454
Total assets		1,282,058	1,302,029	1,296,215

	Note	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
		RMB'000	RMB'000	RMB'000
EQUITY				
Equity attributable to owners of the Company				
Share capital	15	—	—	65
Share premium	15	—	—	31,150
Reserves	17	1,037,045	1,044,847	1,047,119
Retained earnings		2,067	45,200	63,341
		1,039,112	1,090,047	1,141,675
Non-controlling interests	29(b)	22,102	38,492	44,752
Total equity		1,061,214	1,128,539	1,186,427
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	19	32,486	37,069	38,311
Accruals, other payables and provisions	21	—	—	9,721
Total non-current liabilities		32,486	37,069	48,032
Current liabilities				
Amounts due to related parties	13	103,998	51,296	22,278
Trade payables	20	1,994	2,919	3,992
Accruals, other payables and provisions	21	59,710	63,753	29,648
Current income tax liabilities		22,656	18,453	5,838
Total current liabilities		188,358	136,421	61,756
Total liabilities		220,844	173,490	109,788
Total equity and liabilities		1,282,058	1,302,029	1,296,215

COMPANY'S BALANCE SHEETS

	Note	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in subsidiaries	29(a)	1,038,400	1,038,400	1,039,788
Total non-current assets		1,038,400	1,038,400	1,039,788
Current assets				
Cash and cash equivalents		—	8	20,270
Amounts due from subsidiaries		162	171	196
Other receivables, deposits and prepayments	12	—	2,876	8,928
Total current assets		162	3,055	29,394
Total assets		1,038,562	1,041,455	1,069,182
EQUITY				
Equity attributable to owners of the Company				
Share capital	15	—	—	65
Share premium	15	—	—	31,150
Reserves		1,038,400	1,038,400	1,038,400
Accumulated losses		—	(5,268)	(19,302)
Total equity		1,038,400	1,033,132	1,050,313
LIABILITIES				
Non-current liabilities				
Accruals, other payables and provisions	21	—	—	1,388
Total non-current liabilities		—	—	1,388
Current liabilities				
Amounts due to related parties		162	6,789	7,923
Accruals, other payables and provisions	21	—	1,534	9,558
Total current liabilities		162	8,323	17,481
Total liabilities		162	8,323	18,869
Total equity and liabilities		1,038,562	1,041,455	1,069,182

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the period from February 21, 2014 (date of incorporation) to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
		RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	22	23,653	142,524	97,895	115,367
Cost of revenue	23	(7,763)	(41,395)	(28,944)	(49,020)
Gross profit		15,890	101,129	68,951	66,347
Selling expenses	23	—	(1)	(1)	(3)
Administrative expenses	23	(7,947)	(13,203)	(8,225)	(22,060)
Other (losses)/gains— net	24	(47)	(342)	(31)	871
Other income	25	—	2,477	977	1,081
Operating profit		7,896	90,060	61,671	46,236
Finance income-net	27	584	53	46	119
Profit before income tax		8,480	90,113	61,717	46,355
Income tax expense	28	(4,185)	(22,788)	(15,862)	(15,581)
Profit for the period/year		4,295	67,325	45,855	30,774
Other comprehensive income		—	—	—	—
Total comprehensive income		4,295	67,325	45,855	30,774
Profit and total comprehensive income attributable to:					
Owners of the Company		2,067	50,935	34,739	18,141
Non-controlling interests		2,228	16,390	11,116	12,633
		4,295	67,325	45,855	30,774
Earnings per share from profit attributable to owners of the Company					
- Basic and diluted earnings per share (in RMB)	30	213	5,251	3,581	1,832

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					Attributable to non-controlling interests	Total equity
	Share capital	Share premium	Reserves (Note 16&17)	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at February 21, 2014 (date of incorporation)	—	—	—	—	—	—	—
Comprehensive income							
- Profit for the period	—	—	—	2,067	2,067	2,228	4,295
Capital contribution by shareholder (Note 17)	—	—	1,038,400	—	1,038,400	—	1,038,400
Deemed distribution to shareholder	—	—	(1,365)	—	(1,365)	—	(1,365)
Acquisition of business (Note 32)	—	—	—	—	—	19,884	19,884
Others	—	—	10	—	10	(10)	—
Balance at December 31, 2014	—	—	1,037,045	2,067	1,039,112	22,102	1,061,214
Balance at January 1, 2015	—	—	1,037,045	2,067	1,039,112	22,102	1,061,214
Comprehensive income							
- Profit for the year	—	—	—	50,935	50,935	16,390	67,325
Transfer of reserves	—	—	7,802	(7,802)	—	—	—
Balance at December 31, 2015	—	—	1,044,847	45,200	1,090,047	38,492	1,128,539
Balance at January 1, 2016	—	—	1,044,847	45,200	1,090,047	38,492	1,128,539
Comprehensive income							
- Profit for the period	—	—	—	18,141	18,141	12,633	30,774
Proceeds from share issued (Note 15)	65	31,150	—	—	31,215	—	31,215
Dividend (Note 18)	—	—	—	—	—	(6,373)	(6,373)
Shared-based payments (Note 16)	—	—	2,272	—	2,272	—	2,272
At September 30, 2016	65	31,150	1,047,119	63,341	1,141,675	44,752	1,186,427
(Unaudited)							
Balance at January 1, 2015	—	—	1,037,045	2,067	1,039,112	22,102	1,061,214
Comprehensive income							
- Profit for the period	—	—	—	34,739	34,739	11,116	45,855
At September 30, 2015	—	—	1,037,045	36,806	1,073,851	33,218	1,107,069

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the period from February 21, 2014 (date of incorporation) to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
		RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities					
Cash generated from operations	31	2,449	30,048	23,632	179,973
Income tax paid		—	(22,656)	(22,656)	(24,554)
Interests received		584	53	46	186
Net cash generated from operating activities		3,033	7,445	1,022	155,605
Cash flows from investing activities					
Net cash used in business combinations	32	(954,254)	—	—	—
Purchase of property, plant and equipment		(884)	(1,275)	(1,025)	(11,189)
Purchase of available-for-sale financial asset		(81,150)	(81,620)	(81,620)	—
Proceeds from disposal of available-for-sale financial asset		—	163,409	163,409	—
Net cash (used in)/received from investing activities		(1,036,288)	80,514	80,764	(11,189)
Cash flows from financing activities					
Repayment to related parties		—	(80,000)	(80,000)	—
Cash used in relation to the listing		—	—	—	(3,071)
Capital contribution from shareholder	17	1,038,400	—	—	—
Proceeds from share issued	15	—	—	—	31,152
Dividend paid		—	—	—	(53,000)
Net cash received from/(used in) financing activities		1,038,400	(80,000)	(80,000)	(24,919)
Net increase in cash and cash equivalents		5,145	7,959	1,786	119,497
Cash and cash equivalents at beginning of period/year		—	5,145	5,145	13,104
Exchange gains on cash and cash equivalents		—	—	—	534
Cash and cash equivalents at end of period/year		5,145	13,104	6,931	133,135

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION, ACQUISITION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. On January 26, 2016, the Company changed its registered name from "Grand Accordia Healthcare Group Co. Limited" to "Hospital Corporation of China Limited".

During the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016, the Company is an investment holding company. The Company, together with its subsidiaries listed in Note 1.2 (collectively referred to as the "Group"), are principally engaged in (i) operation and management of its privately owned hospital, Shanghai Fuhua Hospital Co., Ltd. ("Fuhua Hospital") and (ii) provision of management and consultation services to a not-for-profit hospital, Shanghai Yangsi Hospital ("Yangsi Hospital") (together "the Listing Business") in the People's Republic of China (the "PRC").

The Company is controlled by Vanguard Glory Limited ("Vanguard Glory"), a subsidiary of Hony Capital Fund V GP, L.P., which is considered as the ultimate holding company of the Company.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

1.2 Acquisition of Listing Business

Prior to the incorporation of the Company, the Listing Business was owned and operated by Weikang Investment Management Co., Ltd. ("Weikang Investment") and Fuhua Hospital (together, the "Acquired Companies").

Weikang Investment was established on April 15, 2002 in the PRC by Mr. Chen Zhixiong, Ms. Hu Jianlian, Ms. Zhang Wanzhen and Mr. Wang Jianjun, with a registered capital of RMB30,000,000, and is principally engaged in corporate investment management, investment consultancy, corporate management consultancy, corporate profile design and marketing analysis. On January 5, 2007, Weikang Investment founded Yangsi Hospital, a not-for-profit hospital registered as a privately-funded non-enterprise entity. On January 15, 2014, Weikang Investment acquired 100% equity interest in Fuhua Hospital from Zheng Guilan and Chen Ruifang. Fuhua Hospital and Yangsi Hospital are principally engaged in general hospital services.

On September 30, 2014 ("Acquisition Date"), New Pride Holdings Limited ("New Pride"), an indirectly wholly-owned subsidiary of the Company, completed its acquisition of 80% of the equity interest in Weikang Investment (the "Acquisition of Listing Business"), and thereby the operation of the Listing Business (refer to Note 32 for details).

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	Country/ place and date of incorporation/ establishment	Registered/ Issued and paid-up capital	Attributable equity interest of the Group				Principal activities/ place of operation
			December 31,		September 30,		
			2014	2015	2015	2016	
Directly owned:							
Acute Sky Holdings Limited (天銳控股有限公司) ("Acute Sky") (b)	The BVI, on January 2, 2014	US$1	100%	100%	100%	100%	Investment holding, The BVI
Ever Surpass Investments Limited (恒越投資有限公司) ("Ever Surpass") (b)	The BVI, on December 10, 2013	US$1	100%	100%	100%	100%	Investment Holding, The BVI
Indirectly owned:							
Bliss Success Holdings Limited (妙榮控股有限公司) ("Bliss Success") (d)	Hong Kong, on December 20, 2011	HK$1	100%	100%	100%	100%	Investment Holding, Hong Kong
New Pride Holdings Limited (捷穎控股有限公司) (d)	Hong Kong, on April 11, 2012	HK$1	100%	100%	100%	100%	Investment holding, Hong Kong
Honghe Yixin Investment Management (Shanghai) Co., Ltd.* (弘和醫信投資管理(上海)有限公司) ("Honghe Yixin") (c)	The PRC, on July 29, 2014	RMB30,000,000	100%	100%	100%	100%	Investment holding, The PRC
Tibet Honghe Zhiyuan Business Management Co., Ltd.* (西藏弘和志遠企業管理有限公司) ("Honghe Zhiyuan") (c)	The PRC, on October 10, 2014	RMB30,000,000	100%	100%	100%	100%	Management services, The PRC
Tibet Dazi Honghe Ruixin Business Management Co., Ltd.* (西藏達孜弘和瑞信企業管理有限公司) ("Honghe Ruixin") (c)	The PRC, on December 23, 2014	RMB500,000	80%	80%	80%	80%	Hospital management, The PRC
Shanghai Weikang Investment Management Co., Ltd.* (上海維康投資管理有限公司) (e)	The PRC, on April 15, 2002	RMB30,000,000	80%	80%	80%	80%	Hospital management, The PRC
Shanghai Fuhua Hospital Co., Ltd.* (上海福華醫院有限公司) (a)	The PRC, on October 17, 2007	RMB1,000,000	80%	80%	80%	80%	General hospital services, The PRC

Notes:

* English translation is for identification purpose only. The English names of the companies incorporated in the PRC represent the best efforts by management of the Group in translation their Chinese names as they do not have official English names.

(a) Fuhua Hospital was established as a limited liability company on October 17, 2007. No statutory financial statements have been prepared for Fuhua Hospital for the financial year ended December 31, 2014. The statutory auditor of Fuhua Hospital for the financial year ended December 31, 2015 is Shanghai HDDY Certified Public Accountants Co., Ltd.

(b) No statutory financial statements have been prepared for the Company as well as Acute Sky and Ever Surpass incorporated in the Cayman Islands and the BVI, respectively, since their respective dates of incorporation, as there is no statutory requirement for these companies to issue audited financial statements in their respective places of incorporation.

(c) No statutory financial statements have been prepared for Honghe Zhiyuan, Honghe Yixin and Honghe Ruixin for the financial years ended December 31, 2014. The statutory auditor of Honghe Zhiyuan, Honghe Yixin and Honghe Ruxin for the financial year ended December 31, 2015 is Joinach Certified Public Accountants Co., Ltd. (北京中樂成會計師事務所有限公司).

(d) No statutory financial statements have been prepared for New Pride and Bliss Success incorporated in Hong Kong since their respective dates of incorporation.

(e) The statutory auditor of Weikang Investment for the financial years ended December 31, 2014 and 2015, and the nine months ended September 30, 2014 is Shanghai HDDY Certified Public Accountants Co., Ltd. (上海宏大東亞會計師事務所有限公司).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") are set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of the Financial Information in conformity with IFRS 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 Financial Information are disclosed in Note 4.

All relevant standards, amendments and interpretations to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods.

The Financial Information has been also prepared in accordance with the applicable requirements of the Hong Kong Companies Ordinance (Cap. 622).

Impact of new or revised standards and amendments to existing standards that are effective on or after 1 January 2017

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after 1 January 2017 which are applicable to the Group and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax	1 January 2017
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Lease	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendment to IFRS 10 and IAS 28	Sale or Contribution of assets between an investor and its associate or joint venture	Deferred

Amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity shall apply those amendments to IAS 7 for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. An entity shall apply those amendments to IAS 12 for annual periods beginning on or after 1 January 2017.

IFRS 9 'Financial Instruments'. IFRS 9 (2014), 'Financial instruments' replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. IFRS 9 introduces a new model for the recognition of impairment losses the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. IFRS 9 also applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The directors of the Company has performed a preliminary assessment. Based on this assessment, it is noted that IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under IFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018. The financial impacts of the application of the standard and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 16 'Lease'. The Group is a lessee of various properties which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2.21 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheet. As at 30 September 2016, the Group's total non-cancellable operating lease commitments amounted to RMB12,333,000 (Note 33). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, leases will be recognised in the future as depreciation of right-of-use assets and interest expense on lease liability and will no longer be recorded as an operating expense on a straight line basis. Therefore, during the initial period of lease term, the lease expense (asset depreciation plus interest) under the new standard is higher compared to the operating lease expense recognized under the existing standard. The new standard is not expected to apply until the financial year 2019. It is expected that certain portion of these lease commitments will be required to be recognized in the consolidated balance sheet as right-of-use assets and lease liabilities.

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operation. According to the assessment made by the directors of the company, except as described above, the directors of the Company do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Group.

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 consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combination*

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 assumed 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 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest 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 income statement.

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

(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. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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 **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 executive directors that makes strategic decisions.

2.4 **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"). Since the majority of the operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Company's functional 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 or valuation where items are re-measured. 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 recognised in the income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains — net'.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.5 **Property, plant and equipment**

Property, plant and equipment is 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 recognised 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 derecognised. All other repairs and maintenance are charged to the income statement during the financial period 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	20 years
—	Medical equipment	5 years
—	Vehicles	5 years
—	Leasehold improvements	Shorter of remaining lease term vs. estimated useful lives
—	Office equipment and furniture	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 the proceeds with the carrying amount and are recognised within 'Other (losses)/gains — net' in the income statement.

Construction-in-progress (the "CIP") represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

2.6 **Intangible assets**

(a) *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 group of CGUs 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. It is not always necessary to determine both the fair value less costs to sell of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Medical licences*

Medical licences acquired in a business combination are recognised at fair value at the acquisition date. These medical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of approximately 13 years.

(c) *Contractual rights to provide management services*

Contractual rights to provide management services are the rights to provide management services to a hospital. These contractual rights acquired in a business combination are recognised at fair value at the acquisition date. These contractual rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the contractual terms of approximately 50 years.

2.7 **Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 of disposal 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 **Financial assets**

2.8.1 ***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. The classification depends on the purpose for which the financial assets were acquired. 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. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "other receivables, deposits and prepayments", "amounts due from related parties" and "cash and cash equivalents" in the balance sheet (Notes 11, 12, 13 and 14).

(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.

2.8.2 ***Recognition and measurement***

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised 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 are subsequently carried at fair value. Loans and receivables are subsequently 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 recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income.

2.9 **Offsetting financial instruments**

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

2.10 **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 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 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 loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment 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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(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 removed 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 income statement.

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 removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.11 **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted-average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.12 **Trade and other receivables**

Trade receivables are amounts due from patients and governments' social insurance schemes 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. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 **Cash and cash equivalents**

In the consolidated statement of cash flows and consolidated balance sheets, 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.

2.14 **Share Capital**

Ordinary shares are classified as equity.

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

2.15 **Trade payables**

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

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

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly 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 balance sheet date in the countries where the Company's subsidiaries and associates 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 recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date 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 recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements 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.

2.17 **Employee benefits**

(a) ***Pension obligations***

The Group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) ***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 (including shares or share options) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments 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 save or holding shares for a specified period of time).

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

Cash-settled share-based payment transactions

The Group operates a number of cash-settled share-based compensation plans, under which the entity receives services from employees by incurring liabilities for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity (the share appreciation rights). The employee services received and the liability incurred is measured at the fair value of the liability.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At the end of each reporting period and at the date of settlement, the Group re-measures the fair value of the liability, with any changes in fair value recognized in profit or loss for the period.

Share-based payment transactions with cash alternatives

The Group operates a share-based compensation plan, under which the entity receives services from employees and the terms of the arrangement provide the employees with a choice of whether the entity settles the transaction in cash or by issuing equity instruments.

For this kind of share-based payment transactions, the Group is considered to have issued a compound financial instrument, which includes a debt component (the employees' right to demand payment in cash) and an equity component (the employees' right to demand settlement in equity instruments rather than in cash).

The Group measures the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted. To apply this, the Group first measures the fair value of the debt component, and then measures the fair value of the equity component, taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components.

The Group accounts separately for the services received in respect of each component of the compound financial instrument. For the debt component, the Group recognizes the services received and a liability to pay for those services in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component, the Group recognizes the services received and an increase in equity in accordance with the requirements applying to equity-settled share-based payment transactions.

At the date of settlement, the Group re-measure the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued. If the Group pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognized shall remain within equity.

Share-based payment transactions among group entities

The Company settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in the Company's own equity instruments. Otherwise, the transaction shall be recognized as a cash settled share-based payment transaction. In its separate financial statements, the Company records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by the Company.

2.18 **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 **Revenue recognition**

The Group's revenue is primarily derived from rendering hospital management services to a hospital, general hospital services and sales of pharmaceuticals.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the goods sold and services rendered in the ordinary course of the Group's activities, stated net of discounts and sales related taxes. The Group recognises 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.

(a) ***Hospital Management Services***

Hospital management services fee is recognised 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.

(b) ***General Hospital Services***

Revenues from general Hospital services are recognised 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 or cash.

(c) ***Pharmaceutical Sales***

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

2.20 **Interest income**

Interest income is recognised using the effective interest method.

2.21 **Leases**

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

2.22 **Dividend distribution**

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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 executive directors.

(a) ***Market Risk***

(i) *Foreign exchange risk*

The Group runs its business inside the PRC, from which country the Group gain its revenue. The functional currency of all operating subsidiaries is RMB. As a result, the foreign exchange risk to the Group's financial performance is low.

(ii) *Price risk*

The Group is not exposed to significant commodity price risk. The wealth management product investments held by the Group are classified as available-for-sale financial asset. In consideration of the short maturity and relative stable price of wealth management products involved, the Group assesses the price risk is immaterial.

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

Borrowings obtained at variable rates expose the group to cash flow interest rate risk which is partially offset by cash and wealth management products held at variable rates. Borrowings obtained at fixed rates expose the group to fair value interest rate risk. The Group is not exposed to significant interest rate risk as the Group has no borrowings.

The directors of the Company do not anticipate any significant impact to the wealth management products as a result from changes in interest rates because of its short term maturity.

(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.

The Group mainly engages in providing management services to hospital and its largest customer is Yangsi Hospital which comprised 76% and 83% and 81% of total revenue during the period ended December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2016. The settlement of management fee from Yangsi Hospital may take three to six months. Management makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables, including, management fee, 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 trade and other receivables.

Management of the Group makes individual assessment on the recoverability of amounts due from related parties 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 amounts due from related parties.

(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	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2014					
Trade payables	1,994	—	—	—	1,994
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	53,916	—	—	—	53,916
Amounts due to related parties	103,998	—	—	—	103,998
	159,908	—	—	—	159,908
At December 31, 2015					
Trade payables	2,919	—	—	—	2,919
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	55,816	—	—	—	55,816
Amounts due to related parties	51,296	—	—	—	51,296
	110,031	—	—	—	110,031
At September 30, 2016					
Trade payables	3,992	—	—	—	3,992
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	19,824	—	—	—	19,824
Amounts due to related parties	22,278	—	—	—	22,278
	46,094	—	—	—	46,094

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 shareholder 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 shareholders' 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 December 31, 2014 and 2015 and September 30, 2016 was as follows:

	As at December 31,		As at September 30,
	2014	2015	2016
The liability-to-asset ratio	17%	13%	8%

There were no changes in the Group's approach to capital management during the Relevant Periods.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

3.3 **Fair value estimation**

The table below analyses the Group's financial instruments carried at fair value as at December 31, 2014 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).

The following table presents the Group's assets that are measured at fair value at December 31, 2014.

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
Wealth management contract				
- Wealth management contract with floating rates	—	—	81,150	81,150
Total assets	—	—	81,150	81,150

There were no transfers between levels 1, 2 and 3 during the year.

At December 31, 2015 and September 30, 2016, there is no financial instruments of the Group is required to be measured at fair value.

(a) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the years ended December 31, 2014 and December 31, 2015 and the nine months ended September 30, 2016, respectively.

	Wealth management products with floating rates		
	For the period ended December 31,	Year ended December 31,	Nine months ended September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Opening balance	—	81,150	—
Addition	81,150	81,620	—
Settlements	—	(163,409)	—
Gains and losses recognised in profit or loss	—	639	—
Closing balance	81,150	—	—
Total gains or losses for the year included in profit or loss under "Other (losses)/gains — net"	—	639	—
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year	—	—	—

Available-for-sale financial assets are wealth management products held by the Group which was effective on December 5, 2014, December 5, 2014 and January 27, 2015, respectively and fell due on January 7, January 14 and February 12, 2015, respectively. The fair value of the wealth management products held by the Group is approximate to the book value and relevant fair value gain/loss and financial impact of changes in interest rate are minimal because of short term maturity while the duration of two contracts are ranging from 33 to 40 days.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) ***Estimated impairment of goodwill***

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

The basis for the key assumptions used in the impairment testing as of September 30, 2016 (estimates based on the operations during the nine months ended September 30, 2016) are as follows:

(i) *Revenue (% compound growth rates)*

The revenue compound growth rates for the eight-year projection period is based on the Company's forecast of its average revenue growth rate from 2016 to 2023. In particular, the Company's management has estimated that the compound growth rate of its general hospital services segment revenue will be 9.69% during the period and the compound growth rate of its hospital management services segment revenue will be 9.65%. Frost and Sullivan has forecasted that the market size of Shanghai non-public hospitals will experience rapid growth with a Compound Annual Growth Rate ("CAGR") of 10.7%, starting from 2016 to 2023. The Company considers the CAGR, business transition strategy and other market forecasts in estimating these growth rates.

(ii) *Cost and operation expenses (% of revenue)*

The cost and operation expenses (% of revenue) for its general hospital services segment and its hospital management services segment for the eight-year forecast period are determined on the basis of management's past experience.

(iii) *Long-term growth rate*

The 3% long-term growth rate after the eight-year forecast period is estimated on the basis of the inflation rate of China. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

(iv) *Discount rates*

The discount rates for the eight-year forecast period and after that period are determined by reference to discount rates provided by an independent valuer. Discount rates were estimated based on the weighted average cost of capital ("WACCs") with reference to the industry risk premium and the debt to equity ratio of some guideline companies in China healthcare sector.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 7 to financial information in Accountant's report.

No impairment was charged during the years ended December 31, 2014 and 2015 and nine months ended September 30, 2016.

(b) ***Current and Deferred Income taxes***

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgments and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

(c) ***Purchase price allocation***

The application of business combination accounting requires the use of significant estimates and assumptions. The purchase method of accounting for business combinations requires the Group to estimate the fair value of identifiable assets acquired and liabilities assumed. This exercise requires the use of management's assumptions and judgement, including a presumption of contractual relationship renewal at minimum cost, which would not reflect unanticipated events and circumstances that may occur.

An asset is identifiable if it either:

(a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

(d) ***Consolidation***

Not-for-profit hospital founded by Weikang Investment

Yangsi Hospital, a not-for-profit hospital, was founded by Weikang Investment, a subsidiary acquired by the Company in September 2014. Despite the fact that Weikang Investment founded the hospital, Weikang Investment is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Weikang Investment and its affiliate have entered into agreements with the hospital in which the Group obtains contractual rights to provide management services of the not-for-profit hospital for certain periods and is entitled to receive performance-based management fees during Relevant Periods.

The Group has exercised significant judgments in determining whether the Group has control over hospital. In exercising such judgment, the Group considers the purpose and design of the hospital, what the relevant activities are and how decisions about those activities are made, whether the rights of the Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether the Group is exposed, or has rights, to variable returns from its involvement with the hospital, and whether the Group has the ability to use its power over the hospital to affect the amount of the Group's returns.

After assessment, the management has concluded that the Group does not have the decision making power over internal governance body to direct the relevant activities of the not-for-profit hospital, so the Group does not control and thus does not consolidate the not-for-profit hospital. Instead, agreements are considered as management contracts to generate management service income.

5 SEGMENT INFORMATION

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

The CODM considers the business from both the service and product perspective. When the group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in two different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are as follows:

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ("EBITDA").

(a) ***General hospital services***

Revenue from this segment is derived from hospital services provided at Fuhua Hospital.

(b) ***Hospital management services***

The Group provides comprehensive management services to Yangsi Hospital under hospital management agreements and receives management service fee.

(c) ***Unallocated***

The "Unallocated" category represents the headquarter expenses.

Segment information about the Group's reportable segment is presented below.

