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

2016 Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Xiaopeng (張曉鵬) *(Chief executive officer)*
Mr. Lu Wenzuo (陸文佐)

Non-executive Directors

Mr. Zhao John Huan (趙令歡) *(Chairman)*
Mr. Yuan Bing (袁兵)
Mr. Lin Sheng (林盛)
Mr. Lin Tun (林暾)

Independent Non-executive Directors

Ms. Chen Xiaohong (陳曉紅)
Mr. Shi Luwen (史錄文)
Mr. Zhou Xiangliang (周向亮)

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) *(Chairman)*
Mr. Shi Luwen (史錄文)
Mr. Yuan Bing (袁兵)

REMUNERATION COMMITTEE

Ms. Chen Xiaohong (陳曉紅) *(Chairman)*
Mr. Lin Sheng (林盛)
Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

Mr. Zhao John Huan (趙令歡) *(Chairman)*
Mr. Shi Luwen (史錄文)
Ms. Chen Xiaohong (陳曉紅)

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne (鄺燕萍)

AUTHORISED REPRESENTATIVES

Mr. Lin Tun (林暾)
Ms. Kwong Yin Ping Yvonne (鄺燕萍)

LISTING INFORMATION AND STOCK CODE

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Stock Code: 3869

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

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1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

PricewaterhouseCoopers

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)

COMPLIANCE ADVISOR

Halcyon Capital Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	The year ended December 31, 2016		The year ended December 31, 2015		Period from February 21 to December 31, 2014	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	161,385	100.0	142,524	100.0	23,653	100.0
Cost of revenue	(77,766)	(48.2)	(41,395)	(29.0)	(7,763)	(32.8)
Gross profit	83,619	51.8	101,129	71.0	15,890	67.2
Selling expenses	(4)	(0.0)	(1)	0.0	—	—
Administrative expense	(28,268)	(17.5)	(13,203)	(9.3)	(7,947)	(33.6)
Other gain/(losses) - net	1,068	0.7	(342)	(0.2)	(47)	(0.2)
Other income	2,982	1.8	2,477	1.7	—	—
Operating profit	59,397	36.8	90,060	63.2	7,896	33.4
Finance income – net	690	0.4	53	0.0	584	2.5
Profit before income tax	60,087	37.2	90,113	63.2	8,480	35.9
Income tax expense	(18,606)	(11.5)	(22,788)	(16.0)	(4,185)	(17.7)
Profit for the year/period	41,481	25.7	67,325	47.2	4,295	18.2

CONSOLIDATED ASSETS AND LIABILITIES

	As of December 31,		
	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Total assets	1,287,577	1,302,029	1,282,058
Total liabilities	126,634	173,490	220,844
Total equity	1,160,943	1,128,539	1,061,214

Dear Shareholders,

2016 was a critical year in the development of Hospital Corporation of China Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**"), our performance in 2016 laid a solid foundation for the listing of the Company's shares on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing**") and turned a new chapter in our development.

Our revenue increased by 13.2% from RMB142.5 million for the year ended December 31, 2015 to RMB161.4 million for the year ended December 31, 2016. Our net profit recorded in 2016 was RMB41.5 million. Eliminating the impact of expenses related to the Listing in 2015 and 2016 and share-based awards incurred in 2016, non-recurring items which are not indicative of the operating performance of our business in 2015 and 2016, our net profit increased by 14.1% from RMB72.4 million in 2015 to RMB82.6 million in 2016, which achieve the goals in our annual strategic plan and budget.

With our precisely laid out strategic plans and clearly defined targets, the Company is taking steps to prepare its organization structures and build its capabilities that is required to becoming a leading medical services group in China. We are further developing our strategic plans and long term implementation strategies in aspects such as talent recruitment, financing and development of our business model. It would place us in a strong position in the challenging and opportunistic competitive landscape and development in our industry. We believe we are able to maintain rapid growth in the future.