	General hospital services	Hospital management services	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the period from February 21, 2014 to December 31, 2014				
Revenue from external customers	5,275	18,378	—	23,653
EBITDA	83	16,263	—	16,346
Depreciation	(93)	(453)	(442)	(988)
Amortization	(287)	(769)	—	(1,056)
Finance income — net	—	584	—	584
Headquarter expenses except for depreciation and amortization			(6,406)	(6,406)
Profit before tax	(297)	15,625	(6,848)	8,480
As at December 31, 2014				
Segment assets	20,839	298,706	3,649	323,194
Goodwill	7,948	950,916	—	958,864
Total assets	28,787	1,249,622	3,649	1,282,058
Total liabilities	10,237	198,797	11,810	220,844
Other Segment information for the period from February 21, 2014 to December 31, 2014				
Depreciation, amortization and impairment	(380)	(1,222)	(442)	(2,044)
Additions of non-current assets except for goodwill	16,676	135,823	3,287	155,786

	General hospital services	Hospital management services	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2015				
Revenue from external customers	23,447	119,077	—	142,524
EBITDA	923	104,057	—	104,980
Depreciation	(531)	(1,755)	(1,166)	(3,452)
Amortization	(1,150)	(2,307)	—	(3,457)
Finance income — net	4	49	—	53
Headquarter expenses except for depreciation and amortization			(8,011)	(8,011)
Profit before tax	(754)	100,044	(9,177)	90,113
As at December 31, 2015				
Segment assets	26,773	311,222	5,170	343,165
Goodwill	7,948	950,916	—	958,864
Total assets	34,721	1,262,138	5,170	1,302,029
Total liabilities	16,742	128,791	27,957	173,490
Other Segment information for the year ended December 31, 2015				
Depreciation, amortization and impairment	(2,675)	(4,062)	(1,166)	(7,903)
Additions of non-current assets except for goodwill	984	2,213	82	3,279
Nine months ended September 30, 2016				
Revenue from external customers	21,089	94,278	—	115,367
EBITDA	1,145	65,697	—	66,842
Depreciation	(458)	(1,363)	(890)	(2,711)
Amortization	(863)	(1,729)	—	(2,592)
Finance income - net	9	177	—	186
Headquarter expenses except for depreciation and amortization			(15,370)	(15,370)
Profit before tax	(167)	62,782	(16,260)	46,355
As at September 30, 2016				
Segment assets	28,392	290,976	17,983	337,351
Goodwill	7,948	950,916	—	958,864
Total assets	36,340	1,241,892	17,983	1,296,215
Total liabilities	17,810	86,538	5,440	109,788

	General hospital services	Hospital management services	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Other Segment information for the nine months ended September 30, 2016				
Depreciation, Amortization and impairment	(1,321)	(3,092)	(890)	(5,303)
Addition of non-current assets except for goodwill	661	2,030	—	2,691
Nine months ended September 30, 2015 (Unaudited)				
Revenue from external customers	15,875	82,020	—	97,895
EBITDA	424	71,118		71,542
Depreciation	(388)	(1,317)	(878)	(2,583)
Amortization	(863)	(1,729)	—	(2,592)
Finance income - net	4	42	—	46
Headquarter expenses except for depreciation and amortization			(4,696)	(4,696)
Profit before tax	(823)	68,114	(5,574)	61,717
Other Segment information for the nine months ended September 30, 2015 (Unaudited)				
Depreciation, Amortization and impairment	(1,931)	(3,046)	(878)	(5,855)
Addition of non-current assets except for goodwill	905	1,647	36	2,588

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Medical equipment	Office equipment, furniture and motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Period ended December 31, 2014						
Opening net amount	—	—	—	—	—	—
Additions	—	2,574	75	713	—	3,362
Business combinations (Note 32)	19,128	352	552	1,392	—	21,424
Depreciation charge	(412)	(427)	(29)	(120)	—	(988)
Closing net amount	18,716	2,499	598	1,985	—	23,798
At December 31, 2014						
Cost	19,128	2,926	627	2,105	—	24,786
Accumulated depreciation	(412)	(427)	(29)	(120)	—	(988)
Net amount	18,716	2,499	598	1,985	—	23,798
Year ended December 31, 2015						
Opening net amount	18,716	2,499	598	1,985	—	23,798
Additions	—	902	94	82	2,201	3,279
Depreciation charge	(1,587)	(1,210)	(162)	(493)	—	(3,452)
Closing net amount	17,129	2,191	530	1,574	2,201	23,625
At December 31, 2015						
Cost	19,128	3,828	721	2,187	2,201	28,065
Accumulated depreciation	(1,999)	(1,637)	(191)	(613)	—	(4,440)
Net amount	17,129	2,191	530	1,574	2,201	23,625
Nine months ended 30 September 2016						
Opening net amount	17,129	2,191	530	1,574	2,201	23,625
Additions	—	411	—	354	1,926	2,691
Transfer upon completion	4,127	—	—	—	(4,127)	—
Depreciation charge	(1,234)	(966)	(102)	(409)	—	(2,711)
Closing net amount	20,022	1,636	428	1,519	—	23,605
At September 30, 2016						
Cost	23,255	4,239	721	2,541	—	30,756
Accumulated depreciation	(3,233)	(2,603)	(293)	(1,022)	—	(7,151)
Net amount	20,022	1,636	428	1,519	—	23,605

Depreciation expense of RMB505,000, RMB2,118,000, RMB1,575,000 and RMB1,696,000 has been charged in 'cost of revenue' and RMB483,000, RMB1,334,000, RMB1,008,000 and RMB1,015,000 in 'administrative expenses' for the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016, respectively.

The Group's land and buildings have certain title defects. The Group does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction work planning permits, commencement permits or completion inspection certificates. The Group has not yet obtained properties title certificates and is in the process of obtaining ownership certificates for all its properties.

Furthermore, PRC legal advisors of the Group have advised that the title defects on the land and buildings will not create any substantive legal obstacle for the Group to continue using the land and the buildings located on it or cause suspension to the operations of the Group. The management of the Group reasonably and firmly believes that the risk of the Group being required to suspend using the land and buildings is extremely remote. Moreover, the management has considered and assessed the feasibility of relocation and made a relocation plan accordingly. In addition, the controlling shareholders have confirmed to the management of the Group that they have sufficient financial resources (including capital commitments of the limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify the Group for any damages or costs incurred in relation to the title defects.

Based on the aforementioned facts, the directors of the Company are of the view that:

(i) The title defects of the land and buildings did not have a significant impact on the operation and going concern issue related to the basis of preparation of the financial information of the Group during the periods; and

(ii) Any damages or costs incurred in relation to the title defects of the land and building will be indemnified by the controlling shareholders of the Company, thus there will be no significant financial impact on the financial information of the Group.

The acquisition cost of buildings is comprising of the land and its building cost. According to an independent valuer, due to the title defects, it is infeasible and impractical to separately evaluate the fair value of the land and the buildings, which would be required to split the value between land and building cost. The directors of the Company consider as there is no reasonable basis to allocate the consideration to the land and the buildings located thereon, respectively, the total consideration has been recognized in the 'Property, Plant and Equipment' as buildings and depreciated over the estimated useful lives of 20 years. The directors of the Company is of the view that the reclassification of non-current assets in the balance sheet and the difference between depreciation and amortization charges resulting from different useful lives is immaterial.

7 INTANGIBLE ASSETS

	Goodwill	Contractual rights to provide management services	Medical licenses	Total
	RMB'000 (Note b)	RMB'000 (Note a)	RMB'000	RMB'000
Period ended December 31, 2014				
Opening net amount	—	—	—	—
Business combinations (Note 32)	958,864	116,000	15,000	1,089,864
Amortisation	—	(769)	(287)	(1,056)
Closing net amount	958,864	115,231	14,713	1,088,808
At December 31, 2014				
Cost	958,864	116,000	15,000	1,089,864
Accumulated amortisation	—	(769)	(287)	(1,056)
Net amount	958,864	115,231	14,713	1,088,808
Year ended December 31, 2015				
Opening net amount	958,864	115,231	14,713	1,088,808
Amortisation	—	(2,306)	(1,151)	(3,457)
Closing net amount	958,864	112,925	13,562	1,085,351
At December 31, 2015				
Cost	958,864	116,000	15,000	1,089,864
Accumulated amortisation	—	(3,075)	(1,438)	(4,513)
Net amount	958,864	112,925	13,562	1,085,351
Nine months ended September 30, 2016				
Opening net amount	958,864	112,925	13,562	1,085,351
Amortisation	—	(1,730)	(862)	(2,592)
Closing net amount	958,864	111,195	12,700	1,082,759
At September 30, 2016				
Cost	958,864	116,000	15,000	1,089,864
Accumulated amortisation	—	(4,805)	(2,300)	(7,105)
Net amount	958,864	111,195	12,700	1,082,759

(a) ***Contractual rights to provide management services***

On January 1, 2013, Weikang Investment entered into a Hospital Management Framework Agreement ("HMFA") arrangement with Yangsi Hospital. Pursuant to the HMFA arrangement, Weikang Investment provides management services to Yangsi Hospital for a period of 6 years from 2013 to 2018.

On September 23, 2014, the executive committee of Yangsi Hospital passed a resolution to extend the HMFA arrangement period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment pursuant to the resolution.

Amortisation expense of RMB769,000, RMB2,306,000, RMB1,730,000 and RMB1,730,000 was charged in 'cost of revenue' for the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016, respectively.

The fair value of the contractual rights to provide management services between Weikang Investment and Yangsi Hospital ("Contractual Rights") was established using a form of the income approach known as the excess earnings method. In the excess earnings method, value is estimated as the present value of the benefits anticipated from ownership of the subject intangible asset in excess of the returns required on the investment in the contributory assets necessary to realize those benefits. The key assumptions used when valuing the Contractual Rights as of the acquisition date were:

(i) Revenue compound growth rate of Yangsi Hospital

With consideration of reputation of Yangsi hospital, market demand for healthcare services and industry growth rate, the management of the Company estimated that the revenue of Yangsi Hospital would grow at a compound annual growth rate of 10.22% from 2014 to 2022 and 3.00% from 2022 to 2064.

(ii) Management fee ratio

The management of the Company estimated the ratio of management fee paid by Yangsi Hospital to Weikang Investment ("Management Fee Ratio") would decrease gradually from 15.00% in 2015 to 1.00% in 2018 and 1.00% from 2018 to 2064.

(iii) Discount rate

The resulting excess earning was discounted at 14.4%. The discount rate was determined based on a market participant's required rate of return for the risks of acquired business, as determined by the Capital Asset Pricing Model ("CAPM"), plus relative risk premium of the management service contract. The relative risk premium was determined with consideration of the risk profile of the management service contract, relative to the acquired business's overall weighted average portfolio of the assets.

(b) ***Impairment tests for goodwill***

Goodwill of RMB958,864,000 is resulted from acquisitions of subsidiaries in 2014 (Note 32). These subsidiaries are principally engaged in the provision of hospital management services and general hospital services in the PRC.

Management reviews the business performance of each operating segment. Goodwill is monitored by the management at the operating segment level.

The following is a summary of goodwill allocation for each operating segment:

	Opening	Addition	Impairment	Closing
	RMB'000	RMB'000	RMB'000	RMB'000
Period ended December 31, 2014				
General hospital services segment	—	7,948	—	7,948
Hospital management services segment	—	950,916	—	950,916
	—	958,864	—	958,864

	Opening	Addition	Impairment	Closing
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2015				
General hospital services segment	7,948	—	—	7,948
Hospital management services segment	950,916	—	—	950,916
	958,864	—	—	958,864

	Opening	Addition	Impairment	Closing
	RMB'000	RMB'000	RMB'000	RMB'000
Nine months ended September 30, 2016				
General hospital services segment	7,948	—	—	7,948
Hospital management services segment	950,916	—	—	950,916
	958,864	—	—	958,864

The recoverable amount of an operating segment is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering an eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the operating segment operates.

General hospital services segment

For general hospital services segment with significant amount of goodwill, the key assumptions, long-term growth rate and discount rate used in the value-in-use calculations as of December 31, 2014 and 2015 and September 30, 2016, are as follows.

	General hospital services segment		
	2014	2015	2016
Revenue (% compound growth rate).......	16.87%	9.69%	9.69%
Costs and operating expenses (% of revenue)	88.00%	85.00%	85.00%
Long-term growth rate	3.00%	3.00%	3.00%
Pre-tax discount rate	15.78%	16.36%	16.63%
Recoverable amount of operating segment (RMB'000)...........................	36,981	36,522	39,637

These assumptions have been used for the analysis of general hospital services segment.

Revenue compound growth rate is for the eight-year forecast period. It is based on past performance and management's expectations of market development.

The percentage of costs and operating expenses of revenue is the average percentages over the eight-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future price rises in labour, rental and relevant equipment, which management does not expect to be able to pass on to customers through price increases.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. By reference to relevant accounting standards, the future cash flows used in value-in-use calculations to assess the goodwill impairment of the general hospital services segment did not include income tax receipts or payments, and thus the management of the Company used the pre-tax discount rate to match the future cash flows when calculating the recoverable amount of the general hospital services segment.

The table below sets forth each key assumption for the eight-year forecast period as of each period/year end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Period ended December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2016	
	Key assumption	Breakeven point	Key assumption	Breakeven point	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	16.87%	-1.50%	9.69%	-17.19%	9.69%	-19.72%
Percentage of costs and operating expenses over revenue................	88.00%	94.32%	85.00%	91.65%	85.00%	91.89%
Percentage of the pre-tax discount rate*....................	15.78%	23.62%	16.36%	27.35%	16.63%	30.33%

Hospital Management Services Segment

For hospital management services segment with significant amount of goodwill, the key assumptions, long-term growth rate and discount rate used in the value-in-use calculations as of December 31, 2014 and 2015 and September 30, 2016, are as follows.

	Hospital management services segment		
	2014	2015	2016
Revenue (% compound growth rate).......	17.45%	9.59%	9.65%
Costs and operating expenses (% of revenue)	9.95%	9.95%	10.02%
Long-term growth rate	3.00%	3.00%	3.00%
Pre-tax discount rate	14.63%	14.67%	14.70%
Recoverable amount of operating segment (RMB'000)...........................	1,347,858	1,448,760	1,511,421

These assumptions have been used for the analysis of hospital management services segment.

Revenue compound growth rate is for the eight-year forecast period. It is based on past performance and management's expectations of market development.

* same for the eight-year forecast period and after that period

The percentage of costs and operating expenses of revenue is the average percentages over the eight-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future price rises in labour, rental and relevant equipment, which management does not expect to be able to pass on to customers through price increases.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. By reference to relevant accounting standards, the future cash flows used in value-in-use calculations to assess the goodwill impairment of the hospital management services segment did not include income tax receipts or payments, and thus the management of the Company used the pre-tax discount rate to match the future cash flows when calculating the recoverable amount of the hospital management services segment.

The table below sets forth each key assumption for the eight-year forecast period as of each period/year end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Period ended December 31, 2014		**Year ended December 31, 2015**		**Nine months ended September 30, 2016**	
	Key assumption	**Breakeven point**	**Key assumption**	**Breakeven point**	**Key assumption**	**Breakeven point**
Percentage of the compound growth rate of revenue............	17.45%	16.56%	9.59%	8.68%	9.65%	8.23%
Percentage of costs and operating expenses over revenue............	9.95%	13.80%	9.95%	14.20%	10.02%	16.66%
Percentage of the pre-tax discount rate*................	14.63%	15.10%	14.67%	15.21%	14.70%	15.62%

* Same for the eight-year forecast period and after that period.

No impairment was charged during the period ended December 31, 2014 and year ended December 31, 2015 and the nine months ended September 30, 2016, respectively.

8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Opening balance	—	81,150	—
Addition	81,150	81,620	—
Disposal	—	(163,409)	—
Gains recognised in profit or loss	—	639	—
Ending balance	81,150	—	—

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Wealth management products:			
Wealth management products with floating rate and the date of maturity was January 14, 2015	72,830	—	—
Wealth management products with floating rate and the date of maturity was January 7, 2015	8,320	—	—
	81,150	—	—

The available-for-sale financial assets are denominated in RMB.

Available-for-sale financial assets are wealth management products held by the Group which started on December 5, 2014, December 5, 2014 and January 27, 2015, respectively and fell due on January 7, January 14 and February 12, 2015, respectively. The fair value of the wealth management products held by the Group is approximate to the book value and relevant fair value gain/loss and financial impact of changes in interest rate are minimal because of short term maturity while the duration of two contracts are ranging from 33 to 40 days.

9 INVENTORIES

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Pharmaceuticals	759	1,145	1,828
Medical consumables	92	35	133
	851	1,180	1,961

The cost of inventories recognised as expense and included in 'cost of revenue' amounted to RMB2,746,000, RMB12,836,000, RMB8,571,000 and RMB12,533,000 for the period ended December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2015 and 2016, respectively.

10 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables		
	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Assets as per consolidated balance sheets			
Trade receivables	1,563	7,490	6,588
Other receivables and deposits	544	585	607
Amounts due from related parties	79,787	166,861	37,725
Cash and cash equivalents	5,145	13,104	133,135
	87,039	188,040	178,055

	Available-for-sale financial asset		
	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Assets as per consolidated balance sheets			
Available-for-sale financial asset	81,150	—	—

	Financial liabilities at amortised costs		
	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Liabilities as per consolidated balance sheets			
Trade payables	1,994	2,919	3,992
Accruals and other payables (excluding accrued employee benefits, other tax liabilities and advance from third parties)	53,916	55,816	19,824
Amounts due to related parties	103,998	51,296	22,278
	159,908	110,031	46,094

11 TRADE RECEIVABLES

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade receivables	1,563	8,484	7,582
Less: provision for impairment of trade receivables	—	(994)	(994)
Trade receivables — net	1,563	7,490	6,588

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

As at December 31, 2014 and 2015 and September 30, 2016, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
1 - 60 days	1,563	4,463	4,624
61 - 180 days	—	4,021	864
181 days - 1 year	—	—	2,094
	1,563	8,484	7,582

The Group's trade receivables past due but not impaired were nil, RMB1,491,000 and RMB87,000 as at December 31, 2014 and 2015 and September 30, 2016. These mainly related to the amounts to be claimed from local social insurance bureau and similar government departments who are responsible for the reimbursement of medical expenses for patients who are covered by government medical insurance schemes. The management considers that based on past experience, the amounts can be recovered. The ageing analysis of these trade receivables was as follows:

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
1 - 60 days	—	—	—
61 - 180 days	—	1,491	—
181 days - 1 year	—	—	87
	—	1,491	87

The Group's trade receivables impaired were nil, RMB994,000 and RMB994,000 as at December 31, 2014 and 2015 and September 30, 2016. The ageing analysis of the trade receivables was as follows:

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
1 - 60 days	—	—	—
61 - 180 days	—	994	—
181 days - 1 year	—	—	994
	—	994	994

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

	RMB'000
Balance at February 21, 2014	—
Provision for receivables	—
Balance at December 31, 2014	—

	RMB'000
Balance at January 1, 2015	—
Provision for receivables	994
Balance at December 31, 2015	994
Balance at January 1, 2016	994
Provision for receivables	—
Balance at September 30, 2016	994

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

12 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Group

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Other receivables	57	98	108
Prepayment for professional service fee in respect of listing preparation	—	2,876	8,928
Prepayments for rental	392	484	273
Other prepayment	20	224	237
Deposits	487	487	499
Total	956	4,169	10,045
Less: non-current portion	487	487	—
Current portion	469	3,682	10,045

Company

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Prepayments for professional service fee in respect of listing preparation	—	2,876	8,928
Total	—	2,876	8,928
Less: non-current portion	—	—	—
Current portion	—	2,876	8,928

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate their fair values.

13 BALANCES WITH RELATED PARTIES

As at December 31, 2014 and 2015 and September 30, 2016, the balances with related parties are unsecured, interest free, receivable/repayable on demand and are denominated in RMB.

Group

	As at December 31,		As at September 30
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Amounts due from related parties			
- Trade in nature			
Yangsi Hospital	79,782	166,827	37,424
- Others			
Yangsi Hospital	5	34	283
Grand Roc Holdings Limited	—	—	8
Midpoint Honour Limited	—	—	10
	79,787	166,861	37,725

As at December 31, 2014 and 2015 and September 30, 2016, the ageing analysis based on trading date of the trade receivables due from related party was as follows:

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Within 30 days	18,071	38,444	32,707
30 to 90 days	—	—	—
90 to 180 days	46,571	27,936	4,717
More than 180 days	15,140	100,447	—
	79,782	166,827	37,424

As at December 31, 2014 and 2015 and September 30, 2016, none of the relevant receivables was individually determined to be impaired.

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Amounts due to related parties			
- Others			
Vanguard Glory Limited	162	6,789	7,923
Yangsi Hospital	92,662	24,419	12,876
Hony Capital Management (Tianjin) L.P.	9,819	18,650	—
Hony Capital Fund V, L.P.	1,355	1,438	1,479
	103,998	51,296	22,278

Amounts due to non-controlling shareholder of subsidiaries was recorded in other payables (Note 21).

Their carrying values due as at December 31, 2014 and 2015 and September 30, 2016, approximate their fair values.

14 CASH AND CASH EQUIVALENTS

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cash at banks	5,097	12,919	133,082
Cash on hand	48	185	53
	5,145	13,104	133,135

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

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
US dollars	—	6	14,638
Hong Kong dollars	1	1	5,633
RMB	5,144	13,097	112,864
	5,145	13,104	133,135

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Group's balances of cash at banks which are mainly denominated in RMB are deposited with banks in the PRC. The conversion of these RMB-denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

15 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of shares
		USD
Authorised		
Ordinary shares upon incorporation (a)	50,000	50,000

	Number of shares	Ordinary shares	Share premium	Total
		RMB'000	RMB'000	RMB'000
Issued and Paid				
As at February 21, 2014, December 31, 2014 and 2015	1	—	—	—
Issue of ordinary share to parent company (b)	9,699	63	—	63
Proceeds from shares issued (b)	300	2	31,150	31,152
As at September 30, 2016	10,000	65	31,150	31,215

(a) The Company was incorporated in the Cayman Islands on February 21, 2014 with an authorized share capital of USD$50,000 divided into 50,000 ordinary shares of a par value of US$1.00 each. On the same date, 1 ordinary share of the Company was transferred by the initial subscriber to Vanguard Glory Limited at a consideration of US$1.00.

(b) On February 2 and March 31, 2016, the Company issued 99 and 9,600 ordinary shares to Vanguard Glory at a consideration equal to the par value of US$1.00 each, respectively. On March 31, 2016, the Company issued 300 ordinary shares of a par value of US$1.00 each to Midpoint Honour Limited at a consideration of RMB31,152,000 (Note 16).

(c) Ms. Xia Yuanqing ("Ms. Xia") ceased to be a member of the senior management team of the Company for personal reason from August 2016. On September 14, 2016, Midpoint Honour Limited ("Midpoint Honour") transferred 14 ordinary shares of the Company (which were then indirectly held by Ms. Xia through Han Prestige Limited and Midpoint Honour) to Vanguard Glory at a consideration of HK$1,787,495.50. Pursuant to the subsequent amendments to the share subscription agreement, on December 4, 2016, the Company repurchased the 14 ordinary shares from Vanguard Glory at a price of HK$1,787,495.50, and subsequently cancelled these shares. For the details of the amendments, please refer to Note 16(a).

16 SHARE-BASED PAYMENTS

(a) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the "Subscription Agreement") with Mr. Zhang Xiaopeng ("Mr. Zhang"), Ms. Xia Yuanqing ("Ms. Xia"), Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (Mr. Zhang, Ms. Xia, Mr. Zang Chuanbo, Ms. Ding Yue and Ms. Kan Ruihan collectively referred to as the "Management Subscribers"), the respective investment holding companies wholly owned by the Management Subscribers (collectively, the "Management SPVs"), Midpoint Honour which was collectively owned by the Management SPVs and Han Prestige Limited ("Han Prestige"), an investment holding company then wholly owned by Ms. Xia, Hony Capital 2008 Management Limited ("Hony Management"), a management company established by Hony Capital and an affiliate of the Company, and Vanguard Glory, the direct Shareholder of our Company.

Pursuant to the Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the "Subscription Shares"), representing 3% of the Company's then issued ordinary shares upon completion of the Subscription Agreement, for a total consideration of RMB31,152,000.

Pursuant to lock-up restrictions provided in the Subscription Agreement, Midpoint Honour undertakes that, unless obtaining a written consent from Vanguard Glory,

(i) within the first 12 months following the listing date (the "First Year"), it shall not dispose of any of the Subscription Shares held by it;

(ii) within the 12 months following expiration of the First Year (the "Second Year"), Midpoint Honour shall not dispose of more than 50% of the Subscription Shares held by it;

(iii) after expiration of the Second Year, Midpoint Honour is free to dispose of any of the Subscription Shares held by it.

Pursuant to the exit mechanism provided in the Subscription Agreement, in the event that the Management Subscriber resigns with the Company's consent, the Management Subscribers shall put back the Subscription Shares to Hony Management, or a nominee designated by Hony Management with a consideration equal to the Subscription Consideration plus interests where applicable (the "Put Back Consideration").

Pursuant to both the lock-up restrictions and the exit mechanism, in accordance with relevant accounting standards the Subscription Agreement was accounted for as a share option scheme, under which the Management Subscribers were granted by 300 share options and the Group receives services from the Management Subscribers. The exercise price of the granted options is equal to Put Back Consideration at the end of the First Year and the Second Year. Options are conditional on the employees completing the First Year's and the Second Year's service (the vesting period). The options are exercisable starting 12 months (the "First Batch Share Options") or 24 months (the "Second Batch Share Options") from the listing date of the Company. In accordance with the Subscription Agreement, the Group had no legal or constructive obligation to repurchase or settle the options in cash. The granted share options were considered as equity-settled share-based payment to the Management Subscribers. The Subscription Consideration proceeded from the Management Subscribers was deemed as a loan to Hony Management.

Honghe Ruixin, the employer of the Management Subscribers, receives the services provided by the Management Subscribers.

The fair value of the First Batch Share Options and the Second Batch Share Options granted to the Management Subscribers on grant date, March 31, 2016, as determined by a professional valuation firm was RMB5,160,000 and RMB6,000,000, respectively.

The significant inputs into the Black-Scholes valuation model were listed as below:

	As at March 31, 2016	
	First Batch Share Options	**Second Batch Share Options**
Volatility	52%	52%
Dividend yield	0.0%	0.0%
Expected option life (month)	19.5	31.5
Annual risk-free interest rate	0.43%	0.69%

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

The share-based compensation expense related to the Subscription Agreement of RMB2,223,000 was recognised as 'cost of revenue' for the nine months ended September 30, 2016.

Along with the Subscription Agreement, Mr. Zhang further entered into two loan agreements (the "Loan Agreements") between Hony Management and Midpoint Honour, respectively, in which Hony Management agreed to grant Mr. Zhang a loan in the principal amount of US$3,200,000 at a simple interest rate of 4% per annum and repayable on demand ("Hony Management's Loan"), and Mr. Zhang agreed to grant Midpoint Honour an interest-free loan in the principal amount of RMB25,960,000 for the purpose of subscription of the Subscription Shares by Midpoint Honour.

The Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017 respectively by the amendments to the Subscription Agreement (the "Amendment Agreements"). In accordance with the Amendment Agreements, in the event that a Management Subscriber resigns with the Company's consent, the Company, instead of Hony Management or a nominee designated by it, shall have the right to repurchase all the shares indirectly held by the Management Subscriber through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contribution made by such Management Subscriber plus interest where applicable. In other events, the Company, instead of Hony Management or a nominee designated by it, shall have the right to repurchase all the shares indirectly held by the Management Subscriber through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contribution made by such Management Subscriber. Pursuant to the Amendment Agreements, the Subscription Shares will be treated as treasury shares. The fair value of the 300 share options granted to the Management Subscribers will not change due to the modification. Moreover, the Subscription Consideration proceed from the Management Subscribers of approximately RMB31.1 million will be recognized as financial liability in the financial information of the Group subsequently, instead of previously deemed as a loan from Management Subscribers to Hony Management.

(b) **Pre-IPO Share Appreciation Rights Scheme**

As the end of June 2016, the key terms and conditions of a Pre-IPO Share Appreciation Rights Scheme (the "Pre-IPO SARs Scheme") were discussed with all employees' concerned. The employees concerned were also informed that the Pre-IPO SARs Scheme was subject to board approval, which was obtained in November 2016.

On November 28, 2016, the Board of the Company approved the Pre-IPO SARs Scheme which enables the Company to grant share appreciation rights to Mr. Zhang Xiaopeng, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (collectively referred to as the "Pre-IPO SARs Grantees").

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting at June 30, 2016.

Honghe Ruixin, the employer of the Pre-IPO SARs Grantees, receives the services provided by the Pre-IPO SARs Grantees.

The fair value of the notional shares granted to the Pre-IPO SARs grantee as at September 30, 2016, as determined by a professional valuation firm was RMB15,556,000. The starting date of the vesting period of the Pre-IPO SARs Scheme is June 30, 2016.

The significant inputs in the valuation model were listed as below:

	As at September 30, 2016			
	First Batch Share Options	**Second Batch Share Options**	**Third Batch Share Options**	**Fourth Batch Share Options**
Volatility	47.6%	47.6%	47.6%	47.6%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected option life (month)	20.5	32.5	44.5	56.5
Annual risk-free interest rate	1.26%	1.26%	1.26%	1.26%

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

Share-based compensation expense related to the Pre-IPO SARs Scheme of RMB1,388,000 was recognized as 'cost of revenue' for the nine months ended September 30, 2016.

(c) **Service Contract with Mr. Lu Wenzuo**

As the end of June 2016, the key terms and conditions of a service contract were discussed with Mr. Lu Wenzuo ("Mr. Lu"). Mr. Lu was also informed that the service contract was subject to board approval, which was obtained in December 2016.

Pursuant to the Board of Directors' resolution dated December 13, 2016, New Pride entered in to a service contract with Mr. Lu Wenzuo (the "Service Contract"). Pursuant to the Service Contract on December 13, 2016, New Pride conditionally granted the following awards to Mr. Lu if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator till December 31, 2017:

(i) Certain share awards (the "Share Awards") to acquire 1% equity interest in each of Weikang Investment and Honghe Ruixin from New Pride and Honghe Zhiyuan or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017 and the Share Awards will be settled by New Pride at the end of Mr. Lu's tenure at one time;

(ii) Share appreciation rights (the "Mr. Lu's SARs") to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin. The Mr. Lu's SARs will be settled by New Pride at the end of Mr. Lu's tenure;

Pursuant to the Service Contract, Weikang Investment receives the services provided by Mr. Lu and has no obligation to settle the Share Awards and the Mr. Lu's SARs.

The Share Awards are deemed as a compound financial instrument. The fair value of the debt component and the equity component of the Share Awards on the grant date, December 13, 2016, as determined by a professional valuation firm was RMB41,400,000 and RMB300,000, respectively. The fair value of Mr. Lu's SARs on the grant date of December 13, 2016, are determined by a professional valuation firm was RMB8,600,000. The starting date of the vesting period is June 30, 2016.

The significant inputs in the valuation model related to the Share Awards were listed as below:

	As at December 13, 2016
Discount for lack of marketability	20%
Length of the vesting period (month)	18

The significant inputs in the valuation model related to Mr. Lu's SARs were listed as below:

	As at December 13, 2016
Volatility	43.2%
Length of the vesting period (month)	18
Annual risk-free interest rate	0.661%

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

Share-based compensation expenses related to the Share Awards of RMB6,950,000 and share-based compensation expenses related to the Mr. Lu's SARs of RMB1,433,000 was recognized as 'cost of revenue' for the nine months ended September 30, 2016.

The Service Contract with Mr. Lu has no impact on the Company's separate financial statements as the Company is not a party to the transactions.

Other than the Subscription Agreement, the Pre-IPO SARs Scheme, the Share Awards and the Mr. Lu's SARs mentioned above, there is no other share-based payments plan.

17 RESERVES

	Capital reserve	Other reserve	Total
	RMB'000	RMB'000	RMB'000
At February 21, 2014	—	—	—
Deemed distribution to shareholder	(1,365)	—	(1,365)
Others	—	10	10
Capital contribution by shareholder (a)	1,038,400	—	1,038,400
At December 31, 2014	1,037,035	10	1,037,045
At January 1, 2015	1,037,035	10	1,037,045
Transfer of reserves (b)	—	7,802	7,802
At December 31, 2015	1,037,035	7,812	1,044,847
At January 1, 2016	1,037,035	7,812	1,044,847
Share-based payments (Note 16)	—	2,272	2,272
At September 30, 2016	1,037,035	10,084	1,047,119
(Unaudited)			
At January 1, 2015	1,037,035	10	1,037,045
At September 30, 2015	1,037,035	10	1,037,045

(a) The shareholder paid RMB1,038,400,000 to acquire 80% of interests of Weikang Investment (Note 32), and did not require the Company to pay any interest nor repay the funds, which are accounted for as capital contribution.

(b) **Statutory surplus reserve**

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

18 DIVIDEND

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on September 12, 2016, a dividend of RMB25,493,000 to its majority shareholders and RMB6,373,000 to its minority shareholders was declared. The dividend payable to its minority shareholders, amounting to RMB6,373,000, has been recognised as a liability in the financial information of the Group as of September 30, 2016.

19 DEFERRED INCOME TAX

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:			
- Deferred income tax assets to be recovered after more than 12 months	—	—	—
- Deferred income tax assets to be recovered within 12 months	—	249	397
	—	249	397
Deferred income tax liabilities:			
- Deferred income tax liabilities to be settled after more than 12 months	(31,622)	(36,205)	(37,447)
- Deferred income tax liabilities to be settled within 12 months	(864)	(864)	(864)
	(32,486)	(37,069)	(38,311)
Deferred income tax liabilities — net	(32,486)	(36,820)	(37,914)

Deferred income tax assets

	Provisions	Recognized tax losses assets	Total
	RMB'000	RMB'000	RMB'000
Balance at January 1, 2014	—	—	—
Credited to profit or loss	—	—	—
Balance at December 31, 2014	—	—	—
Balance at January 1, 2015	—	—	—
Credited to profit or loss	249	—	249
Balance at December 31, 2015	249	—	249
Balance at January 1, 2016	249	—	249
Credited to profit or loss	—	148	148
Balance at September 30, 2016	249	148	397

Deferred income tax liabilities

	Intangible assets	Withholding Tax	Total
	RMB'000	RMB'000	RMB'000
Balance at January 1, 2014	—	—	—
Business combination (Note 32)	(32,750)	—	(32,750)
Credited to profit or loss	264	—	264
Balance at December 31, 2014	(32,486)	—	(32,486)
Balance at January 1, 2015	(32,486)	—	(32,486)
Credited/(charged) to profit or loss	864	(5,447)	(4,583)
Balance at December 31, 2015	(31,622)	(5,447)	(37,069)
Balance at January 1, 2016	(31,622)	(5,447)	(37,069)
Credited/(charged) to profit or loss	648	(4,439)	(3,791)
Dividend Distribution (Note 18)	—	2,549	2,549
Balance at September 30, 2016	(30,974)	(7,337)	(38,311)

Deferred income tax asset is recognised for provision for impairment of trade receivables to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The unrecognised deferred income tax assets of Honghe Zhiyuan were RMB591,000, RMB308,000 and RMB82,000 in respect of losses amounting to RMB6,563,000, RMB3,422,000 and RMB914,000 that can be carried forward against future taxable income for the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively. There is no material tax losses of other entities in the Group carried forward in respect of which deferred tax assets have not been accounted for.

The recognized deferred tax liabilities by the Group were nil, RMB5,447,000 and RMB7,337,000 as at the years ended December 31, 2014 and 2015, and for the nine months ended September 30, 2016, respectively, in respect of the PRC dividend withholding tax on temporary differences relating to the undistributed profits of the PRC entities attributable to the Company amounting to nil, RMB54,469,000 and RMB73,367,000, respectively, as it was considered probable that these profits would be distributed in the foreseeable future.

20 TRADE PAYABLES

An ageing analysis, based on invoice date, of trade payables as at the combined statements of financial position dates are as follows:

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Less than 60 days	1,804	2,892	3,965
61 to 180 days	—	—	—
181 days to 1 year	190	—	—
Over 1 year	—	27	27
	1,994	2,919	3,992

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

21 ACCRUALS, OTHER PAYABLES AND PROVISIONS

Group

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Accrued employee benefits	386	1,588	6,619
Share-based payments	—	—	9,721
Accrued professional service fee in respect of listing preparation	—	1,534	9,558
Advance from third parties	113	151	151
Other payables to suppliers of plant and equipment	582	363	380
Duty and tax payable other than corporate income tax	5,295	6,198	3,054
Payable to non-controlling shareholders of subsidiaries	53,000	53,000	6,373
Others	334	919	3,513
Total accruals, other payables and provisions	59,710	63,753	39,369
Less: non-current portion	—	—	9,721
Current portion	59,710	63,753	29,648

Company

	As at December 31,		As at September 30,
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Accrued professional service fee in respect of listing preparation	—	1,534	9,558
Share-based payments	—	—	1,388
Total accruals, other payables and provisions	—	1,534	10,946
Less: non-current portion	—	—	1,388
Current portion	—	1,534	9,558

Before the acquisition, dividends of RMB53,000,000 were declared to the then shareholders which are the non-controlling shareholders of the Group and the dividend was fully paid in February, 2016.

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

22 REVENUE

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
General hospital services				
- Pharmaceutical sales	3,033	15,207	9,917	14,504
- Treatments and general healthcare services	2,242	8,240	5,958	6,585
Hospital management services				
- Management services fee (a)	18,071	117,847	81,123	93,285
- Other services fee	307	1,230	897	993
	23,653	142,524	97,895	115,367

All revenue are generated in the PRC. For its general hospital services, the Group has a highly diversified patient portfolio, no single patient or client contributed 1% or more of the Group's revenue during the Relevant Periods. For its hospital management services, there is a single client, Yangsi Hospital, contributed to the Group's revenue during the Relevant Periods.

(a) Management services fee

On January 1, 2013, Weikang Investment entered into a hospital management framework agreement ("HMFA") arrangement with Yangsi Hospital. Pursuant to the HMFA arrangement, Weikang Investment provides management and consultancy services to Yangsi Hospital with a period of 6 years from 2013 to 2018 and the detailed service content and pricing are concluded and effective in separate hospital management agreement ("HMA") on an annually basis.

On September 23, 2014, the executive committee of Yangsi Hospital passed a resolution to extend the HMFA arrangement period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment pursuant to the resolution.

On January 1, 2016, Weikang Investment and Honghe Ruixin further entered into a long-term hospital management agreement ("LTHMA") arrangement with Yangsi Hospital. Pursuant to the LTHMA arrangement, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 10 years from 2016 to 2025.

On January 1, 2014, 2015 and 2016, Weikang Investment signed annual HMA with Yangsi Hospital respectively and derives management fee based on pre-set formulas set out in these annual HMA respectively. On January 1, 2015 and 2016, Honghe Ruixin signed the annual HMA with Yangsi Hospital and derives management fee based on pre-set formulas set out in this annual HMA.

As set out in the 2014 HMAs, the management fee is based on the revenue of Yangsi Hospital and a predetermined fixed rate. As set out in the 2015 HMA, the management fees are based on the revenue of Yangsi Hospital and the assessment result of predetermined comprehensive performance indicators.

23 EXPENSES BY NATURE

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Advertising and marketing expenses	—	1	1	3
Amortisation and depreciation	2,044	6,909	5,175	5,303
Business tax and other transaction taxes	983	3,903	2,710	1,254
Cost of pharmaceuticals, consumables and inspection fees	2,746	12,874	8,599	12,636
Employee benefits expenses	5,629	17,274	12,180	30,068
Operating lease rental expenses	1,805	4,127	3,058	3,044
Utilities and office expenses	152	1,003	738	1,365
Travelling and entertainment expenses	691	702	464	732
Expenses in relation to the listing	—	5,041	2,521	14,887
Provision for impairment of trade receivables	—	994	680	—
Other expenses	1,660	1,771	1,044	1,791
	15,710	54,599	37,170	71,083

24 OTHER (LOSSES)/GAINS — NET

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Foreign exchange gains/(losses)	21	(231)	—	850
Medical compensation	—	(90)	(9)	—
Others	(68)	(21)	(22)	21
	(47)	(342)	(31)	871

25 OTHER INCOME

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants and subsidies	—	1,838	338	1,081
Interest income on wealth management products	—	639	639	—
	—	2,477	977	1,081

The Government grants and subsidies are granted by the People's Government of Sanlin Town in Shanghai for the year ended December 31, 2015 in consideration of the taxation contribution of Weikang Investment.

The Government grants and subsidies are granted by the Finance Bureau of Dazi County in Tibet Autonomous Region for the nine months ended September 30, 2016 in consideration of the taxation contribution of Honghe Ruixin.

26 EMPLOYEE BENEFIT EXPENSES

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	4,897	15,511	11,017	16,270
Share-based compensation expenses	—	—	—	11,994
Contribution to pension plans and other expenses	732	1,763	1,163	1,804
	5,629	17,274	12,180	30,068

Employee benefit expenses of RMB1,676,000, RMB15,749,000, RMB10,905,000 and RMB27,935,000 has been charged in 'cost of revenue', RMB3,953,000, RMB1,525,000, RMB1,275,000 and RMB2,133,000 has been charged in 'administrative expenses' for the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 and nine months ended September 30, 2015 and 2016 respectively.

The employees of the Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

(a) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the period from February 21, 2014 to December 31, 2014 and the year ended December 31, 2015 and nine months ended September 30, 2015 and 2016 include one, two, two and two directors whose emoluments are reflected in the analysis shown in Note 36.

The emoluments payable to the remaining four individuals for the period from February 21, 2014 to December 31, 2014, three individuals for the year ended December 31, 2015, three individuals for the nine months ended September 30, 2015, three individuals for the nine months ended September 30, 2016 are as follows:

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30,	
			2015	2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,160	1,206	924	1,486
Bonuses	382	1,160	870	689
Share-based compensation expenses	—	—	—	757
	1,542	2,366	1,794	2,932

The number of highest paid non-director individuals whose remunerations for each of the Relevant Periods fell within the following band is as follows:

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	no. of individuals	no. of individuals	no. of individuals (Unaudited)	no. of individuals
Emolument bands				
Nil - HKD500,000	2	—	—	—
HKD500,000 - HKD1,000,000	2	3	3	3
	4	3	3	3

During Relevant Periods, no emoluments have been paid to the five highest individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

27 FINANCE INCOME

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income				
Interest income on short-term bank deposit	8	35	28	119
Interest income on short-term fixed deposits	576	18	18	—
	584	53	46	119
Finance income - net	584	53	46	119

28 INCOME TAX EXPENSE

Subsidiaries in Mainland China are subject to the PRC corporate income tax at the rates of 9% and 25% for the Relevant Periods.

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income taxation:				
- PRC corporate income tax	4,449	18,454	12,532	14,487
- Deferred income tax (credit)/charge (Note 19)	(264)	4,334	3,330	1,094
	4,185	22,788	15,862	15,581

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

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	8,480	90,113	61,717	46,355
Calculated at taxation rate of 25%	2,120	22,528	15,429	11,589
Effect of different tax rates available to different subsidiaries of the Group	—	(7,525)	(5,114)	(6,800)
Expenses not tax deductible	371	1,396	671	6,985
Tax effect of unrecognized tax losses	1,694	942	728	46
Utilization of tax losses in previous years	—	—	—	(678)
Withholding tax	—	5,447	4,148	4,439
Income tax expense	4,185	22,788	15,862	15,581

(a) **Cayman Islands Income Tax**

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) **Hong Kong Profits Tax**

Hong Kong profits tax rate is 16.5% for the years ended December 31, 2014 and 2015 and nine months ended September 30, 2016. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Relevant Periods.

(c) **PRC Corporate Income Tax ("CIT")**

The income tax rate of Weikang Investment, Fuhua Hospital and Honghe Yixin was 25% for each of the Relevant Periods. The income tax rate of Honghe Zhiyuan and Honghe Ruixin was 9% for each of the Relevant Periods.

Honghe Zhiyuan and Honghe Ruixin are eligible for a preferential 9% income tax rate for the period from January 1, 2015 to December 31, 2017, in accordance with the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Autonomous Region (西藏自治區企業所得税政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

(d) **Withholding Tax**

The withholding tax rate of Bliss Success and New Pride is 10% pursuant to the PRC Enterprise Income Tax based on the remittance of dividends from Honghe Ruixin and Weikang Investment in the foreseeable future respectively.

29 SUBSIDIARIES

(a) **Investment in subsidiaries**

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

(b) **Material non-controlling interests**

The total non-controlling interest is RMB22,102,000, RMB38,492,000 and RMB44,752,000 for the period from February 21, 2014 to December 31, 2014 and for the year ended December 31, 2015 and the nine months ended September 30, 2016, of which RMB22,112,000, RMB29,973,000 and RMB28,530,000 is for Weikang Investment and RMB10,000 (deficit) and RMB8,519,000 and RMB16,222,000 is attributed to Honghe Ruixin for the period from February 21, 2014 to December 31, 2014 and for the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively.

Significant restrictions

Cash of RMB5,134,000, RMB13,086,000 and RMB112,855,000 are held in China and are subject to local exchange control regulations as at December 31, 2014 and 2015 and the nine months ended September 30, 2016, respectively. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised balance sheet

	Weikang Investment			Honghe Ruixin		
	As at December 31,		As at September 30,	As at December 31,		As at September 30,
	2014	2015	2016	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current						
Assets	168,648	132,609	85,117	—	56,785	87,228
Liabilities	(176,498)	(99,724)	(58,436)	(50)	(14,188)	(6,201)
Total current net (liabilities)/assets	(7,850)	32,885	26,681	(50)	42,597	81,027
Non-current						
Assets	150,898	148,600	146,944	—	—	80
Liabilities	(32,486)	(31,622)	(30,974)	—	—	—
Total non-current net assets	118,412	116,978	115,970	—	—	80
Net assets/(liabilities)	110,562	149,863	142,651	(50)	42,597	81,107

Summarised income statement

	Weikang Investment				Honghe Ruixin			
	For the period from February 21, to December 31, 2014*	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	23,653	89,234	61,643	63,807	—	53,290	36,252	51,560
Profit before income tax	15,327	52,409	35,331	31,973	(50)	46,881	31,961	42,333
Income tax expense	(4,185)	(13,108)	(8,838)	(7,318)	—	(4,233)	(2,876)	(3,825)
Profit for the period/year	11,142	39,301	26,493	24,655	(50)	42,648	29,085	38,508
Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	11,142	39,301	26,493	24,655	(50)	42,648	29,085	38,508
Total comprehensive income allocated to Non-Controlling Interests	2,228	7,860	5,299	4,931	—	8,530	5,817	7,702
Dividends paid to Non-Controlling Interests	—	—	—	53,000	—	—	—	—

Summarised cash flows

	Weikang Investment				Honghe Ruixin			
	For the period from February 21, to December 31, 2014*	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities								
Cash generated from operations	2,713	29,987	23,627	122,645	—	—	—	62,054
Income tax paid	—	(22,656)	(22,656)	(18,363)	—	—	—	(6,190)
Net cash generated from operating activities	2,713	7,331	971	104,282	—	—	—	55,864
Net cash (used)/proceed in investing activities	(81,725)	80,621	80,813	(7,514)	—	—	—	(88)
Net cash used in financing activities	—	(80,000)	(80,000)	(53,000)	—	—	—	—
Net (decrease) /increase in cash	(79,012)	7,952	1,784	43,768	—	—	—	55,776
Cash at beginning of period/year	84,146	5,134	5,134	13,086	—	—	—	—
Cash at end of period/year	5,134	13,086	6,918	56,854	—	—	—	55,776

* Relevant periods of Weikang Investment included in the above summarized financial information is from September 30, 2014 (date of acquisition) to December 31, 2014.

30 EARNINGS PER SHARE

(a) Basic Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods.

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
			(Unaudited)	
Total profit attributable to owners of the company (RMB'000)	2,067	50,935	34,739	18,141
Weighted average number of ordinary shares in issue	9,700	9,700	9,700	9,900
Basic earnings per share (in RMB)	213	5,251	3,581	1,832

The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 9,700, 9,700, 9,700 and 9,900 shares for the period from February 21, 2014 to December 31, 2014 and the period ended September 30, 2015, the year ended December 31, 2015 and the period ended September 30, 2016. In determining the weighted average number of ordinary shares, the one share issued upon incorporation and 9,699 shares issued in 2016 were treated as if they have been in issue since February 21, 2014. In addition, the weighted average number of ordinary shares in issue was adjusted by additional 300 shares which were issued to Midpoint Honour on March 31, 2016.

(b) Diluted Earnings Per Share

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

31 CASH GENERATED FROM OPERATIONS

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	8,480	90,113	61,717	46,355
Adjustments for:				
— Foreign exchange (gain)/loss	(21)	231	—	(850)
— Interests received	(584)	(53)	(46)	(186)
— Amortisation of intangible assets (Note 7)	1,056	3,457	2,592	2,592
— Depreciation of property, plant and equipment (Note 6)	988	3,452	2,583	2,711
— Gain on disposal of available-for-sale financial asset	—	(639)	(639)	—
— Provision for impairment of trade receivables	—	994	680	—
— Share-based compensation expenses	—	—	—	11,994
Changes in working capital:				
— Inventories	201	(329)	(769)	(781)
— Trade receivable	(206)	(6,921)	(3,454)	902
— Other receivable, deposits and prepayments	(791)	(3,213)	(947)	(5,523)
— Amounts due from related parties	(18,072)	(87,074)	(55,315)	129,136
— Amounts due to related parties	9,405	25,293	8,552	(20,519)
— Trade payable	823	925	142	1,073
— Accruals, other payables and provision	1,170	3,812	8,536	13,069
Cash generated from operations	2,449	30,048	23,632	179,973

32 BUSINESS COMBINATIONS

On September 30, 2014, the Group acquired 80% of the share capital of Weikang Investment and its subsidiary for RMB1,038,400,000 and obtained the control of Weikang Investment, a management services provider operating in the PRC.

As a result of the acquisition, the Group is expected to increase its presence in healthcare industry. The goodwill of RMB958,864,000 arising from the acquisition is attributable to entering into the healthcare industry, potential contractual relationships and the management team and management process which can be replicated in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

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

	RMB'000
Consideration	
At September 30, 2014	
- Cash paid or payable	1,038,400
Total consideration	1,038,400
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	84,146
Property, plant and equipment (Note 6)	21,424
Medical license (included in intangible assets) (Note 7)	15,000
Contractual rights to provide management services (included in intangible assets) (Note 7)	116,000
Inventories	1,052
Amounts due from related parties	61,715
Trade receivables	1,357
Other receivables, deposits and prepayments	165
Amounts due to related parties	(90,750)
Trade payables	(1,171)
Accruals, other payables and provisions	(58,561)
Current income tax liabilities	(18,207)
Deferred income tax liabilities (Note 19)	(32,750)
Total net identifiable assets	99,420
Non-controlling interest	(19,884)
Goodwill (Note 7)	958,864
	1,038,400

The revenue included in the consolidated income statement for the period from September 30, 2014 to December 31, 2014 contributed by Weikang Investment was RMB23,653,000. Weikang Investment also contributed net profit of RMB11,784,000 over the same period.

If Weikang Investment had been consolidated from January 1, 2014, the revenue and net profit contributed by Weikang investment would be RMB80,409,000 and RMB41,045,000, respectively.

33 COMMITMENTS

(a) Operating lease commitments

The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	For the period from February 21, to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Not later than one year	4,059	4,140	4,120	2,908
Later than one year and not later than five years	10,178	8,025	8,745	7,868
Later than five years	5,071	3,084	3,588	1,557
	19,308	15,249	16,453	12,333

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Yangsi Hospital is considered to be related as the Group has participated internal governance body of Yangsi Hospital. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Shanghai Yangsi Hospital	Certain employees or directors of the Group are Yangsi Hospital's internal governance body members
Vanguard Glory Limited	Parent company
Hony Capital Fund V, L.P.	Ultimate controlling shareholder
Hony Capital Management (Tianjin) L.P.	Related party of ultimate controlling shareholder

(i) As set out in 4.2, the Group has exercised significant judgements in determining whether the Group has control over Yangsi Hospital. After assessment, the management concluded that the Group does not obtain the decision making power over the internal governance body to direct the relevant activities of Yangsi Hospital, so the Group does not control and thus does not consolidate Yangsi Hospital.

The following significant transactions were carried out between the Group and its related parties during the Relevant Periods. 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) **Transactions with related parties**

	For the period from February 21 to December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Continuing transactions				
Management Service fee				
— Yangsi Hospital	18,071	117,847	81,123	93,285

(b) **Balances with related parties**

Balances with related parties as at December 31, 2014 and 2015 and September 30, 2016 were disclosed in Note 13.

(c) **Key management compensation**

Key management includes directors (Note 36) and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,		Nine months ended September 30,	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	2,704	6,374	4,611	7,898
Share-based compensation expenses	—	—	—	11,777
Contributions to pension plans and other expenses	313	493	361	450
	3,017	6,867	4,971	20,125

35 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at December 31, 2014 and 2015 and September 30, 2016.