China's economic restructuring, favorable changes in consumption behavior, healthcare reforms as well as the Chinese consumers' growing demand for quality medical services bring biggest growing opportunities to the medical services industry. We strive to fulfill the growing healthcare needs of the general public by focusing on the diagnosis and treatment of common diseases, frequently re-occurring diseases and chronic diseases. In this regard, we also plan to expand our services scope to include health management services, rehabilitation services, in-home medical and healthcare services and geriatric services. To form innovative regional medical service centers, we aim to use the acquired hospitals as the core of the services platform to consolidate hospitals and healthcare resources in the surrounding area and deepen our presence and expand our scope of services in the regional healthcare service market.

Our management team has established an efficient and standardized management system to be implemented in hospitals we acquire. The management system was designed to provide guidance and assistance to the hospitals in improving their operating management and services quality, and expanding their healthcare business. We believe these efforts drive the improvement in the management quality and results of operations. Under the management of our Group, Shanghai Yangsi Hospital ("**Yangsi Hospital**") recorded stable growth and unleashed tremendous growth potential.

With supports from the controlling shareholders of the Company and the capital markets, we are committed to further expand rapidly through mergers and acquisitions and create a nationwide medical services network. This will allow us to benefit from the efficiency from economies of scale, which reinforce our ability to continually creating values.

We believe that with the supports from the shareholders of the Company (the "**Shareholders**") and combined efforts from our employees, and utilizing the Group's strategic development and management principals as guidance, we will remain focus to pursue rapid business growth in all aspects and create greater value to Shareholders.

Acknowledgement

I would like to take this opportunity to express my sincere gratitude to our Directors, management and employees for their dedication and contributions to our Group in the past years. I would also like to express my appreciation for the trust and enduring supports from our Shareholders as well as business partners and friends from the banking and investment sectors.

Zhang Xiaopeng
Executive Director and Chief Executive Officer

Beijing, China
March 30, 2017

BUSINESS 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 (a series of private equity funds, together with their respective management companies/general partners). 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. Our ultimate goal is to create a nationwide medical services network through mergers and acquisitions across China. 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.

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 non-public not-for-profit general hospital (Yangsi Hospital) and (ii) operating a non-public for-profit general hospital (Shanghai Fuhua Hospital Co., Ltd. ("**Fuhua Hospital**")) we own. Yangsi Hospital and Fuhua Hospital are located in the Pudong New District of Shanghai. Pursuant to hospital management agreements entered between Yangsi Hospital and us, we provide management and consultancy services to Yangsi Hospital, and in return we receive a percentage of Yangsi Hospital's annual revenue as management services fee. The management services fees we charged were effectively 22.5% and 22.1% of the total revenue of Yangsi Hospital for years ended December 31, 2015 and 2016. According to the Frost & Sullivan Report (as defined below), Yangsi Hospital is the largest non-public hospital in Shanghai. It provides comprehensive medical services and focuses on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. We own and operate Fuhua Hospital, which provides extensive medical services integrating clinical care and rehabilitation services.

INDUSTRY OVERVIEW

China's Healthcare Service Market 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 compound annual growth rate ("**CAGR**") of 13.9% during this period. According to the report dated February 27, 2017 prepared by Frost & Sullivan as commissioned by the Company containing an analysis of China's healthcare service market (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. Driven by stimulus from government on private capitals investing in healthcare services, the market size of the non-public hospital market in Shanghai is projected to reach RMB16.3 billion in 2024 from RMB6.4 billion in 2015, representing a CAGR of 10.9% during the same period.

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.

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 12.9% to RMB6,831.1 billion in 2024, according to the Frost & Sullivan Report.

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.

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.

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.

RECENT DEVELOPMENT

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 year ended December 31, 2016. Our share-based compensation expenses for 2016 were RMB22.9 million. On March 31, 2016, we issued to Midpoint Honour Limited (a Shareholder which is controlled by certain members of our management) ("**Midpoint Honour**") 300 ordinary shares at a consideration of RMB31.2 million (the "**Management Subscription**"). Pursuant to the subscription agreement and the amendment agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the subscription shares to us, when any one of the management subscribers resign with our consent. For further details, please refer to the prospectus of the Company dated February 28, 2017 (the "**Prospectus**"). The Management Subscription is accounted for as a share option scheme in accordance with relevant accounting standards, of which the granted share options were considered as equity-settled share-based payment to the subscriber and the subscription consideration was deemed as a loan to us. We recognized RMB3.3 million of expenses in 2016 in respect of the share-based compensation related to the Management Subscription.