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director and the chief executive for the period ended December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2016 are set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking						
	Fees	Salaries	Discretionary bonuses	Employer's contribution to pension scheme	Share-based compensation expenses	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the period ended December 31, 2014							
Executive directors							
Mr. Zhang Xiaopeng	—	1,500	—	40	—	141	1,681
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Wang Shunlong*	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. So Wai Yin*	—	—	—	—	—	—	—
	—	1,500	—	40	—	141	1,681
Year ended December 31, 2015							
Executive directors							
Mr. Zhang Xiaopeng	—	1,500	—	44	—	145	1,689
Mr. Lu Wenzuo*	—	218	650	—	—	—	868
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Yuan Bing*	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Lin Tun*	—	—	—	—	—	—	—
	—	1,718	650	44	—	145	2,557

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking						
	Fees	Salaries	Discretionary bonuses	Employer's contribution to pension scheme	Share-based compensation expenses	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nine months ended September 30, 2016							
Executive directors							
Mr. Zhang Xiaopeng	—	1,875	975	35	2,637	105	5,627
Mr. Lu Wenzuo*	—	168	1,370	—	8,383	—	9,921
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Yuan Bing*	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Lin Tun*	—	—	—	—	—	—	—
	—	2,043	2,345	35	11,020	105	15,548
Nine months ended September 30, 2015 (Unaudited)							
Executive directors							
Mr. Zhang Xiaopeng	—	1,125	—	32	—	108	1,265
Mr. Lu Wenzuo*	—	165	488	—	—	—	653
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Wang Shun Long*	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. So Wai Yin*	—	—	—	—	—	—	—
	—	1,290	488	32	—	108	1,918

Note:

* Mr. Wang Shunlong retired on June 30, 2015.
Mr. Lu Wenzuo was appointed as the Company's executive director on December 16, 2015.
Mr. Yuan Bing was appointed as the Company's non-executive director on December 16, 2015.
Mr. So Wai Yin resigned on December 10, 2015.
Mr. Lin Tun was appointed as the Company's non-executive director on June 30, 2015.

No directors waived or agreed to waive any emoluments during the Relevant Periods. No emoluments were paid to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

(b) **Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period ended December 31, 2014 and the year ended December 31, 2015 and the nine months ended September 30, 2016.

37 EVENTS AFTER THE BALANCE SHEET DATE

Other than the subsequent amendments on the Subscription Agreement disclosed in Note 15 and 16, the events after the balance sheet date are disclosed as follows:

Dividend distribution

Pursuant to the board of directors' resolution dated November 25, 2016, Honghe Ruixin declared a dividend of RMB30,661,000 to Honghe Zhiyuan, an indirect subsidiary of the Company and RMB 7,655,000 to its minority shareholders.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to September 30, 2016 and up to the date of this report. Except for the dividends declared on November 25, 2016 by Honghe Ruixin as described in Note 37 of Section II above, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to September 30, 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of Hospital Corporation of China Limited and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

February 28, 2017

The Directors
Hospital Corporation of China Limited

China International Capital Corporation Hong Kong Securities Limited

Dear Sirs,

We report on the financial information of Shanghai Weikang Investment Management Co., Ltd. ("Weikang Investment") and its subsidiary (together, the "Weikang Investment Group"), which comprises the consolidated balance sheets as at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015, the nine months ended September 30, 2014 and 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Hospital Corporation of China Limited (formerly known as "Grand Accordia Healthcare Group Co., Limited") and is set out in Sections I to II below for inclusion in Appendix IB to the prospectus of Hospital Corporation of China Limited dated February 28, 2017 (the "Prospectus") in connection with the initial listing of shares of Hospital Corporation of China Limited on the Main Board of The Stock Exchange of Hong Kong Limited.

Weikang Investment was incorporated in the People's Republic of China (the "PRC") on April 15, 2002. As described in Note 1 of Section II below, Weikang Investment was acquired by Hospital Corporation of China Limited on September 30, 2014. Immediately following the acquisition, Hospital Corporation of China Limited became the holding company of Weikang Investment Group.

As at the date of this report, Weikang Investment had direct interests in a subsidiary as set out in Note 1 of Section II below. Weikang Investment and this subsidiary has substantially the same characteristics as a Hong Kong incorporated private company.

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The audited financial statements of Weikang Investment and other company comprising Weikang Investment Group during the Relevant Periods for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1 of Section II.

For the purpose of this report, the directors of Hospital Corporation of China Limited have prepared the consolidated financial statements of Weikang Investment Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The directors of Hospital Corporation of China Limited are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with Hospital Corporation of China Limited.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of Hospital Corporation of China Limited are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the consolidated financial position of Weikang Investment Group as at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016, and of Weikang Investment Group's consolidated financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix IB to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended September 30, 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of Hospital Corporation of China Limited are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF WEIKANG INVESTMENT GROUP

The following is the financial information of Weikang Investment Group prepared by the directors of Hospital Corporation of China Limited ("HCCL"), as at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016 and for the years ended December 31, 2013, 2014 and 2015, for the nine months ended September 30, 2014, 2015 and 2016 (the "Financial Information").

The Financial Information is presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand yuan (RMB'000), unless otherwise stated.

CONSOLIDATED BALANCE SHEETS

	Note	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS						
Non-current assets						
Property, plant and equipment	6	21,086	21,424	20,954	21,864	22,653
Intangible assets	7	—	18,348	18,148	17,348	16,748
Deferred income tax assets	18	—	—	—	249	397
Total non-current assets		21,086	39,772	39,102	39,461	39,798
Current assets						
Available-for-sale financial assets	8	—	—	81,150	—	—
Inventories	9	—	1,052	851	1,180	1,961
Trade receivables	11	—	1,357	1,563	7,490	6,588
Other receivables, deposits and prepayments	12	78	165	163	480	223
Amounts due from a related party	13	34,637	61,715	79,787	110,373	19,491
Cash and cash equivalents	14	9,020	84,146	5,134	13,086	56,854
Total current assets		43,735	148,435	168,648	132,609	85,117
Total assets		64,821	188,207	207,750	172,070	124,915

	Note	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY						
Equity attributable to owners of Weikang Investment						
Paid in capital	15	30,000	30,000	30,000	30,000	30,000
Reserves	17	783	3,877	3,877	7,420	15,803
Retained earnings/ (Accumulated losses)		9,874	(16,959)	(5,175)	32,576	18,476
Total equity		40,657	16,918	28,702	69,996	64,279
LIABILITIES						
Non-current liabilities						
Deferred income tax liabilities	18	—	2,600	2,550	2,350	2,200
Total non-current liabilities		—	2,600	2,550	2,350	2,200
Current liabilities						
Amounts due to related parties	13	7,721	90,750	92,662	24,419	12,876
Trade payables	19	—	1,171	1,994	2,919	3,992
Accruals, other payables and provisions	20	6,414	58,561	59,186	58,166	37,597
Current income tax liabilities		10,029	18,207	22,656	14,220	3,971
Total current liabilities		24,164	168,689	176,498	99,724	58,436
Total liabilities		24,164	171,289	179,048	102,074	60,636
Total equity and liabilities		64,821	188,207	207,750	172,070	124,915

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	21	46,443	56,756	80,409	89,234	61,643	63,807
Cost of revenue	22	(6,170)	(16,260)	(23,166)	(32,831)	(22,683)	(35,160)
Gross profit		40,273	40,496	57,243	56,403	38,960	28,647
Selling expenses	22	—	(18)	(18)	(1)	(1)	(3)
Administrative expenses	22	(1,238)	(1,768)	(2,848)	(3,755)	(2,627)	(3,196)
Other (losses)/gain - net	23	—	(3)	(71)	(111)	(31)	21
Other income	24	54	137	137	2,477	977	57
Operating profit		39,089	38,844	54,443	55,013	37,278	25,526
Finance income	26	29	583	1,167	53	46	56
Profit before income tax		39,118	39,427	55,610	55,066	37,324	25,582
Income tax expense	27	(10,029)	(10,166)	(14,565)	(13,772)	(9,336)	(7,816)
Profit for the year/period		29,089	29,261	41,045	41,294	27,988	17,766
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income		29,089	29,261	41,045	41,294	27,988	17,766
Profit and total comprehensive income attributable to owners of Weikang Investment		29,089	29,261	41,045	41,294	27,988	17,766

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	Reserves (Note 17)	(Accumulated losses)/ Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2013	30,000	—	(18,432)	11,568
Comprehensive income				
- Profit for the year	—	—	29,089	29,089
Transfer of reserves	—	783	(783)	—
Balance at December 31, 2013	30,000	783	9,874	40,657
Balance at January 1, 2014	30,000	783	9,874	40,657
Comprehensive income				
- Profit for the period	—	—	29,261	29,261
Dividends (Note 28)	—	—	(53,000)	(53,000)
Transfer of reserves	—	3,094	(3,094)	—
Balance at September 30, 2014	30,000	3,877	(16,959)	16,918
Balance at January 1, 2014	30,000	783	9,874	40,657
Comprehensive Income				
- Profit for the year	—	—	41,045	41,045
Dividends (Note 28)	—	—	(53,000)	(53,000)
Transfer of reserves	—	3,094	(3,094)	—
Balance at December 31, 2014	30,000	3,877	(5,175)	28,702
Balance at January 1, 2015	30,000	3,877	(5,175)	28,702
Comprehensive Income				
- Profit for the year	—	—	41,294	41,294
Transfer of reserves	—	3,543	(3,543)	—
Balance at December 31, 2015	30,000	7,420	32,576	69,996
Balance at January 1, 2016	30,000	7,420	32,576	69,996
Comprehensive income				
- Profit for the period	—	—	17,766	17,766
Share-based payments	—	8,383	—	8,383
Dividend (Note 28)	—	—	(31,866)	(31,866)
Balance at September 30, 2016	30,000	15,803	18,476	64,279
(Unaudited)				
Balance at January 1, 2015	30,000	3,877	(5,175)	28,702
Comprehensive income				
- Profit for the period	—	—	27,988	27,988
Balance at September 30, 2015	30,000	3,877	22,813	56,690

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities							
Cash generated from operations	30	9,357	18,332	20,461	29,934	23,581	122,589
Income tax paid		—	(2,137)	(2,137)	(22,656)	(22,656)	(18,363)
Interests received		29	583	1,167	53	46	56
Net cash generated from operating activities		9,386	16,778	19,491	7,331	971	104,282
Cash flows from investing activities							
Net cash used in business combinations	31	—	(16,393)	(16,393)	—	—	—
Purchase of property, plant and equipment		(716)	(5,259)	(5,834)	(1,168)	(976)	(7,514)
Purchase of available-for-sale financial assets		—	—	(81,150)	(81,620)	(81,620)	—
Proceeds from disposal of available-for-sale financial assets		—	—	—	163,409	163,409	—
Net cash (used in)/generated from investing activities		(716)	(21,652)	(103,377)	80,621	80,813	(7,514)
Cash flows from financing activities							
Proceeds from related parties		—	80,000	80,000	—	—	—
Repayment to related parties		—	—	—	(80,000)	(80,000)	—
Dividend paid		—	—	—	—	—	(53,000)
Net cash generated from/(used in) financing activities		—	80,000	80,000	(80,000)	(80,000)	(53,000)
Net increase/(decrease) in cash		8,670	75,126	(3,886)	7,952	1,784	43,768
Cash and cash equivalents at beginning of year/period		350	9,020	9,020	5,134	5,134	13,086
Cash and cash equivalents at end of year/period		9,020	84,146	5,134	13,086	6,918	56,854

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Weikang Investment was incorporated in the People's Republic of China (the "PRC") on April 15, 2002 as a limited liability company. The address of Weikang Investment's registered office is Room 1, Ground Floor, Building No.35, Lane 3651, Shangnan Road, Pudong New District, Shanghai, the PRC.

During the Relevant Periods, Weikang Investment is a management services company. Weikang Investment, together with its subsidiary listed as follows, are principally engaged in (i) operation and management of its privately owned hospital, Shanghai Fuhua Hospital Co., Ltd. ("Fuhua Hospital") and (ii) provision of management and consultation services to a not-for-profit hospital, Shanghai Yangsi Hospital ("Yangsi Hospital") in the PRC.

On September 30, 2014, New Pride Holdings Limited ("New Pride"), an indirectly wholly-owned subsidiary of Hospital Corporation of China Limited, acquired the 80% interests in Weikang Investment at a consideration of RMB1,038,400,000. Upon completion of this acquisition, Weikang Investment and its subsidiary have been controlled by HCCL.

Weikang Investment had direct interests in the following subsidiary:

Company name	Place and date of incorporation/ establishment	Issued and paid-in capital	Attributable equity interest of Weikang Investment Group					Principal activities/ place of operation
			December 31, 2013	September 30, 2014	December 31, 2014	December 31, 2015	September 30, 2016	
Directly owned:								
Shanghai Fuhua Hospital Co., Ltd. (上海福華醫院有限公司)* (a)	The PRC, on October 17, 2007	RMB1,000,000	N/A	100%	100%	100%	100%	General hospital services, the PRC

*: English translation is for identification purpose only. The English names of companies incorporated in the PRC represent the best efforts by management of HCCL in translation their Chinese names as they do not have official English names.

(a) Shanghai Fuhua Hospital Co., Ltd. ("Fuhua Hospital") was established by two independent third party individuals as a limited liability company on October 17, 2007. Weikang Investment acquired the entire equity interests in Fuhua Hospital on January 15, 2014. No statutory financial statements have been prepared for Fuhua Hospital for the financial year ended December 31, 2014. The statutory auditor of Fuhua Hospital for the financial year ended December 31, 2015 is Shanghai HDDY Certified Public Accountants Co., Ltd.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

As described in Note 1, 80% interests of Weikang Investment was acquired by HCCL on September 30, 2014. For the purpose of this accountant's report, the Financial Information includes the consolidated balance sheets as at December 31, 2013, 2014 and 2015 and September 30, 2014 and 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2014, 2015 and 2016, and a summary of significant accounting policies and other explanatory information. The financial results for the nine months ended 30 September 2013 which is not relevant has not been presented.

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") are set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of the Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Weikang Investment Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

All relevant standards, amendments and interpretations to the existing standards that are effective during the Relevant Periods have been adopted by Weikang Investment Group consistently throughout the Relevant Periods.

The Financial Information has been also prepared in accordance with the applicable requirements of the Hong Kong Companies Ordinance (Cap. 622).

Impact of new or revised standards and amendments to existing standards that are effective on or after 1 January 2017

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after 1 January 2017 which are applicable to Weikang Investment Group and have not been early adopted by Weikang Investment Group:

		Effective for annual periods beginning on or after
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax	1 January 2017
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Lease	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendment to IFRS 10 and IAS 28	Sale or Contribution of assets between an investor and its associate or joint venture	Deferred

Amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity shall apply those amendments to IAS 7 for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. An entity shall apply those amendments to IAS 12 for annual periods beginning on or after 1 January 2017.

IFRS 9 'Financial Instruments'. IFRS 9 (2014), 'Financial instruments' replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. IFRS 9 introduces a new model for the recognition of impairment losses the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. IFRS 9 also applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The directors of HCCL has performed a preliminary assessment. Based on this assessment it is noted that IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which Weikang Investment expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and licensearrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under IFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018. The financial impacts of the application of the standard and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 16 'Lease'. The Weikang Investment Group is a lessee of various properties which are currently classified as operating leases. The Weikang Investment Group's current accounting policy for such leases is set out in note 2.21 with the Weikang Investment Group's future operating lease commitments, which are not reflected in the consolidated balance sheet. As at 30 September 2016, the Weikang Investment Group's total non-cancellable operating lease commitments amounted to RMB11,600,000 (Note 32). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet.

Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Weikang Investment Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, leases will be recognized in the future as depreciation of right-of-use assets and interest expense on lease liability and will no longer be recorded as an operating expense on a straight line base. Therefore, during the initial period of lease term, the lease expense (asset depreciation plus interest) under the new standard is higher compared to the operating lease expense recognized under the existing standard. The new standard is not expected to apply until the financial year 2019. It is expected that certain portion of lease commitments will be required to be recognized in the consolidated balance sheet as right-of-use assets and lease liabilities.

The Weikang Investment Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Weikang Investment Group's operation. According to the assessment made by the directors of HCCL, except as described above, the directors of HCCL do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Weikang Investment Group.

2.2 **Subsidiaries**

2.2.1 ***Consolidation***

A subsidiary is an entity (including a structured entity) over which Weikang Investment has control. Weikang Investment controls an entity when Weikang Investment 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 consolidated from the date on which control is transferred to Weikang Investment. They are deconsolidated from the date that control ceases.

(a) *Business combination*

Weikang Investment 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 Weikang Investment Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

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

(b) *Disposal of subsidiaries*

When Weikang Investment 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 Weikang Investment Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 **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 executive directors of HCCL that makes strategic decisions.

2.4 **Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of Weikang Investment Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Since the majority of the operations of the Weikang Investment Group are located in the PRC, the consolidated financial statements are presented in RMB, which is Weikang Investment's functional and Weikang Investment 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 or valuation where items are re-measured. 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 recognised in the income statement.

2.5 **Property, plant and equipment**

Property, plant and equipment is 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Weikang Investment Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period 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	20 years
—	Medical equipment	5 years
—	Vehicles	5 years
—	Leasehold improvements	Shorter of remaining lease term vs. estimated useful lives
—	Office equipment and furniture	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 the proceeds with the carrying amount and are recognised within 'Other losses — net' in the income statement.

Construction-in-progress (the "CIP") represents buildings under construction is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

2.6 **Intangible assets**

(a) *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.

(b) *Medical licences*

Medical licences acquired in a business combination are recognised at fair value at the acquisition date. These medical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 13.75 years.

2.7 **Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 of disposal 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.

2.8 **Financial assets**

2.8.1 ***Classification***

Weikang Investment Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. 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. These are classified as non-current assets. Weikang Investment Group's loans and receivables comprise "trade receivables", "other receivables, deposits and prepayments", "amounts due from related parties" and "cash and cash equivalents" in the balance sheet (Notes11, 12, 13 and 14).

(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.

2.8.2 ***Recognition and measurement***

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which Weikang Investment Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and Weikang Investment Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently 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 recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income.

2.9 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability 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 Weikang Investment or the counterparty.

2.10 **Impairment of financial assets**

(a) *Assets carried at amortised cost*

Weikang Investment Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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 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 loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment 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, Weikang Investment 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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) *Assets classified as available for sale*

Weikang Investment 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 removed 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 income statement.

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 removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.11 **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted-average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.12 **Trade and other receivables**

Trade receivables are amounts due from patients and governments' social insurance schemes 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. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 **Cash and cash equivalents**

In the consolidated statement of cash flows and consolidated balance sheets, 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.

2.14 **Paid-in capital**

Paid-in capital is classified as equity.

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

2.15 **Trade payables**

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

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

2.16 **Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly 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 balance sheet date in the countries where Weikang Investment's subsidiaries and associates 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 recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date 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 recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by Weikang Investment Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally Weikang Investment Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives Weikang Investment Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements 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.

2.17 **Employee benefits**

(a) *Pension obligations*

Weikang Investment Group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and Weikang Investment Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of Weikang Investment Group.

(b) *Share-based payments*

Share-based payment transactions among group entities

For share-based payment transactions among group entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

(a) the nature of the awards granted, and;

(b) its own rights and obligations.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are settled with its own equity instruments, or;

(b) the entity has no obligation to settle the share-based payment transaction.

In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

2.18 **Provisions**

Provisions are recognised when Weikang Investment Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 **Revenue recognition**

Weikang Investment Group's revenue is primarily derived from rendering hospital management services to a hospital, general hospital services and sales of pharmaceuticals.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the goods sold and services rendered in the ordinary course of Weikang Investment Group's activities, stated net of discounts and sales related taxes. Weikang Investment Group recognises 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 Weikang Investment Group's activities, as described below. Weikang Investment Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) ***Hospital Management Services***

Hospital management services fee is recognised when services are rendered and when it is probable that the economic benefits from the service rendered will flow to Weikang Investment Group and such benefit could be reliably measured.

(b) ***General Hospital Services***

Revenues from general Hospital services are recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to Weikang Investment Group and such benefit could be reliably measured. Transactions are settled by payment of social security card or cash.

(c) ***Pharmaceutical Sales***

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

2.20 Interest income

Interest income is recognised using the effective interest method.

2.21 Leases

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

2.22 Dividend distribution

Dividend distribution to Weikang Investment's shareholders is recognised as a liability in Weikang Investment Group's and Weikang Investment's financial statements in the period in which the dividends are approved by Weikang Investment's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) ***Market Risk***

(i) *Foreign exchange risk*

Weikang Investment Group runs its business inside the PRC, from which country Weikang Investment Group gain its revenue. Weikang Investment Group's presentation and functional currency is RMB. As a result, the foreign exchange risk to Weikang Investment Group's financial performance is low.

(ii) *Price risk*

Weikang Investment Group is not exposed to significant commodity price risk. The wealth management products investments held by Weikang Investment Group are classified as available-for-sale financial asset on the consolidated balance sheet. In consideration of the short maturity and relative stable price of the wealth management products involved, the directors of Weikang Investment Group believe that the price risk is immaterial.

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

Borrowings obtained at variable rates expose the group to cash flow interest rate risk which is partially offset by cash and wealth management products held at variable rates. Borrowings obtained at fixed rates expose the group to fair value interest rate risk. Weikang Investment Group is not exposed to significant interest rate risk as Weikang Investment Group has no borrowings.

The directors of the HCCL do not anticipate any significant impact to the wealth management products as a result from changes in interest rates because of its short term maturity.

(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.

Weikang Investment Group mainly engages in providing management services to a hospital and its largest customer is Yangsi Hospital which comprised 98%, 80%, 72%, 82%, 73% and 65% of total revenue for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2014, 2015 and 2016, respectively. The settlement of management fee from Yangsi Hospital may take three to six months. Management makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables, including management fee based on historical settlement records and past experience. The directors of Weikang Investment believe that there is no material credit risk inherent in Weikang Investment Group's outstanding balance of trade and other receivables of management fee.

Management of the Weikang Investment Group makes individual assessment on the recoverability of amounts due from related parties based on historical settlement records and past experience. The directors of Weikang Investment believe that there is no material credit risk inherent in the Weikang Investment Group's outstanding balance of amounts due from related parties.

(c) ***Liquidity Risk***

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

The table below analyses Weikang Investment 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	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013					
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	4,386	—	—	—	4,386
Amounts due to related parties	7,721	—	—	—	7,721
	12,107	—	—	—	12,107
At 30 September 2014					
Trade payables	1,171	—	—	—	1,171
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	54,364	—	—	—	54,364
Amounts due to related parties	90,750	—	—	—	90,750
	146,285	—	—	—	146,285
At 31 December 2014					
Trade payables	1,994	—	—	—	1,994
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	53,392	—	—	—	53,392
Amounts due to related parties	92,662	—	—	—	92,662
	148,048	—	—	—	148,048
At 31 December 2015					
Trade payables	2,919	—	—	—	2,919
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	53,810	—	—	—	53,810
Amounts due to related parties	24,419	—	—	—	24,419
	81,148	—	—	—	81,148
At September 30 2016					
Trade payables	3,992	—	—	—	3,992
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	32,988	—	—	—	32,988
Amounts due to related parties	12,876	—	—	—	12,876
	49,856	—	—	—	49,856

3.2 **Capital Risk Management**

Weikang Investment Group's primary objectives when managing capital are to safeguard Weikang Investment 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.

Weikang Investment Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders' 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, Weikang Investment 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.

Weikang Investment 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 Weikang Investment Group as at December 31, 2013, 2014 and 2015 and September 30, 2014 and 2016 was as follows:

	As at December 31, 2013	**As at September 30, 2014**	**As at December 31, 2014**	**As at December 31, 2015**	**As at September 30, 2016**
The liability-to-asset ratio	37%	91%	86%	59%	49%

There were no changes in Weikang Investment Group's approach to capital management during the Relevant Periods.

Neither Weikang Investment nor any of its subsidiaries are subject to externally imposed capital requirements.

3.3 **Fair value estimation**

The table below analyses Weikang Investment Group's financial instruments carried at fair value as at 31 December 2014 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).

The following table presents Weikang Investment Group's assets that are measured at fair value at December 31, 2014.

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
Wealth management products				
- Wealth management products with floating rates.	—	—	81,150	81,150
Total assets	—	—	81,150	81,150

There were no transfers between levels 1, 2 and 3 during the year.

At December 31, 2013 and 2015, September 30, 2014 and 2016, there is no financial instruments of Weikang Investment Group is required to be measured at fair value.

(a) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the years ended December 31, 2013, 2014, 2015 and the nine months ended September 30, 2014 and 2016.

	Wealth management products with floating rates				
	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance	—	—	—	81,150	—
Addition	—	—	81,150	81,620	—
Settlements	—	—	—	(163,409)	—
Gains recognised in profit or loss	—	—	—	639	—
Closing balance	—	—	81,150	—	—
Total gains for the year/period included in profit or loss under "Other gains - net".........................	—	—	—	639	—
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year/period ...	—	—	—	—	—

Available-for-sale financial assets are wealth management products held by Weikang Investment Group which were effective on December 5, 2014, December 5, 2014 and January 27, 2015, respectively and fell due on January 7, January 14 and February 12, 2015, respectively. The fair value of the wealth management products held by the Group is approximate to the book value and relevant fair value gain/loss and financial impact of changes in interest rate are minimal because of short term maturity while the duration of two contracts are ranging from 33 to 40 days.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

Weikang Investment Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) ***Estimated impairment of goodwill***

Weikang Investment Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When applying valuation technique, Weikang Investment Group relies on a number of factors and judgements, including, among others, historical results, forecasts, market data and the success of business plans.

The basis for the key assumptions used in the impairment testing as of September 30, 2016 (estimates based on the operations during the nine months ended September 30, 2016) are as follows:

(i) *Revenue (% compound growth rates)*

The revenue compound growth rates for the eight-year projection period is based on the Weikang Investment Group's forecast of its average revenue growth rate from 2016 to 2023. In particular, the Weikang Investment Group's management has estimated that the compound growth rate of its general hospital services segment revenue will be 9.69% during the period. Frost and Sullivan has forecasted that the market size of Shanghai non-public hospitals will experience rapid growth with a Compound Annual Growth Rate ("CAGR") of 10.7%, starting from 2016 to 2023. In addition to the existing hospitals, the Weikang Investment Group considers the CAGR, its business transition strategy and other market forecasts in estimating these growth rates.

(ii) *Cost and operation expenses (% of revenue)*

The cost and operation expenses (% of revenue) for its general hospital services segment for the eight-year forecast period are determined on the basis of management's past experience.

(iii) *Long-term growth rate*

The 3% long-term growth rate after the eight-year forecast period is estimated on the basis of the inflation rate of China. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

(iv) *Discount rates*

The discount rates for the eight-year forecast period and after that period are determined by reference to discount rates provided by an independent valuer. Discount rates were estimated based on the weighted average cost of capital ("WACCs") with reference to the industry risk premium and the debt to equity ratio of some guideline companies in China healthcare sector.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 7 to financial information in Accountant's report.

No impairment was charged during the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016.

(b) ***Current and Deferred Income taxes***

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from Weikang Investment Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Weikang Investment Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgments and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

(c) ***Purchase price allocation***

The application of business combination accounting requires the use of significant estimates and assumptions. The purchase method of accounting for business combinations requires Weikang Investment Group to estimate the fair value of identifiable assets acquired and liabilities assumed. This exercise requires the use of management's assumptions and judgement, which would not reflect unanticipated events and circumstances that may occur.

An asset is identifiable if it either:

(a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Allocation of the purchase price affects the results of Weikang Investment Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

(d) ***Consolidation***

Not-for-profit hospital founded by Weikang Investment

Yangsi Hospital, a not-for-profit hospital, was founded by Weikang Investment, a subsidiary acquired by HCCL in September 2014. Despite the fact that Weikang Investment founded the hospital, Weikang Investment is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Weikang Investment and its affiliate have entered into agreements with the hospital in which Weikang Investment Group obtains contractual rights to provide management services of the not-for-profit hospital for certain periods and is entitled to receive performance-based management fees during the periods.

Weikang Investment Group has exercised significant judgments in determining whether Weikang Investment Group has control over hospital. In exercising such judgment, Weikang Investment Group considers the purpose and design of the hospital, what the relevant activities are and how decisions about those activities are made, whether the rights of Weikang Investment Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether Weikang Investment Group is exposed, or has rights, to variable returns from its involvement with the hospital, and whether Weikang Investment Group has the ability to use its power over the hospital to affect the amount of Weikang Investment Group's returns.

After assessment, the management has concluded that Weikang Investment Group does not have the decision making power over internal governance body to direct the relevant activities of the not-for-profit hospital, so Weikang Investment Group does not control and thus does not consolidate the not-for-profit hospital. Instead, agreements are considered as management contracts to generate management service income.

5 SEGMENT INFORMATION

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

The CODM considers the business from both the service and product perspective. When the group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, Weikang Investment Group's operating segments are aggregated. In the view of CODM, Weikang Investment Group is principally engaged in two different segments which are subject to different business risks and different economic characteristics and Weikang Investment Group's operating and reportable segments for segment reporting purpose are as follows:

Weikang Investment Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ("EBITDA").

(a) ***General hospital services***

Revenue from this segment is derived from hospital services provided at Fuhua Hospital.

(b) ***Hospital management services***

Weikang Investment Group provides comprehensive management services to Yangsi Hospital under hospital management agreements and receives management service fee.

Segment information about Weikang Investment Group's reportable segment is presented below.

	General hospital services	Hospital management services	Total
	RMB'000	RMB'000	RMB'000
Year ended December 31, 2013			
Revenue from external customers	—	46,443	46,443
EBITDA	—	40,619	40,619
Depreciation	—	(1,530)	(1,530)
Finance income - net	—	29	29
Profit before tax	—	39,118	39,118
As at December 31, 2013			
Total assets	—	64,821	64,821
Total liabilities	—	24,164	24,164
Other Segment information for the year ended December 31, 2013			
Depreciation, amortization and impairment	—	(1,530)	(1,530)
Additions of non-current assets except for goodwill	—	2,145	2,145
Nine months ended September 30, 2014			
Revenue from external customers	9,400	47,356	56,756
EBITDA	(1,058)	42,027	40,969
Depreciation	(167)	(1,358)	(1,525)
Amortization	(600)	—	(600)
Finance income - net	1	582	583
Profit before tax	(1,824)	41,251	39,427
As at September 30, 2014			
Segment assets	15,294	164,965	180,259
Goodwill	7,948	—	7,948
Total assets	23,242	164,965	188,207
Total liabilities	7,916	163,373	171,289
Other Segment information for the nine months ended September 30, 2014			
Depreciation, amortization and impairment	(767)	(1,358)	(2,125)
Additions of non-current assets except for goodwill	12,768	95	12,863

	General hospital services	Hospital management services	Total
	RMB'000	RMB'000	RMB'000
Year ended December 31, 2014			
Revenue from external customers	14,675	65,734	80,409
EBITDA	(974)	58,288	57,314
Depreciation	(261)	(1,810)	(2,071)
Amortization	(800)	—	(800)
Finance income - net	1	1,166	1,167
Profit before tax	(2,034)	57,644	55,610
As at December 31, 2014			
Segment assets	16,326	183,476	199,802
Goodwill	7,948	—	7,948
Total assets	24,274	183,476	207,750
Total liabilities	9,109	169,939	179,048
Other Segment information for the year ended December 31, 2014			
Depreciation, amortization and impairment	(1,061)	(1,810)	(2,871)
Additions of non-current assets except for goodwill	12,844	95	12,939
Year ended December 31, 2015			
Revenue from external customers	23,447	65,787	89,234
EBITDA	923	57,177	58,100
Depreciation	(531)	(1,756)	(2,287)
Amortization	(800)	—	(800)
Finance income - net	4	49	53
Profit before tax	(404)	55,470	55,066
As at December 31, 2015			
Segment assets	22,611	141,511	164,122
Goodwill	7,948	—	7,948
Total assets	30,559	141,511	172,070
Total liabilities	15,703	86,371	102,074
Other Segment information for the year ended December 31, 2015			
Depreciation, amortization and impairment	(2,325)	(1,756)	(4,081)
Additions of non-current assets except for goodwill	984	2,213	3,197

	General hospital services	Hospital management services	Total
	RMB'000	RMB'000	RMB'000
Nine months ended September 30, 2016			
Revenue from external customers	21,089	42,718	63,807
EBITDA	1,145	26,793	27,938
Depreciation	(458)	(1,354)	(1,812)
Amortization	(600)	—	(600)
Finance income - net	9	47	56
Profit before tax	96	25,486	25,582
As at September 30, 2016			
Segment assets	24,493	92,474	116,967
Goodwill	7,948	—	7,948
Total assets	32,441	92,474	124,915
Total liabilities	16,835	43,801	60,636
Other Segment information for the nine months ended September 30, 2016			
Depreciation, amortization and impairment	(1,058)	(1,354)	(2,412)
Addition of non-current assets except for goodwill	661	1,940	2,601
Nine months ended September 30, 2015 (Unaudited)			
Revenue from external customers	15,875	45,768	61,643
EBITDA	424	39,159	39,583
Depreciation	(388)	(1,317)	(1,705)
Amortization	(600)	—	(600)
Finance income - net	4	42	46
Profit before tax	(560)	37,884	37,324
Other Segment information for the nine months ended September 30, 2015 (Unaudited)			
Depreciation, amortization and impairment	(1,668)	(1,317)	(2,985)
Addition of non-current assets except for goodwill	905	1,647	2,552

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Medical equipment	Office equipment, furniture and motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013						
Cost	30,460	—	—	—	1,435	31,895
Accumulated depreciation	(11,424)	—	—	—	—	(11,424)
Net book amount	19,036	—	—	—	1,435	20,471
Year ended December 31, 2013						
Opening net book amount	19,036	—	—	—	1,435	20,471
Additions	—	—	—	715	1,430	2,145
Transfer upon completion	2,865	—	—	—	(2,865)	—
Depreciation charge	(1,519)	—	—	(11)	—	(1,530)
Closing net book amount	20,382	—	—	704	—	21,086
At December 31, 2013						
Cost	33,325	—	—	715	—	34,040
Accumulated depreciation	(12,943)	—	—	(11)	—	(12,954)
Net book amount	20,382	—	—	704	—	21,086
Nine months ended September 30, 2014						
Opening net book amount	20,382	—	—	704	—	21,086
Additions	—	—	510	819	—	1,329
Business combinations (Note 31)	—	414	60	60	—	534
Depreciation charge	(1,254)	(62)	(18)	(191)	—	(1,525)
Closing net book amount	19,128	352	552	1,392	—	21,424
At September 30, 2014						
Cost	33,325	414	570	1,594	—	35,903
Accumulated depreciation	(14,197)	(62)	(18)	(202)	—	(14,479)
Net book amount	19,128	352	552	1,392	—	21,424

	Buildings	Leasehold improvements	Medical equipment	Office equipment, furniture and motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2014						
Opening net book amount	20,382	—	—	704	—	21,086
Additions	—	—	585	820	—	1,405
Business combinations (Note 31)	—	414	60	60	—	534
Depreciation charge	(1,666)	(83)	(47)	(275)	—	(2,071)
Closing net book amount	18,716	331	598	1,309	—	20,954
At December 31, 2014						
Cost	33,325	414	645	1,595	—	35,979
Accumulated depreciation	(14,609)	(83)	(47)	(286)	—	(15,025)
Net book amount	18,716	331	598	1,309	—	20,954
Year ended December 31, 2015						
Opening net book amount	18,716	331	598	1,309	—	20,954
Additions	—	840	94	62	2,201	3,197
Depreciation charge	(1,587)	(223)	(162)	(315)	—	(2,287)
Closing net book amount	17,129	948	530	1,056	2,201	21,864
At December 31, 2015						
Cost	33,325	1,254	739	1,657	2,201	39,176
Accumulated depreciation	(16,196)	(306)	(209)	(601)	—	(17,312)
Net book amount	17,129	948	530	1,056	2,201	21,864
Nine months ended September 30, 2016						
Opening net book amount	17,129	948	530	1,056	2,201	21,864
Additions	—	339	—	336	1,926	2,601
Transfer upon completion	4,127	—	—	—	(4,127)	—
Depreciation charge	(1,234)	(205)	(102)	(271)	—	(1,812)
Closing net book amount	20,022	1,082	428	1,121	—	22,653
At September 30, 2016						
Cost	37,452	1,593	739	1,993	—	41,777
Accumulated depreciation	(17,430)	(511)	(311)	(872)	—	(19,124)
Net book amount	20,022	1,082	428	1,121	—	22,653

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

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of revenue......	1,519	1,421	1,927	2,119	1,575	1,696
Administrative expenses............	11	104	144	168	130	116
	1,530	1,525	2,071	2,287	1,705	1,812

During the years ended December 31, 2013, 2014 and 2015 and for the nine months ended September 30, 2014, 2015 and 2016, Weikang Investment Group has no capitalised borrowing costs on qualifying assets.

Weikang Investment Group's land and buildings have certain title defects. Weikang Investment Group does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction work planning permits, commencement permits or completion inspection certificates. Weikang Investment Group has not yet obtained properties title certificates and is in the process of obtaining ownership certificates for all its properties.

Furthermore, PRC legal advisors of HCCL have advised that the title defects on the land and buildings will not create any substantive legal obstacle for the Weikang Investment Group to continue using the land and the buildings located on it or cause suspension to the operations of Weikang Investment Group. The management of Weikang Investment Group reasonably and firmly believes that the risk of Weikang Investment Group being required to suspend using the land and buildings is extremely remote. Moreover, the management has considered and assessed the feasibility of relocation and made a relocation plan accordingly. In addition, the controlling shareholders have confirmed to the management of Weikang Investment Group that they have sufficient financial resources (including capital commitments of the limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify Weikang Investment Group for any damages or costs incurred in relation to the title defects.

Based on the aforementioned facts, the directors of HCCL are of the view that:

(i) The title defects of the land and buildings did not have a significant impact on the operation and going concern issue related to the basis of preparation of the financial information of Weikang Investment Group during the periods; and

(ii) Any damages or costs incurred in relation to the title defects of the land and buildings will be indemnified by the controlling shareholders, thus there will be no significant financial impact on the financial information of Weikang Investment Group.

The acquisition cost of buildings is comprising of the land and its building cost. According to an independent valuer, due to the title defects, it is infeasible and impractical to separately evaluate the fair value of the land and the buildings, which would be required to split the value between land and building cost. The directors of the HCCL consider as there is no reasonable basis to allocate the consideration to the land and the buildings located thereon, respectively, the total consideration has been recognized in the 'Property, Plant and Equipment' as buildings and depreciated over the estimated useful lives of 20 years. The directors of the HCCL is of the view that the reclassification of non-current assets in the balance sheet and the difference between depreciation and amortization charges resulting from different useful lives is immaterial.

7 INTANGIBLE ASSETS

	Goodwill	Medical licenses	Total
	RMB'000 (Note a)	RMB'000	RMB'000
At January 1, 2013			
Cost	—	—	—
Accumulated amortisation	—	—	—
Net book amount	—	—	—
Year ended December 31, 2013			
Opening net book amount	—	—	—
Additions	—	—	—
Amortisation	—	—	—
Closing net book amount	—	—	—
At December 31, 2013			
Cost	—	—	—
Accumulated amortisation	—	—	—
Net book amount	—	—	—
Nine months ended September 30, 2014			
Opening net book amount	—	—	—
Additions	—	—	—
Business combinations (Note 31)	7,948	11,000	18,948
Amortisation	—	(600)	(600)
Closing net book amount	7,948	10,400	18,348

	Goodwill	Medical licenses	Total
	RMB'000 (Note a)	RMB'000	RMB'000
At September 30, 2014			
Cost	7,948	11,000	18,948
Accumulated amortisation	—	(600)	(600)
Net book amount	7,948	10,400	18,348
Year ended December 31, 2014			
Opening net book amount	—	—	—
Additions	—	—	—
Business combinations (Note 31)	7,948	11,000	18,948
Amortisation	—	(800)	(800)
Closing net book amount	7,948	10,200	18,148
At December 31, 2014			
Cost	7,948	11,000	18,948
Accumulated amortisation	—	(800)	(800)
Net book amount	7,948	10,200	18,148
Year ended December 31, 2015			
Opening net book amount	7,948	10,200	18,148
Additions	—	—	—
Amortisation	—	(800)	(800)
Closing net book amount	7,948	9,400	17,348
At December 31, 2015			
Cost	7,948	11,000	18,948
Accumulated amortisation	—	(1,600)	(1,600)
Net book amount	7,948	9,400	17,348
Nine months ended September 30, 2016			
Opening net book amount	7,948	9,400	17,348
Additions	—	—	—
Amortisation	—	(600)	(600)
Closing net book amount	7,948	8,800	16,748
At September 30, 2016			
Cost	7,948	11,000	18,948
Accumulated amortisation	—	(2,200)	(2,200)
Net book amount	7,948	8,800	16,748

(a) **Impairment tests for goodwill**

Goodwill of RMB 7,948,000 is resulted from acquisitions of Fuhua Hospital in 2014 (Note 31). Fuhua Hospital is principally engaged in the provision of general hospital services in the PRC.

Management reviews the business performance of each operating segment. Goodwill is allocated to general hospital services operating segment and monitored by the management at the operating segment level.

The recoverable amount of an operating segment is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering an eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the main business in which the operating segment operates.

The key assumptions, long-term growth rate and discount rate used in the value-in-use calculations are as follows.

	General Hospital Services Segment		
	as of December 31, 2014	**as of December 31, 2015**	**as of September 30, 2016**
Revenue (% compound growth rate)	16.87%	9.69%	9.69%
Costs and operating expenses (% of revenue)	88.00%	85.00%	85.00%
Long-term growth rate	3.00%	3.00%	3.00%
Pre-tax discount rate	15.78%	16.36%	16.63%
Recoverable amount of operating segment (RMB'000)	36,981	36,522	39,637

These assumptions have been used for the analysis of the general hospital services segment.

Revenue compound growth rate is for the eight-year forecast period. It is based on past performance and management's expectations of market development.

The percentage of costs and operating expenses of revenue is the average percentages over the eight-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future price rises in labour, rental and relevant equipment, which management does not expect to be able to pass on to customers through price increases.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. By reference to relevant accounting standards, the future cash flows used in value-in-use calculations to assess the goodwill impairment of the general hospital services segment did not include income tax receipts or payments, and thus the management of the Weikang Investment Group used the pre-tax discount rate to match the future cash flows when calculating the recoverable amount of the general hospital services segment.

The table below sets forth each key assumption for the eight-year forecast period as of each period/year end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2014		Year ended December 31, 2015		Nine months ended September 30, 2016	
	Key assumption	Breakeven point	Key assumption	Breakeven point	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	16.87%	-1.50%	9.69%	-17.19%	9.69%	-19.72%
Percentage of costs and operating expenses over revenue................	88.00%	94.32%	85.00%	91.65%	85.00%	91.89%
Percentage of the pre-tax discount rate*....................	15.78%	23.62%	16.36%	27.35%	16.63%	30.33%

No impairments were charged during the years ended December 31, 2014 and 2015 and the nine months ended September 30, 2016.

8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance......................	—	—	—	81,150	—
Additions..................................	—	—	81,150	81,620	—
Disposals	—	—	—	(163,409)	—
Gains and losses recognised in profit or loss	—	—	—	639	—
Ending balance........................	—	—	81,150	—	—

* Same for the eight-year forecast period and after that period.

Available-for-sale financial assets include the following:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wealth management products:					
- Wealth management products with floating rate and the date of maturity was January 14, 2015	—	—	72,830	—	—
- Wealth management products with floating rate and the date of maturity was January 7, 2015	—	—	8,320	—	—
	—	—	81,150	—	—

Available-for-sale financial assets are denominated in RMB.

Available-for-sale financial assets are wealth management products held by Weikang Investment Group which started on December 5, 2014, December 5, 2014 and January 27, 2015, respectively and fell due on January 7, January 14 and February 12, 2015, respectively. The fair value of the wealth management products held by the Weikang Investment Group is approximate to the book value and relevant fair value gain/loss and financial impact of changes in interest rate are minimal because of short term maturity while the duration of two contracts are ranging from 33 to 40 days.

9 INVENTORIES

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pharmaceuticals	—	904	759	1,145	1,828
Medical consumables	—	148	92	35	133
	—	1,052	851	1,180	1,961

The analysis of the amount of inventories recognized as an expense and included in 'cost of revenue' is as follow:

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	—	4,519	7,265	12,836	8,571	12,533

10 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and receivables					
Trade receivables	—	1,357	1,563	7,490	6,588
Other receivables and deposits	—	17	56	78	18
Amounts due from related parties	34,637	61,715	79,787	110,373	19,491
Cash and cash equivalents	9,020	84,146	5,134	13,086	56,854
	43,657	147,235	86,540	131,027	82,951
Available-for-sale financial asset					
Available-for-sale financial asset	—	—	81,150	—	—
	—	—	81,150	—	—
Financial liabilities at amortised costs					
Trade payables	—	1,171	1,994	2,919	3,992
Accruals and other payables (excluding accrued employee benefits, other tax liabilities and advance from third parties)	4,386	54,364	53,392	53,810	32,988
Amounts due to related parties	7,721	90,750	92,662	24,419	12,876
	12,107	146,285	148,048	81,148	49,856

11 TRADE RECEIVABLES

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	1,357	1,563	8,484	7,582
Less: provision for impairment of trade receivables	—	—	—	(994)	(994)
Trade receivables — net	—	1,357	1,563	7,490	6,588

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

As at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 - 60 days	—	1,357	1,563	4,463	4,624
61 - 180 days	—	—	—	4,021	864
181 days - 1 year	—	—	—	—	2,094
	—	1,357	1,563	8,484	7,582

As at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016, Weikang Investment Group's trade receivables past due but not impaired were nil, nil, RMB 1,491,000, nil and RMB87,000, respectively. These mainly related to the amounts to be claimed from local social insurance bureau and similar government departments who are responsible for the reimbursement of medical expenses for patients who are covered by government medical insurance schemes. The management considers that based on past experience, the amounts can be recovered in reasonable time. The ageing analysis of these trade receivables was as follow:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 - 60 days	—	—	—	—	—
61 - 180 days	—	—	—	1,491	—
181 days - 1 year	—	—	—	—	87
	—	—	—	1,491	87

As at December 31, 2015 and September 30, 2016, Weikang Investment Group's trade receivables impaired were RMB994,000 and RMB994,000 (December 31, 2013 and 2014: nil; September 30, 2014: nil). The ageing analysis of the trade receivables was as follow:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 - 60 days	—	—	—	—	—
61 - 180 days	—	—	—	994	—
181 days - 1 year	—	—	—	—	994
	—	—	—	994	994

Movement on Weikang Investment Group's provision for impairment of trade receivables was as follows:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1	—	—	—	—	994
Provision for receivables	—	—	—	994	—
As at December 31	—	—	—	994	994

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

12 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current					
Other receivables	—	17	56	78	18
Prepayments	78	148	107	402	205
Total	78	165	163	480	223

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate their fair values.

13 BALANCES WITH RELATED PARTIES

As at December 31, 2013, 2014, 2015, September 30, 2014 and 2016, the balances with related parties are unsecured, interest-free, receivable/repayable on demand and are denominated in RMB.

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from a related party, Yangsi Hospital					
- Trade in nature	34,590	61,711	79,782	110,339	19,208
- Others	47	4	5	34	283
	34,637	61,715	79,787	110,373	19,491

As at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016, the ageing analysis based on trading date of the trade receivables was as follows:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	34,590	46,571	18,071	20,062	14,491
30 to 90 days	—	—	—	—	—
90 to 180 days	—	—	46,571	15,048	4,717
More than 180 days	—	15,140	15,140	75,229	—
	34,590	61,711	79,782	110,339	19,208

As at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016, none of relevant receivables was individually determined to be impaired.

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties					
- Others					
Yangsi Hospital	7,392	90,644	92,662	24,419	12,876
Mr. Wang Zhejun	329	106	—	—	—
	7,721	90,750	92,662	24,419	12,876

Their carrying values due as at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016 approximate their fair values.

14 CASH AND CASH EQUIVALENTS

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks	8,942	84,136	5,087	12,901	56,801
Cash on hand	78	10	47	185	53
	9,020	84,146	5,134	13,086	56,854

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Weikang Investment Group's balances of cash at banks which are mainly denominated in RMB are deposited with banks in the PRC.

15 PAID-IN CAPITAL

	Amount
	RMB'000
As at January 1, 2013, December 31, 2013, September 30, 2014, December 31, 2014, December 31, 2015 and September 30, 2016	30,000

16 SHARE-BASED PAYMENTS

Service Contract with Mr. Lu Wenzuo

As the end of June 2016, the key terms and conditions of a service contract were discussed with Mr. Lu Wenzuo ("Mr. Lu"). Mr. Lu was also informed that the service contract was subject to board approval, which was obtained in December 2016.

Pursuant to the Board of Directors' resolution dated December 13, 2016, New Pride entered into a service contract with Mr. Lu (the "Service Contract"). Pursuant to the Service Contract on December 13, 2016, New Pride conditionally granted the following awards to Mr. Lu if he can work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator till December 31, 2017:

(i) Certain share awards (the "Share Awards") to acquire 1% equity interest in each of Weikang Investment and Honghe Ruixin from New Pride and Honghe Zhiyuan or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017 and the Share Awards will be settled by New Pride at the end of Mr. Lu's tenure at one time;

(ii) Share appreciation rights (the "Mr. Lu's SARs") to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin. The Mr. Lu's SARs will be settled by New Pride at the end of Mr. Lu's tenure;

Pursuant to the Service Contract, Weikang Investment receives the services provided by Mr. Lu and has no obligation to settle the Share Awards and the Mr. Lu's SARs. Accordingly, Weikang Investment measures the services received as an equity-settled share-based payment transaction.

The fair value of the Share Awards and the Mr. Lu's SARs, as equity-settled share-based payment transactions, on the grant date of December 13, 2016, are determined by a professional valuation firm was RMB41,700,000 and RMB8,600,000, respectively. The starting date of the vesting period is June 30, 2016.

The significant inputs in the valuation model related to the Share Awards were listed as below:

	As at December 13, 2016
Discount for lack of marketability	20%
Length of the vesting period (month)	18

The significant inputs in the valuation model related to the Mr. Lu's SARs were listed as below:

	As at December 13, 2016
Volatility	43.2%
Length of the vesting period (month)	18
Annual risk-free interest rate	0.661%

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

Share-based compensation expenses related to the Share Awards of RMB6,950,000 and the Mr. Lu's SARs of RMB1,433,000 was recognized as 'cost of revenue' for the nine months ended September 30, 2016.

Other than the Share Awards and the Mr. Lu's SARs mentioned above, there is no other share-based payments plan related to Weikang Investment.

17 RESERVES

	Statutory surplus reserve
	RMB'000
	Note (a)
At January 1, 2013	—
Transfer of reserves	783
At December 31, 2013	783
At January 1, 2014	783
Transfer of reserves	3,094
At September 30, 2014	3,877
At January 1, 2014	783
Transfer of reserves	3,094
At December 31, 2014	3,877
At January 1, 2015	3,877
Transfer of reserves	3,543
At December 31, 2015	7,420
At January 1, 2016	7,420
Share-based payments (Note 16)	8,383
At September 30, 2016	15,803
(Unaudited)	
At January 1, 2015	3,877
Transfer of reserves	—
At September 30, 2015	3,877

(a) **Statutory surplus reserve**

In accordance with the PRC regulations and the articles of association of the companies now comprising Weikang Investment Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. Weikang Investment didn't appropriate 10% of its after-tax profit to reserves in the fourth quarter of 2014 as a result of accumulated loss.