On November 28, 2016, we granted to certain members of our management pre-IPO share appreciation rights scheme representing approximately 2.5% of the total issued share capital of the Company, of which we recognized RMB2.8 million of expenses in 2016. On December 13, 2016, we granted to Mr. Lu Wenzuo certain share awards ("**Mr. Lu's Share Awards**") and share-appreciation rights ("**Mr. Lu's SARs**") in relation to equity interest in each of Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司) ("**Weikang Investment**") and 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**"). We recognized RMB13.9 million and RMB2.9 million of expenses in 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, of which we recognized RMB1.8 million of expenses in 2016 and RMB0.7 million of expenses in March 2017.

Our subsidiary, Weikang Investment, declared a 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 of RMB6.4 million (including withholding tax and after-tax dividend payable to the minority shareholders) was fully settled in the first quarter of 2017. Our subsidiary, Honghe Ruixin, declared a 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 of RMB7.7 million (including withholding tax and after-tax dividend payable to the minority shareholders) was fully settled in the first quarter of 2017.

The Company has listed its shares on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). We have recognized RMB18.2 million of listing expenses in 2016 and accrued professional service fee for listing preparation of RMB6.8 million as at December 31, 2016. Our operating results in 2016 was therefore materially and adversely affected by the expenses described above related to our incentive schemes and our listing expenses.

REVIEW OF 2016 ANNUAL PERFORMANCE

Our revenue increased by 13.2% from RMB142.5 million in 2015 to RMB161.4 million in 2016. Our revenue from the hospital management services segment and the general hospital services segment increased by 9.9% and 30.1% to RMB130.9 million and RMB30.5 million in 2016, respectively. Our gross profit decreased by 17.3% from RMB101.1 million in 2015 to RMB83.6 million in 2016. Our gross profit margin decreased from 71.0% in 2015 to 51.8% in 2016 due to the significant increase in cost of revenue. Our cost of revenue increased by RMB36.4 million in 2016, representing a 87.9% year-on-year increase, in part due to the increase in employee benefit expenses (2016: RMB47.5 million, 2015: RMB15.7 million) incurred to incentivize our management and the increase of cost of inventories, consumables and inspection fees (2016: RMB19.4 million, 2015: RMB12.9 million).

Eliminating the impact of expenses related to the Listing in 2015 and 2016 and share-based awards incurred in 2016, non-recurring items which are not indicative of the operating performance of our business in 2015 and 2016, our net profit increased by 14.1% from RMB72.4 million in 2015 to RMB82.6 million in 2016.

Results of Operations

Revenue

Our total revenue for 2016 reached RMB161.4 million (2015: RMB142.5 million), representing a year-on-year increase of 13.2%, among which, the hospital management services segment increased by 9.9% and the general hospital services segment increased by 30.1%.

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 RMB538.0 million in 2015 and RMB617.4 million in 2016. The management services fees we charged were effectively 22.5% and 22.1% of the total revenue of Yangsi Hospital in 2015 and 2016 respectively. Our revenue for the general hospital services segment consists of fees generated from Fuhua Hospital's general hospital services.

The table below sets forth our revenue by segment and category for the periods indicated:

	For the year ended December 31,				
	2016		2015		2016 vs. 2015
	RMB ('000)	% of Revenue	RMB ('000)	% of Revenue	% Change
Hospital management services					
Management service fees	129,563	82.3	117,847	82.7	9.9
– Weikang Investment	57,803	35.8	64,557	45.3	(10.5)
– Honghe Ruixin	71,760	44.5	53,290	37.4	34.7
Other service fees[(1)]	1,319	0.8	1,230	0.8	7.2
Subtotal	130,882	81.1	119,077	83.5	9.9
General hospital services					
Pharmaceutical sales	22,016	13.6	15,207	10.7	44.8
Treatments and general healthcare services	8,487	5.3	8,240	5.8	3.0
Subtotal	30,503	18.9	23,447	16.5	30.1
Total Revenue	161,385	100.0	142,524	100.0	13.2

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.

Hospital Management Services

Our revenue from the hospital management services increased by 9.9% from RMB119.1 million in 2015 to RMB130.9 million in 2016. The increase was primarily because Yangsi Hospital's revenue increased by 14.8% from RMB538.0 million in 2015 to RMB617.4 million in 2016, while the aggregate management service fee rate that we charged Yangsi Hospital remained stable at 22.5% and 22.1% in 2015 and 2016, respectively. These factors were offset in part by the fact that Weikang Investment became subject to a 6% value-added tax from 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 the Group reports revenue net of value-added tax.

General Hospital Services

Our revenue from the general hospital services segment increased by 30.1% from RMB23.4 million in 2015 to RMB30.5 million in 2016. This increase was primarily due to an RMB6.8 million increase in pharmaceutical sales, which was generally in line with a significant increase in out-patient visits from 42,932 in 2015 to 61,465 in 2016, an increase in in-patient visits from 523 in 2015 to 571 in 2016, and an increase in average revenue per in-patient visit from RMB14,444 in 2015 to RMB16,582 in 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

Our cost of revenue increased by 87.9% from RMB41.4 million in 2015 to RMB77.8 million in 2016, primarily due to the significant increase in employee benefit expenses from RMB15.7 million in 2015 to RMB47.5 million in 2016, as well as increase in the cost of inventories, consumables and inspection fees by 50.3% from RMB12.9 million in 2015 to RMB19.4 million in 2016.

Hospital Management Services

Cost of revenue for the hospital management services segment increased significantly from RMB19.8 million in 2015 to RMB49.3 million in 2016. This increase was primarily due to a significant increase in employee benefit expenses because (i) we granted share-based compensation schemes 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 24 to the consolidated financial statements.

General Hospital Services

Cost of revenue for the general hospital services segment increased by 31.5% from RMB21.6 million in 2015 to RMB28.4 million in 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

Our gross profit decreased by 17.3% from RMB101.1 million in 2015 to RMB83.6 million in 2016. Our gross profit margin decreased from 71.0% in 2015 to 51.8% in 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.

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

	For the year ended December 31,					
	2016			2015		
	Amount RMB('000)	Contribution %	Gross profit margin %	Amount RMB('000)	Contribution %	Gross profit margin %
Hospital management services	81,539	97.5	62.3	99,290	98.2	83.4
General hospital services	2,080	2.5	6.8	1,839	1.8	7.8
Total	83,619	100.0	51.8	101,129	100.0	71.0

Selling Expenses

Our selling expenses were RMB1,000 and RMB4,000 in 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

Our administrative expenses increased significantly from RMB13.2 million in 2015 to RMB28.3 million in 2016, primarily due to our incurrence of RMB18.2 million in listing expenses. As a percentage of revenue, administrative expenses increased from 9.3% in 2015 to 17.5% in 2016.

Other Losses/Gains

Our other losses of RMB0.3 million in 2015 reversed to other gains of RMB1.1 million in 2016. This reversal was primarily a result of foreign exchange gains we recognized in respect of a larger amount of prepayment for professional service fee in respect of listing preparation in U.S. dollars and Hong Kong dollars in 2016 compared to 2015; 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. Other losses and other gains represented less than 1% of our revenue in both periods.

Other Income

Our other income increased by 20.4% from RMB2.5 million in 2015 to RMB3.0 million in 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 increased slightly from 1.7% in 2015 to 1.8% in 2016.

Operating Profit and EBITDA Margin

As a result of the foregoing, operating profit decreased by 34.0% from RMB90.1 million in 2015 to RMB59.4 million in 2016, and EBITDA margin decreased from 73.7% in 2015 to 53.0% in 2016.