18 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the statements of financial position were, after appropriate offsetting, as follows:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets:					
- Deferred income tax assets to be recovered after more than 12 months	—	—	—	—	—
- Deferred income tax assets to be recovered within 12 months	—	—	—	249	397
	—	—	—	249	397
Deferred income tax liabilities:					
- Deferred income tax liabilities to be settled after more than 12 months	—	(2,400)	(2,350)	(2,150)	(2,000)
- Deferred income tax liabilities to be settled within 12 months	—	(200)	(200)	(200)	(200)
	—	(2,600)	(2,550)	(2,350)	(2,200)
Deferred income tax liabilities — net	—	(2,600)	(2,550)	(2,101)	(1,803)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred income tax assets

	Provisions	Recognized tax losses assets	Total
	RMB'000	RMB'000	RMB'000
Balance at January 1, 2013	—	—	—
Credited to profit or loss	—	—	—
Balance at December 31, 2013	—	—	—
Balance at January 1, 2014	—	—	—
Credited to profit or loss	—	—	—
Balance at September 30, 2014	—	—	—
Balance at January 1, 2014	—	—	—
Credited to profit or loss	—	—	—
Balance at December 31, 2014	—	—	—
Balance at January 1, 2015	—	—	—
Credited to profit or loss	249	—	249
Balance at December 31, 2015	249	—	249
Balance at January 1, 2016	249	—	249
Credited to profit or loss	—	148	148
Balance at September 30, 2016	249	148	397

Deferred income tax liabilities

	Provisions	Intangible assets	Total
	RMB'000	RMB'000	RMB'000
Balance at January 1, 2013	—	—	—
Credited to profit or loss	—	—	—
Balance at December 31, 2013	—	—	—
Balance at January 1, 2014	—	—	—
Business combinations (Note 31)	—	(2,750)	(2,750)
Credited to profit or loss	—	150	150
Balance at September 30, 2014	—	(2,600)	(2,600)
Balance at January 1, 2014	—	—	—
Business combinations (Note 31)	—	(2,750)	(2,750)
Credited to profit or loss	—	200	200
Balance at December 31, 2014	—	(2,550)	(2,550)
Balance at January 1, 2015	—	(2,550)	(2,550)
Credited to profit or loss	—	200	200
Balance at December 31, 2015	—	(2,350)	(2,350)
Balance at January 1, 2016	—	(2,350)	(2,350)
Credited to profit or loss	—	150	150
Balance at September 30, 2016	—	(2,200)	(2,200)

Deferred income tax asset is recognised for provision for impairment of trade receivables to the extent that the realisation of the related tax benefit through future taxable profits is probable. There is no material tax losses of Fuhua Hospital carried forward in respect of which deferred tax assets have not been accounted for.

19 TRADE PAYABLES

An ageing analysis, based on invoice date, of trade payables as at the combined statements of financial position dates was as follows:

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Less than 60 days	—	832	1,804	2,892	3,965
61 to 180 days	—	149	—	—	—
181 days to 1 year	—	190	190	—	—
Over 1 year	—	—	—	27	27
	—	1,171	1,994	2,919	3,992

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

20 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accrued employee benefits	—	287	386	1,588	3,093
Advance from third parties	—	87	113	151	151
Duty and tax payable other than corporate income tax	2,028	3,823	5,295	2,617	1,365
Other payables to suppliers of plant and equipment	4,382	733	233	63	232
Dividends payable to shareholders	—	53,000	53,000	53,000	31,866
Others	4	631	159	747	890
Total accruals, other payables and provisions	6,414	58,561	59,186	58,166	37,597
Less: non-current portion	—	—	—	—	—
Current portion	6,414	58,561	59,186	58,166	37,597

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

During the nine months ended September 30, 2014, Weikang Investment Group declared dividends of RMB 53 million to the then shareholders and the dividend was fully paid in February 2016.

21 REVENUE

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
General hospital services						
- Pharmaceutical sales ..	—	5,096	8,129	15,207	9,917	14,504
- Treatments and general healthcare services	—	4,304	6,546	8,240	5,958	6,585
Hospital management services						
- Management services fee (a)......................	45,540	46,571	64,642	64,557	44,871	41,725
- Other service fee........	903	785	1,092	1,230	897	993
	46,443	56,756	80,409	89,234	61,643	63,807

All revenues are generated in the PRC. For its general hospital services, Weikang Investment Group has a highly diversified patient portfolio, no single patient or client contributed 1% or more of Weikang Investment Group's revenue during the Relevant Periods. For its hospital management services, there is a single client, Yangsi Hospital, contributed to Weikang Investment Group's revenue during the Relevant Periods.

(a) Management services fee

On January 1, 2013, Weikang Investment entered into a hospital management framework agreement ("HMFA") arrangement with Yangsi Hospital. Pursuant to the HMFA arrangement, Weikang Investment provides management and consultancy services to Yangsi Hospital with a period of 6 years from 2013 to 2018 and the detailed service content and pricing are concluded and effective in separate hospital management agreement ("HMA") on an annually basis.

On September 23, 2014, Yangsi Hospital executive committee passed a resolution to extend the HMFA arrangement period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment.

On January 1, 2016, Weikang Investment and Honghe Ruixin further entered into a long term hospital management agreement ("LTHMA") arrangement with Yangsi Hospital. Pursuant to the LTHMA arrangement, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 10 years from 2016 to 2025.

On January 1, 2013, 2014, 2015 and 2016, Weikang Investment signed annual HMA with Yangsi Hospital respectively and derives management fee based on pre-set formulas set out in these annual HMA respectively.

As set out in the 2013 and 2014 HMAs, the management fee is based on the revenue of Yangsi Hospital and a predetermined fixed rate. As set out in the 2015 HMA, the management fee is based on the revenue of Yangsi Hospital and the assessment result of predetermined comprehensive performance indicators.

22 EXPENSES BY NATURE

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Advertising and marketing expenses	—	18	18	1	1	3
Amortisation and depreciation	1,530	2,125	2,871	3,087	2,305	2,412
Business tax and other transaction taxes	2,485	2,534	3,517	3,520	2,449	883
Cost of pharmaceuticals, consumables and inspection fees	—	4,585	7,331	12,874	8,599	12,636
Employee benefits expenses	2,287	4,898	6,828	11,606	8,063	18,154
Operating lease rental expenses	—	1,589	2,138	2,310	1,690	1,690
Utilities and office expenses	249	880	986	936	695	1,309
Travelling and entertainment expenses	522	324	337	130	68	45
Provision for impairment of trade receivables	—	—	—	994	680	—
Other expenses	335	1,093	2,006	1,129	761	1,227
	7,408	18,046	26,032	36,587	25,311	38,359

23 OTHER (LOSSES)/GAIN — NET

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Medical compensation......	—	—	—	(90)	(9)	—
Others.............................	—	(3)	(71)	(21)	(22)	21
	—	(3)	(71)	(111)	(31)	21

24 OTHER INCOME

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants and subsidies	54	86	86	1,838	338	57
Write off of account payables	—	51	51	—	—	—
Interest income on wealth management products....	—	—	—	639	639	—
	54	137	137	2,477	977	57

The government grants and subsidies in 2015 were granted by the People's Government of Sanlin Town in Shanghai in consideration of the taxation contribution of Weikang Investment.

25 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	1,902	4,352	6,112	10,700	7,489	8,914
Share-based compensation expenses	—	—	—	—	—	8,383
Contributions to pension plans and other expenses	385	546	716	906	574	857
	2,287	4,898	6,828	11,606	8,063	18,154

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

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of revenue	2,167	4,116	5,791	10,224	7,101	16,608
Administrative expense	120	782	1,037	1,382	962	1,546
	2,287	4,898	6,828	11,606	8,063	18,154

The employees of Weikang Investment Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Weikang Investment Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of Weikang Investment Group with respect to the retirement benefits scheme is to make the specified contributions under scheme.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in Weikang Investment Group for the years ended December 31, 2013, 2014 and 2015, the nine months ended September 30, 2014, 2015 and 2016 include one, one, one, one, one and one director whose emoluments are reflected in the analysis shown in Note 35.

The emoluments payable to the remaining four individuals for the years ended December 31, 2013, 2014 and 2015, the nine months ended September 30, 2014, 2015 and 2016 are as follows:

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	542	414	561	741	558	586
Bonuses	—	—	—	1,390	1,043	1,043
	542	414	561	2,131	1,601	1,629

The number of highest paid non-director individuals whose remunerations for each of the Relevant Periods fell within the following band is as follows:

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	no. of individuals	no. of individuals	no. of individuals	no. of individuals	no. of individuals (Unaudited)	no. of individuals
Emolument bands						
Nil - HKD1,500,000	4	4	4	4	4	4
	4	4	4	4	4	4

During the Relevant Periods, no emoluments have been paid to the five highest individuals of Weikang Investment as an inducement to join or upon joining Weikang Investment Group or as compensation for loss of office.

26 FINANCE INCOME

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income						
Interest income on short-term bank deposit	29	11	19	35	28	56
Interest income on short-term fixed deposits ..	—	572	1,148	18	18	—
	29	583	1,167	53	46	56

27 INCOME TAX EXPENSE

Subsidiaries in Mainland China are subject to PRC corporate income tax at the rate of 25% for the Relevant Periods.

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income taxation:						
- PRC corporate income tax .	10,029	10,316	14,765	14,221	9,656	8,114
- Deferred income tax credit (Note 18)	—	(150)	(200)	(449)	(320)	(298)
	10,029	10,166	14,565	13,772	9,336	7,816

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

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	39,118	39,427	55,610	55,066	37,324	25,582
Calculated at a taxation rate of 25%	9,780	9,857	13,903	13,767	9,331	6,396
Expenses not tax deductible .	249	309	662	5	5	2,098
Utilization of tax losses in previous years	—	—	—	—	—	(678)
Income tax expense.............	10,029	10,166	14,565	13,772	9,336	7,816

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

The income tax rate of Weikang Investment, Fuhua Hospital was 25% for each of the Relevant Periods.

28 DIVIDEND

Pursuant to a resolution of the board of directors' meeting in 2015, a dividend of RMB53,000,000 to the five individuals was declared by Weikang Investment. The proposed dividend was approved by the shareholder's meeting in 2015. This dividend payable, amounting to RMB53,000,000, has been recognised as a liability in the financial information of Weikang Investment Group as of September 30, 2014, December 31, 2014 and December 31, 2015 and it was fully settled in February 2016.

Pursuant to a resolution of the board of directors' meeting on September 12, 2016, a dividend of RMB25,493,000 to New Pride, an indirect subsidiary of HCCL, and RMB6,373,000 to its minority shareholders was declared by Weikang Investment. This dividend payable, amounting to RMB31,866,000, has been recognised as a liability in the financial information of Weikang Investment Group as of September 30, 2016.

29 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to its presentation of consolidated results of Weikang Investment Group for the Relevant Periods and Weikang Investment is not a joint stock company with limited liability.

30 CASH GENERATED FROM OPERATIONS

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	39,118	39,427	55,610	55,066	37,324	25,582
Adjustments for:						
— Amortisation of intangible assets (Note 7)	—	600	800	800	600	600
— Depreciation of property, plant and equipment (Note 6)	1,530	1,525	2,071	2,287	1,705	1,812
— Provision for impairment of trade receivables (Note 22)	—	—	—	994	680	—
— Interests received (Note 26)	(29)	(583)	(1,167)	(53)	(46)	(56)
— Gain on disposal of available-for-sale financial asset	—	—	—	(639)	(639)	—
— Equity-settled share-based compensation expenses (Note 25)	—	—	—	—	—	8,383
Changes in working capital:						
— Inventories	—	(778)	(577)	(329)	(769)	(781)
— Trade receivables	—	(351)	(557)	(6,921)	(3,454)	902
— Other receivables, deposits and prepayments	—	(64)	(62)	(317)	4	257
— Amounts due from related parties	(34,610)	(27,078)	(45,150)	(30,586)	(16,888)	90,882
— Amounts due to related parties	(843)	6,895	9,306	9,727	6,400	(6,630)
— Trade payables	—	(315)	508	925	142	1,073
— Accruals, other payables and provisions	4,191	(946)	(321)	(1,020)	(1,478)	565
Cash generated from operations	9,357	18,332	20,461	29,934	23,581	122,589

31 BUSINESS COMBINATIONS

On January 15, 2014, Weikang Investment acquired 100% of the share capital of Shanghai Fuhua Hospital Limited for RMB17,000,000 and obtained the control of Fuhua Hospital, a general hospital services provider operating in the PRC.

As a result of the acquisition, Weikang Investment Group is expected to increase its presence in healthcare industry. The goodwill of RMB7,948,000 arising from the acquisition is attributable to Fuhua Hospital's regional advantages and possible profitability in general hospital services business in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for Fuhua Hospital, the fair value of assets acquired, liabilities assumed at the acquisition date.

Consideration	**RMB'000**
At January 15, 2014	
- Cash paid	17,000
Total consideration	17,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash	607
Property, plant and equipment (Note 6)	534
Medical license (included in intangible assets) (Note 7)	11,000
Inventories	274
Amounts due from related parties	—
Trade receivables	1,006
Other receivables, deposits and prepayments	101
Amounts due to related parties	—
Trade payables	(1,486)
Accruals, other payables and provisions	(234)
Current income tax liabilities	—
Deferred income tax liabilities (Note 18)	(2,750)
Total net identifiable assets	9,052
Goodwill (Note 7)	7,948
	17,000

The revenue included in the consolidated income statement for the period from January 15, 2014 to December 31, 2014 contributed by Fuhua Hospital was RMB14,675,000. Fuhua Hospital also suffered a loss of RMB1,234,000 over the same period.

32 COMMITMENTS

Operating lease commitments

Weikang Investment Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Not later than one year	2,034	2,071	2,084	2,135	2,122	2,174
Later than one year and not later than five years	8,094	8,069	7,939	7,791	8,012	7,868
Later than five years	6,999	5,560	5,071	3,084	3,588	1,557
	17,127	15,700	15,094	13,010	13,722	11,599

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Yangsi Hospital is considered to be related as the Group has participated internal governance body of Yangsi Hospital. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The executive directors are of the view that the following parties that had transactions or balances with Weikang Investment Group are related parties:

Name	Relationship with Weikang Investment Group
Shanghai Yangsi Hospital	Certain employees or directors of Weikang Investment are Yangsi Hospital's internal governance body members

(i) As set out in Note 4(d), Weikang Investment has exercised significant judgements in determining whether Weikang Investment has control over Yangsi Hospital. After assessment, the management concluded that Weikang Investment does not obtain the decision making power over the internal governance body to direct the relevant activities of Yangsi Hospital, so Weikang Investment does not control and thus does not consolidate Yangsi Hospital.

The following significant transactions were carried out between Weikang Investment Group and its related parties during the Relevant Periods. In the opinion of the directors of Weikang Investment, the related party transactions were carried out in the normal course of business and at terms negotiated between Weikang Investment Group and the respective related parties.

(a) **Transactions with related parties**

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Continuing transactions						
Management Service fee						
— Yangsi Hospital	45,540	46,571	64,642	64,557	44,871	41,725

(b) **Balances with related parties**

Balance with related parties as at December 31, 2013, 2014 and 2015, September 30, 2014 and 2016 were disclosed in Note 13.

(c) **Key management compensation**

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

	Year ended December 31, 2013	Nine months ended September 30, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Nine months ended September 30, 2015	Nine months ended September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses.	700	527	719	3,149	2,361	2,239
Share-based compensation expenses	—	—	—	—	—	8,383
Others.................................	92	66	88	80	68	62
	792	593	807	3,229	2,429	10,684

34 CONTINGENCIES

Weikang Investment Group had no material contingent liabilities outstanding as at December 31, 2013, 2014 and 2015 and September 30, 2014 and 2016.

35 BENEFITS AND INTERESTS OF DIRECTORS

(a) Director's emoluments

The remuneration of every director and the chief executive for the years ended December 31, 2013, 2014, 2015, the nine months ended September 30, 2014, 2015 and 2016 were set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking						
	Fees	Salaries	Discretionary bonuses	Employer's contribution to pension scheme	Share-based compensation expenses	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2013							
Executive directors							
Mr. Lu Wenzuo*	—	155	—	—	—	—	155
Mr. Jiang Zhenlin*	—	—	—	—	—	—	—
Mr. Chen Zhixiong*	—	—	—	—	—	—	—
Ms. Lu Jingping*	—	—	—	—	—	—	—
Mr. Wang Jianjun*	—	—	—	—	—	—	—
	—	155	—	—	—	—	155
For the nine months ended September 30, 2014							
Executive directors							
Mr. Lu Wenzuo*	—	115	—	—	—	—	115
Mr. Zhang Xiaopeng*	—	—	—	—	—	—	—
Mr. Wang Shunlong*	—	—	—	—	—	—	—
Mr. Lin Sheng*	—	—	—	—	—	—	—
Mr. Sheng Li*	—	—	—	—	—	—	—
	—	115	—	—	—	—	115

Note:

* Mr. Jiang Zhenlin resigned on May 20, 2014.

Mr. Chen Zhixiong, Mr. Wang Jianjun and Ms. Lu Jingping resigned on August 1, 2014.

Mr. Lu Wenzuo, Mr. Zhang Xiaopeng, Mr. Wang Shunlong, Mr. Lin Sheng and Mr. Sheng Li were appointed on August 1, 2014.

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking						
	Fees	Salaries	Discretionary bonuses	Employer's contribution to pension scheme	Share-based compensation expenses	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2014							
Executive directors							
Mr. Lu Wenzuo	—	161	—	—	—	—	161
Mr. Zhang Xiaopeng	—	—	—	—	—	—	—
Mr. Wang Shunlong	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Sheng Li	—	—	—	—	—	—	—
	—	161	—	—	—	—	161
For the year ended December 31, 2015							
Executive directors							
Mr. Lu Wenzuo	—	218	650	—	—	—	868
Mr. Zhang Xiaopeng	—	—	—	—	—	—	—
Mr. Wang Shunlong	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Sheng Li	—	—	—	—	—	—	—
	—	218	650	—	—	—	868
For the nine months ended September 30, 2016							
Executive directors							
Mr. Lu Wenzuo	—	168	488	—	8,383	—	9,039
Mr. Zhang Xiaopeng	—	—	—	—	—	—	—
Mr. Luan Yizheng	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Yuan Bing	—	—	—	—	—	—	—
	—	168	488	—	8,383	—	9,039
For the nine months ended September 30, 2015 (Unaudited)							
Executive directors							
Mr. Lu Wenzuo	—	165	488	—	—	—	653
Mr. Zhang Xiaopeng	—	—	—	—	—	—	—
Mr. Wang Shunlong	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Sheng Li	—	—	—	—	—	—	—
	—	165	488	—	—	—	653

No directors waived or agreed to waive any emoluments during the Relevant Periods. No emoluments were paid to directors as an inducement to join or upon joining Weikang Investment Group or as compensation for loss of office during the Relevant Periods.

(b) **Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to Weikang Investment Group's business to which Weikang Investment was a party and in which a director of Weikang Investment had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended December 31, 2013, 2014, 2015, the nine months ended September 30, 2014 and 2016.

36. BALANCE SHEETS OF WEIKANG INVESTMENT

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	21,086	19,823	19,372	19,830	20,415
Investments in subsidiaries	—	17,000	17,000	17,000	17,000
Total non-current assets	21,086	36,823	36,372	36,830	37,415
Current assets					
Available-for-sale financial asset	—	—	81,150	—	—
Other receivables, deposits and prepayments	78	—	—	150	—
Amounts due from a related party	34,637	61,715	79,787	110,373	19,491
Cash and cash equivalents	9,020	83,427	3,167	11,158	52,568
Total current assets	43,735	145,142	164,104	121,681	72,059
Total assets	64,821	181,965	200,476	158,511	109,474
EQUITY					
Equity attributable to owners of Weikang Investment					
Paid in capital	30,000	30,000	30,000	30,000	30,000
Reserves	783	3,877	3,877	7,420	15,803
Retained earnings/(Accumulated losses)	9,874	(15,285)	(3,340)	34,720	19,870
Total equity	40,657	18,592	30,537	72,140	65,673

	As at December 31, 2013	As at September 30, 2014	As at December 31, 2014	As at December 31, 2015	As at September 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES					
Current liabilities					
Amounts due to related parties	7,721	88,087	88,740	15,687	3,832
Accruals, other payables and provisions	6,414	57,079	58,543	56,817	35,998
Current income tax liabilities.......	10,029	18,207	22,656	13,867	3,971
Total current liabilities	24,164	163,373	169,939	86,371	43,801
Total liabilities	24,164	163,373	169,939	86,371	43,801
Total equity and liabilities	64,821	181,965	200,476	158,511	109,474

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Reports received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendices IA and IB to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix IA to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on September 30, 2016 and based on the consolidated net tangible assets attributable to the owners of the Company as at September 30, 2016 as shown in the Accountant's Report, the text of which is set out in Appendix IA to this prospectus, and adjusted as described below.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at September 30, 2016 or at any future date.

	Audited consolidated net tangible assets attributable to the owners of the Company as at September 30, 2016[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB('000)	RMB('000)	RMB('000)	RMB[(3)]	HK$[(5)]
Based on the Offer Price of HK$12.80 per Share	83,695	329,224	412,919	3.10	3.51
Based on the Offer Price of HK$15.00 per Share	83,695	393,915	477,610	3.59	4.07

Notes:

(1) The audited consolidated net tangible assets attributable to the owners of the Company as at September 30, 2016 is extracted from the Accountant's Report set forth in Appendix IA to the prospectus, which is based on the audited consolidated net assets attributable to the owners of the Company as at September 30, 2016 of RMB1,141.7 million less intangible assets attributable to the owners of the Company as at September 30, 2016 of RMB1,058.0 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$12.80 and HK$15.00 per share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Group, as adjusted by the amount of RMB 5.0 million and RMB14.9 million which were charged to profit and loss in the year ended December 31, 2015 and the nine months ended September 30, 2016, respectively, and do not take account of any Shares that may be issued pursuant to the Over-allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 133,194,000 Shares were in issue, assuming the Global Offering had been completed on September 30, 2016 but do not take account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to September 30, 2016, including the amendments to the Subscription Agreement dated December 4, 2016 and January 23, 2017 which reclassified the proceeds from the Management Subscribers of RMB31,152,000 from equity to financial liability. Had the amendment to the Subscription Agreement been taken into account for, the unaudited pro forma adjusted consolidated net tangible asset value per Share would be decreased.

(5) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK$1.00 to RMB0.8822. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(B) UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per Share for the year ended December 31, 2016 has been prepared in accordance with paragraph 29(8) of Chapter 4 of the Listing Rules and on the basis set out in the note below for the purpose of illustrating the effect of the Global Offering and Capitalization Issue as if they had taken place on January 1, 2016. The unaudited pro forma estimated earnings per Share has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering and Capitalization Issue or for any future periods.

Profit estimate for the year ended December 31, 2016

Estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2016 (1)(3)	Not less than RMB19.3 million (approximately HK$21.9 million)
Unaudited pro forma estimated earnings per share for the year ended December 31, 2016 (2)(3)	Not less than RMB0.15 (approximately HK$0.17)

Notes:

1. The bases on which the above profit estimate has been prepared are summarised in Part A of Appendix IIB to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2016 based on the audited consolidated results for the nine months ended September 30, 2016, the unaudited consolidated results based on management accounts of our Group for the two months ended November 30, 2016 and an estimate of the consolidated results of our Group for the remaining one month ended December 31, 2016.

2. The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit for the year ended December 31, 2016 attributable to owners of the Company by the weighted average number of 132,577,770 shares that had been assumed in issue for the year ended December 31, 2016, assuming that a total of 33,334,000 shares under the Global Offering and shares under the Capitalization Issue had been in issue as at January 1, 2016. The calculation of the estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The estimated consolidated profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share are converted into HK$ at the exchange rate of RMB 0.8822 to HK$1.00.

C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hospital Corporation of China Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hospital Corporation of China Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at June 30, 2016 and the pro forma estimated earnings per share for the year ended December 31, 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IIA-1 to IIA-3 of the Company's prospectus dated February 28, 2017, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IIA-1 to IIA-3.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at September 30, 2016 and the Group's estimated earnings per share for the year ended December 31, 2016 as if the proposed initial public offering had taken place at September 30, 2016 and January 1, 2016, respectively. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended September 30, 2016, on which an accountant's report has been published, and the Group's profit estimate for the year ended December 31, 2016, respectively.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at September 30, 2016 or January 1, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, February 28, 2017

The estimate of the consolidated profit attributable to the owners of the Company for the year ended December 31, 2016 is set out in the paragraph headed "Profit Estimate" under the section headed "Financial Information".

(A) BASES

The Directors have prepared the estimate of the consolidated profit attributable to owners of the Company for the year ended December 31, 2016 based on the audited consolidated results of the Group for the nine months ended September 30, 2016, the unaudited consolidated results of the Group for the two months ended November 30, 2016 and an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2016.

The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in the Accountant's Report, the text of which is set forth in Appendix IA to this prospectus.

(B) LETTER FROM THE REPORTING ACCOUNTANT

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

The Board of Directors
Hospital Corporation of China Limited

China International Capital Corporation Hong Kong Securities Limited

February 28, 2017

Dear Sirs,

Hospital Corporation of China Limited (the "Company")

Profit Estimate for Year Ended December 31, 2016

We refer to the estimate of the consolidated profit attributable to owners of the Company for the year ended December 31, 2016 (the "Profit Estimate") set forth in the subsection headed "Profit Estimate for the Year Ended December 31, 2016" in the section headed "Financial Information" in the prospectus of the Company dated February 28, 2017 (the "Prospectus").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months ended September 30, 2016, the unaudited consolidated results based on the management accounts of the Group for the two months ended November 30, 2016 and an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2016.

The Company's directors are solely responsible for the Profit Estimate.

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix IIB of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountant's report dated February 28, 2017, the text of which is set out in Appendix IA of the Prospectus.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The estimate of our consolidated profit attributable to the owners of the Company for the year ended December 31, 2016 is set out in the paragraph headed "Profit Estimate for the year ended December 31, 2016" under the section "Financial Information".

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus by the Sole Sponsor, in connection with the estimate of the consolidated profit and total comprehensive income of our Company for the year ended December 31, 2016.

February 28, 2017

The Directors
Hospital Corporation of China Limited

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to owners of Hospital Corporation of China Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended December 31, 2016 (the "**Profit Estimate**") as set out in the prospectus issued by the Company dated February 28, 2017 (the "**Prospectus**").

The Profit Estimate, for which you as the directors of the Company (the "**Directors**") are solely responsible, has been prepared based on the audited consolidated results of the Group for the 9 months ended September 30, 2016, the unaudited consolidated results based on the management accounts of the Group for the 2 months ended November 30, 2016 and an estimate of the consolidated results of the Group for the remaining one month ended December 31, 2016.

We have discussed with you the bases made by the Directors as set out in Appendix IIB to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated February 28, 2017 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
China International Capital Corporation
Hong Kong Securities Limited
Raymond Pak
Executive Director

This Appendix contains a summary of our Memorandum and Articles of Association. As the information set out below is in a summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, a copy of our Memorandum and Articles of Association is available for inspection.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on December 13, 2016 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection—2. Documents Available for Inspection".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on December 13, 2016 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK$500,000 divided into 500,000,000 shares of HK$0.001 each.

2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the Board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from Board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 ***Alteration of capital***

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law; and

(c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Cayman Companies Law.

2.6 ***Special resolution—majority required***

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 ***Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 ***Annual general meetings***

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 ***Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 ***Notice of meetings and business to be conducted thereat***

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 ***Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favour of the Company; and

(f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 ***Power of the Company to purchase its own shares***

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the SFC. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 ***Power of any subsidiary of the Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 ***Dividends and other methods of distribution***

Subject to the Cayman Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 ***Calls on shares and forfeiture of shares***

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 ***Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 ***Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 ***Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 ***Untraceable members***

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 February 2014 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares, debentures or other obligations of the Company; or

  (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from 11 March 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 **Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 **General**

Maples and Calder (Hong Kong) LLP, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection—2. Documents Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on February 21, 2014. We have established a principal place of business in Hong Kong at Suite 2701, One Exchange Square, Central, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 25, 2016 under the same address. Ms. Kwong Yin Ping Yvonne and Mr. Lin Tun have been appointed as our authorized representatives for the acceptance of service of process and notices on our behalf in Hong Kong.

As we are incorporated in the Cayman Islands, our operations are subject to the Cayman Companies Law and to our constitution comprising of our Memorandum and Articles of Association. A summary of certain provisions of our constitution and relevant aspects of the Cayman Companies Law is set out in Appendix III to this prospectus.

2. Changes in our share capital

As at the date of incorporation of our Company, our authorized share capital was US$50,000 divided into 50,000 Shares of US$1.00 each. The following sets out the changes in our Company's share capital within the two years immediately preceding the issue of this prospectus.

On February 2, 2016, we allotted and issued 99 ordinary shares of a par value of US$1.00 each to Vanguard Glory. As a result, as at such date, Vanguard Glory held 100 ordinary shares of a par value of US$1.00 each of our Company.

On March 31, 2016, we allotted and issued 9,600 ordinary shares at a par value of US$1.00 to Vanguard Glory and 300 ordinary shares at a consideration of RMB31,152,000 to Midpoint Honour.

On December 4, 2016, we repurchased 14 ordinary shares from Vanguard Glory and cancelled such shares. As a result, as at such date, the issued share capital of our Company was US$9,986 divided into 9,986 shares of US$1.00 each.

Pursuant to the resolutions in writing of all our Shareholders passed on December 13, 2016 , the authorized share capital of our Company was increased from US$50,000 divided into 50,000 ordinary shares of a par value of US$1.00 each to the aggregate of US$50,000 and HK$500,000 divided into (i) 50,000 ordinary shares of a par value of US$1.00 each and (ii) 500,000,000 Shares of a par value of HK$0.001 each by the creation of 500,000,000 Shares of a par value of HK$0.001 each.

On January 3, 2017, 9,986 Shares were allotted and issued to the then existing Shareholders in proportion to their respective shareholdings in our Company and credited as fully paid.

On January 3, 2017, 9,986 ordinary shares of a par value of US$1.00 each of our Company were repurchased and cancelled and our authorized share capital was reduced by cancellation of the 50,000 authorized but unissued ordinary shares of a par value of US$1.00 each, following which, the authorized share capital of our Company was HK$500,000 divided into 500,000,000 Shares of a par value of HK$0.001 each.

Immediately following the Capitalization Issue and before the Global Offering, the issued share capital of our Company will be HK$99,860 divided into 99,860,000 Shares of a par value of HK$0.001 each, all fully paid or credited as fully paid and 400,140,000 Shares of a par value of HK$0.001 each will remain unissued.

Immediately following the completion of the Global Offering (but not taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option), our issued share capital will be HK$133,194 divided into 133,194,000 Shares, all fully paid or credited as fully paid and 366,806,000 Shares will remain unissued.

Save as disclosed above and as mentioned in the paragraph headed "—A. Further Information About Our Group—4. Resolutions in writing of our Shareholders" below, there has been no alteration in our share capital within the two years immediately preceding the date of this prospectus.

3. **Changes in the share capital of our subsidiaries**

Our subsidiaries are set out in the Accountant's Report set out in Appendix IA to this prospectus. There has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. **Resolutions in writing of our Shareholders**

Pursuant to written shareholders' resolutions of our Company dated December 13, 2016:

(a) the Memorandum and Articles of Association were approved and adopted conditional upon Listing;

(b) increase in authorized share capital from US$50,000 divided into 50,000 ordinary shares of a par value of US$1.00 each to the aggregate of US$50,000 and HK$500,000 divided into (i) 50,000 ordinary shares of a par value of US$1.00 each and (ii) 500,000,000 Shares of a par value of HK$0.001 each by the creation of 500,000,000 Shares of a par value of HK$0.001 each was approved;

(c) subject to the repurchase of 9,986 ordinary shares of a par value of US$1.00 each of our Company, the reduction of authorized share capital to HK$500,000 divided into 500,000,000 Shares of a par value of HK$0.001 each, by cancellation of the 50,000 authorized but unissued ordinary shares of a par value of US$1.00 each was approved;

(d) following the change in authorized share capital of our Company as referred to in paragraphs (b) and (c) above and conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, the Directors were authorized to capitalize HK$99,850.014 standing to the credit of the share premium account of our Company by applying such sum to pay up in full 99,850,014 Shares at par for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becoming unconditional in proportion to their respective shareholdings (as nearly as possible without involving fractions) in our Company or in accordance with the direction of such member;

(e) conditional upon all the conditions set out in the section headed "Structure and Conditions of the Global Offering—Conditions of the Global Offering" in this prospectus being fulfilled:

(i) the Global Offering and the Over-allotment Option were approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit;

(ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the Global Offering; and

(iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree to the Offer price per Offer Share with the Sole Bookrunner.

(f) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the Global Offering, a right issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting pursuant to any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend of Shares in accordance with our Articles of Association or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, in the amount not exceeding 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;

(g) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will not exceed 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first; and

(h) the general unconditional mandate mentioned in paragraph (f) above be extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (g) above.

5. Repurchases of our own securities

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of shares (which must be fully paid up) by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written resolution passed by our then Shareholders on December 13, 2016, a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorizing any repurchase by our Company of Shares on the Hong Kong Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of not exceeding 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by our Articles of Association or any other applicable laws to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time. Under the Cayman Companies Law, the par value of any Shares repurchased by our Company may be provided for out of our profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be repurchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorized by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital.

(iii) *Trading restrictions*

The total number of Shares which we may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering (but not taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option). We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Hong Kong Stock Exchange. We are also prohibited from repurchasing Shares on the Hong Kong Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange. We are required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Hong Kong Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange.

(iv) *Status of repurchased Shares*

All repurchased Shares (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically cancelled and the certificates for those Shares must be cancelled and destroyed as soon as reasonably practicable following settlement of any such purchase. Under Cayman Companies Law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate par value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

(v) *Suspension of repurchase*

Pursuant to the Listing Rules, we may not make any repurchases of Shares after inside information has come to our knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our Company to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, we may not repurchase Shares on the Hong Kong Stock Exchange unless the circumstances are exceptional.

(vi) *Procedural and reporting requirements*

As required by the Listing Rules, repurchases of Shares on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Hong Kong Stock Exchange business day following any day on which we may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of Shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Hong Kong Stock Exchange.

(b) ***Reasons for repurchases***

The Directors believe that it is in the best interests of us and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit us and our Shareholders.

(c) ***Funding of repurchases***

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this prospectus and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of 133,194,000 Shares in issue immediately following the completion of the Global Offering (but not taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option), could accordingly result in 13,319,400 Shares being repurchased by our Company during the period prior to (1) the conclusion of our next annual general meeting; (2) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or (3) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting, whichever occurs first (the "**Relevant Period**").

(d) ***General***

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only implemented with the approval of the Hong Kong Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

(a) the subscription agreement dated March 31, 2016 entered into among our Company, Midpoint Honour Limited, Grand Roc Holdings Limited, Han Prestige Limited, Hope Yield Global Limited, Upright Delight Limited, Glamorous Idea Limited, Mr. Zhang Xiaopeng (張曉鵬), Ms. Xia Yuanqing (夏遠青), Mr. Zang Chuanbo (臧傳波), Ms. Ding Yue (丁玥), Ms. Kan Ruihan (闞睿涵), Vanguard Glory Limited and Hony Capital 2008 Management Limited regarding the allotment and issuance of 300 ordinary shares of our Company at an aggregate subscription price of RMB31,152,000 (or other equivalent currencies), the details of which are set out in the section headed "History, Development and Corporate Structure—Management Subscription" in this prospectus;

(b) the amendment agreement to the subscription agreement dated December 4, 2016 entered into among our Company, Midpoint Honour Limited, Grand Roc Holdings Limited, Han Prestige Limited, Hope Yield Global Limited, Upright Delight Limited, Glamorous Idea Limited, Mr. Zhang Xiaopeng (張曉鵬), Ms. Xia Yuanqing (夏遠青), Mr. Zang Chuanbo (臧傳波), Ms. Ding Yue (丁玥), Ms. Kan Ruihan (闞睿涵), Vanguard Glory Limited and Hony Capital 2008 Management Limited, the details of which are set out in the section headed "History, Development and Corporate Structure—Management Subscription" in this prospectus;

(c) the second amendment agreement to the subscription agreement dated January 23, 2017 entered into among our Company, Midpoint Honour Limited, Grand Roc Holdings Limited, Han Prestige Limited, Hope Yield Global Limited, Upright Delight Limited, Glamorous Idea Limited, Mr. Zhang Xiaopeng (張曉鵬), Ms. Xia Yuanqing (夏遠青), Mr. Zang Chuanbo (臧傳波), Ms. Ding Yue (丁玥), Ms. Kan Ruihan (闞睿涵), Vanguard Glory Limited and Hony Capital 2008 Management Limited, the details of which are set out in the section headed "History, Development and Corporate Structure—Management Subscription" in this prospectus;

(d) the deed of non-competition dated December 13, 2016 entered into between Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited and our Company regarding non-competition undertakings given by each of Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited, the details of which are set out in the section headed "Relationship with Our Controlling Shareholders—Non-competition Undertakings" in this prospectus;

(e) the deed of indemnity dated December 13, 2016 entered into between Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited and our Company pursuant to which each of Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited agreed to give certain indemnities in our favor;

(f) the amended and restated deed of indemnity dated January 23, 2017 entered into between Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited and our Company pursuant to which each of Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited agreed to give certain indemnities in our favor, the details of which are set out in the paragraph headed "—F. Other Information—2. Indemnities" below;

(g) the cornerstone investment agreement dated February 27, 2017 entered into among our Company, Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)) and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), details of which are included in the section headed "Cornerstone Investor" of this prospectus; and

(h) the underwriting agreement dated February 27, 2017 relating to the Hong Kong Public Offering and entered into by our Company, Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P., Hony Capital Fund V GP Limited, China International Capital Corporation Hong Kong Securities Limited and the Hong Kong Underwriter.

2. Intellectual Property Rights of our Group

As of the Latest Practicable Date, we have registered the following intellectual property rights which, in the opinion of our Directors, are material to our Group's business.

(a) *Trademarks*

As of the Latest Practicable Date, we had registered the following trademark(s) which we consider to be material to the business of our Group:

No.	Trademark	Registration Number	Name of Registered Proprietor	Class	Place of Registration	Expiry Date
1......	A. 弘和仁愛 HOSPITAL CORPORATION B. 弘和仁愛 HOSPITAL CORPORATION C. 弘和仁愛 HOSPITAL CORPORATION D. 弘和仁愛 HOSPITAL CORPORATION	303725659	the Company	16, 44	Hong Kong	March 28, 2026

As of the Latest Practicable Date, we had applied for the registration of the following trademarks which we consider to be material to the business of our Group:

No.	Trademark	Application Number	Name of Applicant	Class	Place of Application	Date of Application
1.	弘和仁愛 HOSPITAL CORPORATION	19330858	the Company	44	PRC	March 16, 2016
2......	弘和仁愛 HOSPITAL CORPORATION	19330712	the Company	43	PRC	March 16, 2016
3......	弘和仁愛 HOSPITAL CORPORATION	19330591	the Company	36	PRC	March 16, 2016

No.	Trademark	Application Number	Name of Applicant	Class	Place of Application	Date of Application
4......	弘和仁爱 HOSPITAL CORPORATION	19330588	the Company	35	PRC	March 16, 2016
5......	弘和仁爱 HOSPITAL CORPORATION	19330401	the Company	16	PRC	March 16, 2016
6......	弘和志远	18632757	the Company	44	PRC	December 17, 2015
7......		18632721	the Company	44	PRC	December 17, 2015
8......	弘和志远	18632555	the Company	43	PRC	December 17, 2015
9......		18632487	the Company	43	PRC	December 17, 2015
10....	弘和志远	18632266	the Company	36	PRC	December 17, 2015
11....		18631590	the Company	36	PRC	December 17, 2015
12....	弘和志远	18631223	the Company	35	PRC	December 17, 2015
13....		18631061	the Company	35	PRC	December 17, 2015

(b) ***Domain Names***

As of the Latest Practicable Date, we have registered the following domain name which we consider to be material to the business of our Group:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1.........	www.hcclhealthcare.com	Honghe Yixin	January 19, 2016	January 19, 2018

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) ***Interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations***

Immediately following the completion of the Global Offering (without taking into account the Shares to be issued upon the exercise of the Over-allotment Option), the interests or short positions of our Directors or chief executives in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**") to be notified to our Company and the Hong Kong Stock Exchange, once the Shares are listed will be as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Mr. Zhao John Huan	Interest in controlled corporation	97,000,000	72.83%
	Deemed interest(1)	2,500,000	1.88%
Mr. Zhang Xiaopeng	Interest in controlled corporation(2)	2,860,000	2.15%

Notes:

(1) The Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.

(2) Including the Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.

(b) ***Interests and short positions of the Substantial Shareholders in the Shares and Underlying Shares of the Company***

Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any interest or short position in the Shares and underlying Shares of our

Company which, once the Shares are listed, would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

(c) ***Interests of the Substantial Shareholders of Any Member of Our Group (Other than Our Company)***

So far as the Directors are aware, immediately following the completion of the Global Offering, no persons will, directly or indirectly, be interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than our Company).

2. **Particulars of Service Contracts**

(a) ***Executive Directors***

Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

(b) ***Non-executive Director and Independent Non-executive Directors***

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from the Listing Date or their respective date of appointment until three years after the Listing Date. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(c) ***Others***

(i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(ii) During the year ended December 31, 2015 and the nine months ended September 30, 2016, the aggregate of the remuneration and benefits in kind paid to the Directors was approximately RMB2.6 million and RMB2.2 million. Details of the Directors' remuneration are also set out in note 36 of the Accountant's Report set out in Appendix IA to this prospectus. Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the year ended December 31, 2015 and the nine months ended September 30, 2016 by our Company to the Directors.

(iii) Under the arrangement currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2017 is estimated to be approximately RMB7.0 million.

(iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2015 and for the nine months ended September 30, 2016 (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2015 and for the nine months ended September 30, 2016.

(vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, us, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of the Company.

3. **Fees or commissions received**

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed under the paragraph headed "—F. Other Information—9. Consents of Experts" below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

4. **Disclaimers**

Save as disclosed in this prospectus:

(a) none of our Directors or chief executives has any interests and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us 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 is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are listed on the Hong Kong Stock Exchange;

(b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

(c) none of our Directors nor any of the parties listed in the paragraph headed "—F. Other Information—8. Qualification of Experts" below is interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the paragraph headed "—F. Other Information—8. Qualification of Experts" below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "—F. Other Information—8. Qualification of Experts" below: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(f) none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

D. SHARE APPRECIATION RIGHTS SCHEMES

1. Pre-IPO Share Appreciation Rights Scheme

(a) Introduction

The purpose of the Pre-IPO Share Appreciation Rights Scheme (the "**Pre-IPO SARs Scheme**") is to enable the Company to grant share appreciation rights to the Pre-IPO SARs Eligible Participants (as defined below) as rewards or returns for their contribution or potential contribution to the Company and/or any of the subsidiaries. Pursuant to the Pre-IPO SARs Scheme, the Pre-IPO SARs Eligible Participants (as defined below) will be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period. No Shares will be issued under the Pre-IPO SARs Scheme, and accordingly, the shareholding of our Shareholders will not be diluted by the implementation of the Pre-IPO SARs Scheme and the Pre-IPO SARs Grantee (as defined below) do not have any voting rights and rights to dividends entitled by the Shareholders. The principal terms of the Pre-IPO SARs Scheme were approved by the Board on November 28, 2016. The Pre-IPO SARs

Scheme was also effective on the same date (the "**Adoption Date**"). The following summary does not form, nor is intended to be part of the Pre-IPO SARs Scheme nor should it be taken as affecting the interpretation of the rules of the Pre-IPO SARs Scheme.

(b) **Summary of the major terms of the Pre-IPO SARs Scheme**

(i) *Term*

Our Board shall be entitled (but shall not be bound) at any time from the Adoption Date to the day immediately prior to the Listing Date (both dates inclusive) to make an offer to any eligible Pre-IPO SARs Grantee (as defined below) under the Pre-IPO SARs Scheme. All pre-IPO share appreciation rights (the "**Pre-IPO SARs**") which are granted under the Pre-IPO SARs Scheme on any day prior to the Listing Date will continue to be subject to the terms and conditions under the Pre-IPO SARs Scheme after the Listing Date.

(ii) *Grantees*

The Pre-IPO SARs Scheme is available to the Directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed to the Company and/or any of the subsidiaries (the "**Pre-IPO SARs Eligible Participants**" and each a "**Pre-IPO SARs Eligible Participant**").

Grantees means any Pre-IPO SARs Eligible Participant who accepts the offer of a grant of an SAR in accordance with the rules of the Pre-IPO SARs Scheme (the "**Pre-IPO SARs Grantees**" and each a "**Pre-IPO SARs Grantee**"). The number of notional Shares which the Pre-IPO SARs granted initially under the Pre-IPO SARs Scheme present is 2,500,000, representing 2.5% of the total issued share capital of the Company immediately following the Capitalization Issue that is expected to take place immediately prior to the completion of the Global Offering. Details of the allocation are set out as follows:

Name	Title	Number of Pre-IPO SARs granted	The proportion of Pre-IPO SARs granted to total Pre-IPO SARs granted	The proportion of notional Shares which the Pre-IPO SARs granted present to total issued share capital of the Company immediately following the Capitalization Issue
Mr. Zhang Xiaopeng......	executive Director and chief executive officer	1,250,000	50.00%	1.25%
Mr. Zang Chuanbo	deputy general manager	500,000	20.00%	0.50%
Ms. Ding Yue .	chief nursing officer	500,000	20.00%	0.50%
Ms. Kan Ruihan..........	senior financial manager	250,000	10.00%	0.25%

All the Pre-IPO SARs as set out in the table above were granted to the relevant Pre-IPO SARs Grantees on November 28, 2016.

Save as disclosed, no other Pre-IPO SARs has been granted or agreed to be granted by our Company under the Pre-IPO SARs Scheme. No Pre-IPO SARs will be granted under the Pre-IPO SARs Scheme after the Latest Practicable Date.

(iii) *Conditions*

1) The grant (and acceptance) of any Pre-IPO SARs under the Pre-IPO SARs Scheme shall be subject to and conditional upon the following conditions being fulfilled:

   (A) the Listing Committee grants or agrees to grant an approval for (subject to such condition as the Hong Kong Stock Exchange may impose) the listing of and dealing in the Shares; and

   (B) the commencement of dealing in the Shares on the Hong Kong Stock Exchange.

2) Unless all of the above conditions are fulfilled on or before the date which is 30 days after the date of this prospectus, any Pre-IPO SARs granted or agreed to be granted pursuant to the Pre-IPO SARs Scheme shall be invalid and no person shall be entitled to any rights or benefits or accept any responsibility in respect of the Pre-IPO SARs Scheme or any such Pre-IPO SARs.

(iv) *Rights Personal to the Pre-IPO SARs Grantees*

Any Pre-IPO SARs shall be personal to the Pre-IPO SARs Grantee and shall not be assignable. No Pre-IPO SARs Grantee shall attempt to or in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party beneficiary over any relevant aspect of the Pre-IPO SARs. Any breach of the foregoing obligations shall entitle the Company to cancel any outstanding Pre-IPO SARs or any part thereof granted to such Pre-IPO SARs Grantee.

(v) *Maximum Number of the Pre-IPO SARs To Be Granted*

The maximum number of notional Shares which the Pre-IPO SARs that may be granted under the Pre-IPO SARs Scheme shall represent no more than 2.5% of the issued share capital of the Company immediately following the Capitalization Issue that is expected to take place immediately prior to the completion of the Global Offering, rounded down to the nearest whole Share. If no such Capitalization Issue occurs, the maximum number of notional Shares which the Pre-IPO SARs that may be granted under the Pre-IPO SARs Scheme shall represent no more than 2.5% of the issued share capital of the Company immediately prior to the completion of the Global Offering, rounded down to the nearest whole Share.

(vi) *Exercise Price*

The exercise price (the "**Pre-IPO SARs Exercise Price**") in relation to each Pre-IPO SARs offered to a Pre-IPO SARs Eligible Participant shall be the Offer Price of Shares upon Listing which shall not be less than the par value of the Shares.

(vii) *Exercise Period*

Any Pre-IPO SARs may be exercised during the period to be determined by our Board and notified to the Pre-IPO SARs Grantees in the notice of grant, or, where applicable, any period for the exercise of the Pre-IPO SARs which shall not exceed eight years from the commencement date as specified in the offer in respect of the relevant Pre-IPO SARs (the "**Pre-IPO SARs Exercise Period**").

(viii) *Exercise of the Pre-IPO SARs*

1) The Pre-IPO SARs may be exercised, in whole or in part, by the Pre-IPO SARs Grantees on any trading day during the Pre-IPO SARs Exercise Period provided that the weighted average price (the "**Pre-IPO Weighted Average Price**") must be higher than the Pre-IPO SARs Exercise Price. The Pre-IPO Weighted Average Price means, in respect of an exercise of the Pre-IPO SARs by a Pre-IPO SARs Grantee after the expiry of 60 trading days after the Listing Date, the average price per Share calculated by dividing the total turnover on each trading day on the Hong Kong Stock Exchange for the period of 60 trading days immediately prior to the exercise date (excluding that day) over its total trading volume; in respect of an exercise of the Pre-IPO SARs by a Pre-IPO SARs Grantee within 60 trading days after the Listing Date, the average price per Share is calculated by dividing the total turnover on all trading days on the Hong Kong Stock Exchange for the period from the Listing Date to the exercise date (excluding that day) over its total trading volume.

2) If the Pre-IPO Weighted Average Price is higher than the Pre-IPO SARs Exercise Price, the Company shall, subject to any restrictions imposed by applicable laws or regulations (including the Listing Rules), pay the profit (the "**Pre-IPO SARs Profit**") to the Pre-IPO SARs Grantees within 14 days after receipt of the exercise notice. The Pre-IPO SARs Profit means the result yielded by the following formula: (Pre-IPO Weighted Average Price on the exercise date — Pre-IPO SARs Exercise Price) x the number of Pre-IPO SARs exercised.

3) With effect from the Listing Date, a Pre-IPO SARs Grantee will not be allowed to exercise the Pre-IPO SARs granted under the Pre-IPO SARs Scheme (the "**Locked-up Pre-IPO SARs**"). Such restriction on the exercise of the Locked-up Pre-IPO SARs will be removed in part and in phases following the expiry of the first anniversary of the Listing Date, i.e. the Pre-IPO SARs Grantees may exercise their Pre-IPO SARs in part and in phases during the Pre-IPO SARs Exercise Period (the "**Unlocked Pre-IPO SARs**"). The Pre-IPO SARs Grantees shall be entitled to exercise their Pre-IPO SARs in the following manner:

   (A) up to 25% of the Pre-IPO SARs (rounded to the nearest whole number) after the expiry of the first anniversary of the Listing Date;

(B) up to 50% of the Pre-IPO SARs (rounded to the nearest whole number) after the expiry of the second anniversary of the Listing Date;

(C) up to 75% of the Pre-IPO SARs (rounded to the nearest whole number) by the end of the third anniversary of the Listing Date; and

(D) up to 100% of the Pre-IPO SARs (rounded to the nearest whole number) after the expiry of the fourth anniversary of the Listing Date.

4) The Pre-IPO SARs Grantees shall not exercise the Pre-IPO SARs if:

(A) he is in possession of any "inside information" (as defined in the Listing Rules);

(B) the date of a Board meeting for the approval of the annual results, half-year results, quarterly results or other interim results;

(C) the deadline by which the Company is required by the Listing Rules to announce any of its annual results, half-year results, quarterly results or other interim results. Such restriction on the exercise or grant of the Pre-IPO SARs shall also be imposed during the period for which the announcement of results by the Company has been postponed and shall be removed at the end of the day on which the results have been announced by the Company;

(D) he fails to comply with the conditions set out in the offer document; or

(E) is otherwise restricted by any laws or regulations (including the Listing Rules) from exercising the Pre-IPO SARs.

(ix) *Adjustment to the Pre-IPO SARs*

In the event of any distribution of dividends, capitalization of capital reserve, payment of bonus shares, sub-division of shares, placing of shares, or reduction of the shares of the Company that may take place after the Listing Date, corresponding alterations shall be made (except on an issue of securities by the Company as consideration for a transaction which shall not be regarded as a circumstance requiring alteration or adjustment).

(x) *Lapse of the Pre-IPO SARs and the treatments under special circumstances*

1) The Pre-IPO SARs shall lapse automatically and cease to be exercisable (to the extent not already exercised) on the earliest of:-

(A) the expiry date: the date of the expiry of the Pre-IPO SARs as may be determined by the Board which shall not be later than the last day of the Pre-IPO SARs Exercise Period in respect of such Pre-IPO SARs (the "**Pre-IPO SARs Expiry Date**");

(B) the date of commencement of the winding-up of the Company (as determined in accordance with Cayman Companies Law);

(C) subject to restrictions as stated in (x)(2), the date on which the Pre-IPO SARs Grantee ceases to be a Pre-IPO SARs Eligible Participant for any reason, provided always that if a Pre-IPO SARs Grantee ceases to be a Pre-IPO SARs Eligible Participant by reason of his death or permanent disability, any Pre-IPO SARs granted to such Pre-IPO SARs Grantee shall immediately vest in full and any portion that is unexercised shall become exercisable by the estate (in the case of death) or the nominee(s) and assignee(s) (in the case of permanent disability) of such Pre-IPO SARs Grantee for a period commencing from (whichever is earlier) (i) the 12 months after such cessation, and (ii) the Pre-IPO SARs Expiry Date in relation to that Pre-IPO SARs; or

(D) the date on which the Board exercises the Company's right to cancel the Pre-IPO SARs at any time after the Pre-IPO SARs Grantee commits a breach of paragraph (iv) or a cancellation of the Pre-IPO SARs.

2) the exercise of the Pre-IPO SARs and its other arrangement shall be made as follows in the event of any special circumstances below:

(A) if the Pre-IPO SARs Grantee voluntarily resigns from office due to personal reasons and there is no disagreement between such Pre-IPO SARs Grantee and the Company,

- the Pre-IPO SARs Grantee may continue to hold their outstanding Unlocked Pre-IPO SARs and exercise such Pre-IPO SARs before the Pre-IPO SARs Expiry Date; and

- the Pre-IPO SARs Grantee's Locked-up Pre-IPO SARs shall lapse forthwith on the effective date of resignation;

(B) if the Pre-IPO SARs Grantee resigns from office due to material fault or misconduct, or voluntarily resigns from office due to negative impact brought to the Company due to personal behavior or non-compliance with legal requirements, all of such Pre-IPO SARs Grantee's outstanding Pre-IPO SARs shall lapse immediately;

(C) if the Pre-IPO SARs Grantee retires from his office as he reaches the statutory retirement age, such Pre-IPO SARs Grantee may continue to hold all outstanding Pre-IPO SARs and exercise such Pre-IPO SARs before the Pre-IPO SARs Expiry Date; and

(D) if the Pre-IPO SARs Grantee is dismissed by the Company,

- the Pre-IPO SARs Grantee may continue to hold their outstanding Unlocked Pre-IPO SARs and exercise such Pre-IPO SARs before the Pre-IPO SARs Expiry Date; and

- the Pre-IPO SARs Grantee's Locked-up Pre-IPO SARs shall lapse forthwith on the effective date of resignation. However, the Company shall pay to the Pre-IPO SARs Grantee a compensation that equals to 10% of the Pre-IPO SARs Profit that would be generated had such Locked-up Pre-IPO SARs been exercised by the Pre-IPO SARs Grantee on the effective date of resignation.

(xi) *Cancellation*

Any cancellation of the Pre-IPO SARs granted but not yet exercised must be approved by the Pre-IPO SARs Grantees of the relevant Pre-IPO SARs in writing.

(xii) *Alteration of the Pre-IPO SARs Scheme*

The terms and conditions of the Pre-IPO SARs Scheme and the regulations for the administration and operation of the Pre-IPO SARs Scheme (provided that the same are not inconsistent with the Pre-IPO SARs Scheme and the Listing Rules) may be altered in any respect by resolution of the Board except that:

1) any alteration to the advantage of the Pre-IPO SARs Grantees or the Pre-IPO SARs Eligible Participants (as the case may be) in respect of the definitions of "Pre-IPO SARs Eligible Participant", "Pre-IPO SARs Expiry Date", "Pre-IPO SARs Grantee" and "Pre-IPO SARs Exercise Period"; or

2) any material alteration to the terms and conditions of the Pre-IPO SARs Scheme or any change to the terms of the Pre-IPO SARs granted (except any alterations which take effect automatically under the terms of the Pre-IPO SARs Scheme),

must be made with the prior approval of the shareholders of the Company in the general meeting at which any persons with an interest in the Pre-IPO SARs Profit to be provided by the Company under the Pre-IPO SARs Scheme, any persons instructed by such persons and their respective Associates shall abstain from voting. Written notice of any alterations shall be given to all Pre-IPO SARs Grantees.

(xiii) *Termination*

The Company may at any time, by resolution in the general meeting or a decision by the Board, terminate the operation of the Pre-IPO SARs Scheme and that no further Pre-IPO SARs shall be offered. The provisions of the Pre-IPO SARs Scheme shall remain in force to the extent necessary to give effect to the exercise of any Pre-IPO SARs granted prior to the termination or otherwise as may be required in accordance with the provisions of the Pre-IPO SARs Scheme such that Pre-IPO SARs granted prior to such termination shall continue to be valid and exercisable in accordance with the Pre-IPO SARs Scheme.

(c) **Disclosure in annual and interim reports**

We will disclose details of the Pre-IPO SARs Scheme in our annual and interim reports including the number of Pre-IPO SARs, date of grant, Pre-IPO SARs Exercise Price, Pre-IPO SARs Exercise Period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

2. **Post-IPO Share Appreciation Rights Scheme**

The following is a summary of the principal terms of the Post-IPO Share Appreciation Rights Scheme (the "**Post-IPO SARs Scheme**") conditionally approved by written resolutions of the Board on December 13, 2016 and adopted on the same date. The following summary does not form, nor is intended to be, part of the Post-IPO SARs Scheme nor should it be taken as affecting the interpretation of the rules of the Post-IPO SARs Scheme. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company and therefore, it does not fall within the ambit of, and is not subject to, the regulations of Chapter 17 of the Hong Kong Listing Rules. Under the scheme, the Post-IPO SARs Eligible Participants (as defined below) will be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period pursuant to the Post-IPO SARs Scheme. Therefore, it does not affect the total number of the Shares and will not result in any dilution of the Shares of the Company. The Post-IPO SARs Grantee (as defined below) do not have any voting rights and rights to dividends entitled by the Shareholders.

(a) **Definition**

The following definition is only used in this paragraph 2.

"Adoption Date"	December 13, 2016
"Board"	the board of Directors or a committee thereof appointed for the purpose of administering the Post-IPO SARs Scheme
"Post-IPO SARs"	Post-IPO Share Appreciation Rights
"Post-IPO SARs Eligible Participants" or each a "Post-IPO SARs Eligible Participant"	directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed to the Company and/or any of the subsidiaries
"Post-IPO SARs Expiry Date"	the date of the expiry of the Post-IPO SARs as may be determined by the Board which shall not be later than the last day of the Post-IPO SARs Exercise Period in respect of such Post-IPO SARs

"Post-IPO SARs Grantee"	any Post-IPO SARs Eligible Participants who accepts an offer of the grant of the Post-IPO SARs in accordance with the terms of the Post-IPO SARs Scheme or (where the context so permits) any person who is entitled to any such Post-IPO SARs in consequence of the death of the original Post-IPO SARs Grantee, or the legal representative of such person
"Post-IPO SARs Weighted Average Price"	in respect of an exercise of the Post-IPO SARs by a Post-IPO SARs Grantee after the expiry of 60 trading days after the Listing Date, the average price per Share calculated by dividing the total turnover on each trading day on the Hong Kong Stock Exchange for the period of 60 trading days immediately prior to the exercise date (excluding that day) over its total trading volume; in respect of an exercise of the Post-IPO SARs by a Post-IPO SARs Grantee within 60 trading days after the Listing Date, the average price per Share is calculated by dividing the total turnover on all trading days on the Stock Exchange for the period from the Listing Date to the exercise date (excluding that day) over its total trading volume
"Scheme Period"	means the period of ten years commencing on the Adoption Date

(b) **Purpose**

The purpose of the Post-IPO SARs Scheme is to enable the Company to grant the Post-IPO SARs to Post-IPO SARs Eligible Participants as rewards or returns for their contribution or potential contribution to the Company and/or any of the subsidiaries.

(c) **Who may join**

On and subject to the terms of the Post-IPO SARs Scheme and the requirements of the Listing Rules, the Board may offer to grant the Post-IPO SARs to any Post-IPO SARs Eligible Participants as the Board may in its absolute discretion select.

(d) **Rights Personal to Post-IPO SARs Grantees**

Any Post-IPO SARs shall be personal to the Post-IPO SARs Grantee and shall not be assignable. No Post-IPO SARs Grantee shall attempt to or in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party beneficiary over any relevant aspect of the Post-IPO SARs. Any breach of the foregoing obligations shall entitle the Company to cancel any outstanding Post-IPO SARs or any part thereof granted to such Post-IPO SARs Grantee.

(e) **Administration**

The Post-IPO SARs Scheme shall be subject to the administration of the Board (who may appoint one or more third parties to provide such administrative services) and the Board's decision on all matters in relation to the Post-IPO SARs Scheme, its interpretation or its effect shall be final and binding on all parties unless otherwise stated.

(f) **Grant of the Post-IPO SARs**

The Board shall, subject to the provisions of the Post-IPO SARs Scheme and the Listing Rules, be entitled to but shall not be bound, at any time during the Scheme Period to grant the Post-IPO SARs to any relevant Post-IPO SARs Eligible Participant as may be determined by the Board subject to such conditions (including, without limitation, any minimum period for which the Post-IPO SARs must be held and/or any performance targets which must be achieved before the Post-IPO SARs can be exercised) as it may think fit in the following manner:

1) Post-IPO SARs representing no more than 2% of the total issued share capital of the Company may be granted to the person who will assume the office of chief executive officer of the Company upon the Listing, of which Post-IPO SARs representing 1% of the total issued share capital of the Company may be granted at the Board's discretion based on such person's performance;

2) Post-IPO SARs representing no more than 2% of the total issued share capital of the Company may be granted to the senior management of the Company upon the Listing; and

3) Other allocation proposal submitted by the chief executive officer and approved by the Board.

(g) **Maximum number of the Post-IPO SARs to be granted**

The maximum number of notional Shares which the Post-IPO SARs that may be granted under the Post-IPO SARs Scheme shall represent no more than 4% of the issued share capital of the Company, immediately following completion of the Global Offering rounded down to the nearest whole Share.

(h) **Exercise Price**

The exercise price (the "**Post-IPO SARs Exercise Price**") shall be determined by the Board and shall in any event be the highest of:

1) the closing price of the Shares as stated on the Hong Kong Stock Exchange's daily quotations sheet on the offer date;

2) the average closing price of the Shares as stated on the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the offer date; and

3) the par value of the Shares.

(i) **Exercise Period**

In respect of the Post-IPO SARs, the period to be notified by the Board to each Post-IPO SARs Grantee within which the Post-IPO SARs may be exercisable provided that such period of time shall not exceed a period of eight years commencing on the commencement date (the "**Post-IPO SARs Exercise Period**").

(j) **Exercise of the Post-IPO SARs**

1) the Post-IPO SARs may be exercised, in whole or in part, by the Post-IPO SARs Grantees on any trading day during the Post-IPO SARs Exercise Period by delivering a duly completed written notice to the Company provided that the Post-IPO SARs Weighted Average Price must be higher than the Post-IPO SARs Exercise Price.

2) the Board is entitled to set specific performance indicators and targets as the additional conditions to the grant of Post-IPO SARs based on the Company's performance and to adjust the number of SARs to be granted subject to the satisfaction of performance-based conditions.

3) If the Post-IPO SARs Weighted Average Price is higher than the Post-IPO SARs Exercise Price, the Company shall, subject to any restrictions imposed by applicable laws or regulations (including the Listing Rules), pay the profit to the Post-IPO SARs Grantees within 14 days after receipt of the exercise notice (the "**Post-IPO SARs Profit**"). The Post-IPO SARs Profit means the results yielded by the following formula: (Post-IPO Weighted Average Price — Post-IPO SARs Exercise Price) x the number of Post-IPO SARs exercised.

4) With effect from the commencement date, a Post-IPO SARs Grantee will not be allowed to exercise the entire Post-IPO SARs granted (rounded to the nearest whole number) under the Post-IPO SARs Scheme (the "**Locked-up Post-IPO SARs**"). Such restriction on the exercise of the Locked-up Post-IPO SARs will be removed in part and in phases following the expiry of the first anniversary of the Listing Date, i.e. the Post-IPO SARs Grantees may exercise their Post-IPO SARs in part and in phases during the Post-IPO SARs Exercise Period (the "**Unlocked Post-IPO SARs**"). The Post-IPO SARs Grantees shall be entitled to exercise their Post-IPO SARs in the following manner:

   (A) up to 25% of the Post-IPO SARs (rounded to the nearest whole number) after the expiry of the first anniversary of the commencement date;

   (B) up to 50% of the Post-IPO SARs (rounded to the nearest whole number) after the expiry of the second anniversary of the commencement date;

   (C) up to 75% of the Post-IPO SARs (rounded to the nearest whole number) after the expiry of the third anniversary of the commencement date; and

   (D) up to 100% of the Post-IPO SARs (rounded to the nearest whole number) after the expiry of the fourth anniversary of the commencement date.

5) The Post-IPO SARs Grantees shall not exercise the Post-IPO SARs if:

(A) he is in possession of any "inside information" (as defined in the Listing Rules);

(B) the date on which a Board meeting is to be held for the approval of the annual results, half-year results, quarterly results or any other interim results;

(C) the deadline by which the Company is required by the Listing Rules to announce any of its annual results, half-year results, quarterly results or other interim results. Such restriction on the exercise or grant of the Post-IPO SARs shall also be imposed during the period for which the announcement of results by the Company has been postponed and shall be removed at the end of the day on which the results have been announced by the Company;

(D) he fails to comply with the conditions set out in the offer; or

(E) is otherwise restricted by any laws or regulations (including the Listing Rules) from exercising the Post-IPO SARs.

(k) **Adjustment to the Post-IPO SARs**

In the event of any distribution of dividends, capitalization of capital reserve, payment of bonus shares, sub-division of shares, placing of shares, or reduction of the share of the Company, corresponding alterations shall be made (except on an issue of securities by the Company as consideration for a transaction, which shall not be regarded as a circumstance requiring alteration or adjustment).

(l) **Lapse of the Post-IPO SARs and the treatments under special circumstances**

1) The Post-IPO SARs shall lapse automatically and cease to be exercisable (to the extent not already exercised) on the earliest of:-

(A) the Post-IPO SARs Expiry Date;

(B) the date of commencement of the winding-up of the Company (as determined in accordance with the Cayman Companies Law);

(C) the date on which the Post-IPO SARs Grantee ceases to be a Post-IPO SARs Eligible Participant for any reason, provided always that if a Post-IPO SARs Grantee ceases to be a Post-IPO SARs Eligible Participant by reason of his death or permanent disability, and the relevant terms and conditions made in accordance with paragraph (f) so permit any Post-IPO SARs granted to such Post-IPO SARs Grantee shall immediately vest in full and any portion that is unexercised shall become exercisable by the estate (in the case of death) or the nominee(s) and assignee(s) (in the case of permanent disability) of such Post-IPO SARs Grantee for a period commencing from (whichever is earlier) (i) the 12 months after such cessation, and (ii) the Post-IPO SARs Expiry Date in relation to that Post-IPO SARs; or

(D) the date on which the Board exercises the Company's right to cancel the Post-IPO SARs at any time after the Post-IPO SARs Grantee commits a breach of (d) or a cancellation of the Post-IPO SARs is made in accordance with (o) under this paragraph 2.

2) the exercise of the Post-IPO SARs and its other arrangement shall be as follows in the event of any special circumstances below:

(A) if the Post-IPO SARs Grantee voluntarily resigns from office due to personal reasons and there is no disagreement between such Post-IPO SARs Grantee and the Company,

- the Post-IPO SARs Grantee may continue to hold their outstanding Unlocked Post-IPO SARs and exercise such Post-IPO SARs before the Post-IPO SARs Expiry Date; and

- the Post-IPO SARs Grantee's Locked-up Post-IPO SARs shall lapse forthwith on the effective date of resignation;

(B) if the Post-IPO SARs Grantee resigns from office due to material fault or misconduct, or voluntarily resigns from office due to negative impact brought to the Company due to personal behavior or non-compliance with legal requirements, all of such Post-IPO SARs Grantee's outstanding Post-IPO SARs shall lapse immediately;

(C) if the Post-IPO SARs Grantee retires from his office as he reaches the statutory retirement age, such Post-IPO SARs Grantee may continue to hold all outstanding Post-IPO SARs and exercise such Post-IPO SARs before the Post-IPO SARs Expiry Date; and

(D) if the Post-IPO SARs Grantee is dismissed by the Company,

- the Post-IPO SARs Grantee may continue to hold their outstanding Unlocked Post-IPO SARs and exercise such Post-IPO SARs before the Post-IPO SARs Expiry Date; and

- the Post-IPO SARs Grantee's Locked-up Post-IPO SARs shall lapse forthwith on the effective date of resignation. However, the Company shall pay to the Post-IPO SARs Grantee a compensation that equals to 10% of the Post-IPO SARs Profit that would be generated had such Locked-up Post-IPO SARs been exercised by the Post-IPO SARs Grantee on the effective date of resignation.

(m) **Alteration of the Post-IPO SARs scheme**

The terms and conditions of the Post-IPO SARs Scheme and the regulations for the administration and operation of the Post-IPO SARs Scheme (provided that the same are not inconsistent with the Post-IPO SARs Scheme and the Listing Rules) may be altered in any respect by resolution of the Board except that:

1) any alteration to the advantage of the Post-IPO SARs Grantees or the Post-IPO SARs Eligible Participants (as the case may be) in respect of the definitions of "Post-IPO SARs

Eligible Participant", "Post-IPO SARs Expiry Date", "Post-IPO SARs Grantee" and "Post-IPO SARs Exercise Period"; or

2) any material alteration to the terms and conditions of the Post-IPO SARs Scheme or any change to the terms of the Post-IPO SARs granted (except any alterations which take effect automatically under the terms of the Post-IPO SARs Scheme),

must be made with the prior approval of the shareholders of the Company in the general meeting at which any persons with an interest in the Post-IPO SARs Profit to be provided by the Company under the Post-IPO SARs Scheme, any persons instructed by such persons and their respective associates shall abstain from voting. Written notice of any alterations shall be given to all Post-IPO SARs Grantees.

(n) **Termination**

The Company may at any time, by a resolution at the general meeting or a decision by the Board, terminate the operation of the Post-IPO SARs Scheme and determine that no further Post-IPO SARs shall be offered. The provisions of the Post-IPO SARs Scheme shall remain in force to the extent necessary to give effect to the exercise of any Post-IPO SARs granted prior to the termination or otherwise as may be required in accordance with the provisions of the Post-IPO SARs Scheme such that Post-IPO SARs granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-IPO SARs Scheme.

(o) **Cancellation**

Any cancellation of the Post-IPO SARs granted but not yet exercised must be approved by the Post-IPO SARs Grantees of the relevant Post-IPO SARs in writing.

(p) **Disclosure in annual and interim reports**

We will disclose details of the Post-IPO SARs Scheme in our annual and interim reports including the number of Post-IPO SARs, date of grant, Post-IPO SARs Exercise Price, Post-IPO SARs Exercise Period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

E. SERVICE CONTRACT

1 Share Awards

Pursuant to the service contract entered into between New Pride and Mr. Lu Wenzuo (the "**Service Contract**"), on December 13, 2016, New Pride granted certain share awards to Mr. Lu Wenzuo to acquire 1% equity interest in each of Weikang Investment and Honghe Ruixin or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017. Such share awards will be exercisable after December 31, 2017.

2 **Share Appreciation Rights to Mr. Lu Wenzuo**

Pursuant to the Service Contract, on December 13, 2016, New Pride also granted share appreciation rights to Mr. Lu Wenzuo to receive a cash payment determined based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin (the "**Expected Profit**"). The formula to calculate the Expected Profit is as set out below:

Expected Profit = (weighted average price x the average number of the Shares in issue of the Company x the percentage of the aggregate net profits of Weikang Investment and Honghe Ruixin for the financial year when such scheme appreciation rights are exercised — consideration paid by New Pride for the acquisition of 80% equity interest in Weikang Investment) x 1/80

"**weighted average price**" means the average price per Share calculated by dividing the total turnover on each trading day on the Hong Kong Stock Exchange for the period of 60 trading days or such a shorter period, as the case may be, immediately prior to the exercise date (excluding that day) over its total trading volume; and

"**the average number of the Shares in issue of the Company**" means the average number of the Shares in issue in our Company during the same period for determining the weighted average price.

Mr. Lu Wenzuo shall not exercise any share appreciation rights granted to him (a) when he is in possession of any inside information (as defined in the Listing Rules); (b) on the date of a Board meeting for approval of any financial results of the Company; (c) during the period which the Company is required to release any financial results of the Company; or (d) when he is otherwise restricted by any laws or regulations (including the Listing Rules) from exercising any share appreciation rights.

The Service Contract has been discussed and approved by the Board on December 13, 2016.

F. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands or PRC.

2. Indemnities

Our Controlling Shareholders have entered into an amended and restated deed of indemnity with our Company in favor of us (being the contract referred to in item (f) of the paragraph headed "—B. Further Information about Our Business—1. Summary of Material Contracts" above).

Under the amended and restated deed of indemnity, among others, the Controlling Shareholders shall indemnify each of our Company and our subsidiaries against, among others, (a) any depletion or diminution in the value of the assets of our Company and our subsidiaries as a direct or indirect consequence of, and in respect of any amount which our Company and our subsidiaries may hereafter become liable to pay, resulting from certain provisions under sections 35, 42 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) ("**Estate Duty Ordinance**"); (b) taxation falling on our Company and our subsidiaries resulting from, or by reference to, any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Listing Date; (c) any actions, claims, direct losses, damages, costs, charges or expenses which may be made, suffered or incurred by any of our Company or our subsidiaries in respect of or arising directly or indirectly arising from any title defects of the properties owned by our Group or Yangsi Hospital as set forth in the sections headed "Business—The Hospitals—Yangsi Hospital—Properties—Title defects of the Lands"; (d) any actions, claims, losses, damages, costs, charges or expenses which may be made, suffered or incurred by any of our Company or our subsidiaries in respect of or arising directly or indirectly arising from any taxation or taxation claim or property loss or property claim (as defined therein); (e) all the costs, expenses, losses and/or other liabilities incurred by our Company and its subsidiaries in relation with those outstanding or unsettled legal and arbitration proceedings, investigations and/or claims as disclosed in this prospectus; and (f) all the expenses arising from payment of any accrued interest incurred by our Company and our subsidiaries in relation to repurchase of any Shares by our Company.

Each of our Controlling Shareholders will, however, not be liable under the amended and restated deed of indemnity for taxation where, among other things, (a) specific provision has been made for such taxation in the audited accounts of the members of our Group for the three years ended December 31, 2015 and the nine months ended September 30, 2016; (b) the taxation falling on us in respect of any accounting period commencing on or after October 1, 2016 unless liability for such taxation would not have arisen but for some event entered into by our Controlling Shareholders or us otherwise than in the course of normal day to day trading operations on or before the Listing Date; and (c) the taxation arises or is incurred as a consequence of any change in law or the interpretation thereof or practice by the relevant tax authority having retrospective effect coming into force after the Listing Date or to the extent that the taxation arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

3. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

4. Application for Listing

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. All necessary arrangements have been made to enable such Shares into CCASS.

5. **Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option). The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules. The fees payable to the Sole Sponsor in respect of its services as sponsor for the Listing are approximately US$500,000 and are payable by us.

6. **Preliminary Expenses**

The preliminary expenses incurred by us in relation to our incorporation were approximately US$8,000 and were paid by us.

7. **Promoter**

We have no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. **Qualification of Experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Global Law Office	PRC legal advisors
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities), type 5 (advising on future contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Maples and Calder (Hong Kong) LLP	Cayman Islands legal advisors
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

9. **Consents of Experts**

Each of Global Law Office, PricewaterhouseCoopers, China International Capital Corporation Hong Kong Securities Limited, Maples and Calder (Hong Kong) LLP and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or advice and/or the references to its name included in this prospectus in the form and context in which it is respectively included.

10. **Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

11. **Hong Kong Taxation**

(a) ***Capital Gains and Profit Tax***

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax.

(b) ***Stamp Duty***

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the *ad valorem* rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares.

In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required). Where a sale or purchase of the Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) will be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee will be liable to pay such duty.

(c) ***Estate Duty***

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after February 11, 2006.

12. **Reserves available for distribution**

As at September 30, 2016, we have reserves of RMB63.3 million available for distribution to our Shareholders.

13. **Miscellaneous**

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders or management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;

(iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and

(v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries.

(b) Save as disclosed in this prospectus, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.

(c) Our Directors confirm that:

(i) there has been no material adverse change in the financial or trading position or prospects of the Group since September 30, 2016 (being the date to which the latest audited consolidated financial statements of the Group were prepared); and

(ii) there is no arrangement under which future dividends are waived or agreed to be waived; and

(iii) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus.

(d) Our principal register of members will be maintained by our Principal Share Registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

(e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

(f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(g) The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other things:

(a) copies of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) a copy of each of the material contracts referred to in the section headed "Statutory and General Information—B. Further Information About Our Business—1. Summary of Material Contracts" in Appendix IV to this prospectus; and

(c) the written consents referred to in the section headed "Statutory and General Information —F. Other Information—9. Consents of Experts" in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Cleary Gottlieb Steen & Hamilton (Hong Kong) at 37/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountant's Report of our Group for the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016 from PricewaterhouseCoopers, the text of which is set out in Appendix IA to this prospectus;

(c) the Accountant's Report of Weikang Investment and its wholly-owned subsidiary, Fuhua Hospital, for the years ended December 31, 2013, 2014 and 2015, the nine months ended September 30, 2014 and the nine months ended September 30, 2016 from PricewaterhouseCoopers, the text of which is set out in Appendix IB to this prospectus;

(d) the audited financial statement of our Group for the period from February 21, 2014 to December 31, 2014, the year ended December 31, 2015 and the nine months ended September 30, 2016;

(e) the audited financial statement of Weikang Investment and its wholly-owned subsidiary, Fuhua Hospital, for the years ended December 31, 2013, 2014 and 2015, the nine months ended September 30, 2014 and the nine months ended September 30, 2016;

(f) the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix IIA to this prospectus;

(g) the letters from PricewaterhouseCoopers and the Sole Sponsor relating to the profit estimate, the texts of which are set out in Appendix IIB to this prospectus;

(h) the legal opinions issued by Global Law Office, our PRC Legal Advisors, dated February 28, 2017 in respect of certain aspects of our Group and Yangsi Hospital and the property interests of our Group and Yangsi Hospital;

(i) the letter of advice issued by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal advisors, summarising certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;

(j) the Cayman Companies Law;

(k) the industry report dated February 27, 2017 issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.;

(l) the material contracts referred to in the section headed "Statutory and General Information —B. Further Information about Our Business—1. Summary of Material Contracts" in Appendix IV to this prospectus;

(m) the written consents referred to in the section headed "Statutory and General Information —F. Other Information—9. Consents of Experts" in Appendix IV to this prospectus;

(n) the service contracts and appointment letters referred to in the section headed "Statutory and General Information—C. Further Information about our Directors and Substantial Shareholders—2. Particulars of Service Contracts" in Appendix IV to this prospectus;

(o) the rules of the Pre-IPO Share Appreciation Rights Scheme; and

(p) the rules of the Post-IPO Share Appreciation Rights Scheme.

弘和仁愛

HOSPITAL CORPORATION