Finance Income

Our finance income increased significantly from RMB53 thousand in 2015 to RMB690 thousand in 2016, primarily comprising foreign exchange gains on cash and interest income on short-term bank deposits. Finance income as a percentage of revenue was less than 0.5% in both periods.

Profit Before Income Tax and Profit Before Income Tax Margin

As a result of the foregoing, profit before income tax decreased by 33.3% from RMB90.1 million in 2015 to RMB60.1 million in 2016, and profit before income tax margin decreased from 63.2% in 2015 to 37.2% in 2016.

Income Tax Expenses

Our income tax expenses decreased by 18.4% from RMB22.8 million in 2015 to RMB18.6 million in 2016. Our effective income tax rate increased from 25.3% in 2015 to 31.0% in 2016. The increase in effective income tax rate from 2015 to 2016 was primarily because the share-based compensation expenses and a larger amount of expenses related to the Listing in 2016 compared to 2015 were not deductible for income tax purposes.

Profit for the Period

As a result of the foregoing, our net profit decreased by 38.4% from RMB67.3 million in 2015 to RMB41.5 million in 2016, and net profit margin decreased from 47.2% in 2015 to 25.7% in 2016.

Liquidity and Capital Resources

Our total equity as of December 31, 2016 was RMB1,160.9 million (2015: RMB1,128.5 million). As of December 31, 2016, we had current assets of RMB182.6 million (2015: RMB192.3 million) and current liabilities of RMB70.7 million (2015: RMB136.4 million). The current ratio was 2.58 as of December 31, 2016 as compared to 1.41 as of December 31, 2015.

Our primary uses of cash in 2016 were for working capital, capital expenditures and dividend payment. We financed our liquidity requirements mainly with cash flows generated from our operating activities. In the year ended December 31, 2016, we had net cash generating from operating activities of RMB164.0 million, consisting of RMB69.0 million in net cash inflows generated from our operations before changes in working capital, net cash inflows of RMB125.4 million relating to changes in working capital, income tax paid of RMB30.7 million and interests received of RMB0.4 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB60.1 million, adjusted for non-cash items, including primarily to add back share-based compensation expenses of RMB3.4 million, depreciation of property, plant and equipment of RMB3.7 million, and amortization of intangible assets of RMB3.5 million. Our net cash inflows relating to changes in working capital were primarily attributable to an RMB128.6 million decrease in amounts due from related parties in respect of our management service fees from Yangsi Hospital, and an RMB35.7 million increase in accruals, other payables and provision, primarily payable to management subscribers under the Management Subscription and Share-base payment. These factors were offset in part by an RMB38.4 million decrease in amounts due to related parties, related to the repayment to Hony Capital Management (Tianjin) L.P. and Yangsi Hospital, and an RMB4.3 million increase in other receivable, deposits and prepayments, primarily prepayment for professional service fees in respect of preparation for the Listing.

Cash and Borrowings

As of December 31, 2016, we did not have any borrowings or banking facilities and we had cash and cash equivalents of RMB129.3 million (2015: RMB13.1 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 Listing, we have sufficient working capital for our requirements. As of December 31, 2016, the Group did not have any material contingent liabilities or guarantees.

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,	
	2016	2015
	RMB (‘000)	RMB (‘000)
Goodwill	**958,864**	958,864
Contractual rights to provide management services	**110,619**	112,925
Medical licenses	**12,411**	13,562
Software	**177**	—
Total	**1,082,071**	1,085,351

The goodwill of RMB958.9 million as of December 31, 2015 and 2016 arose from our acquisition of an 80% equity interest in Weikang Investment on September 30, 2014. The goodwill is not amortized but is tested for impairment. Please refer to the Prospectus and Note 16(b) to the consolidated financial statements for information about our acquisition of Weikang Investment and the impairment tests for goodwill.

We recorded an intangible asset on our balance sheet relating to the contractual rights to provide management services to Yangsi Hospital of RMB110.6 million and RMB112.9 million as of December 31, 2016 and 2015, respectively. This asset reflects the fair value of a series of hospital management agreements entered into between us and the Yangsi Hospital and is amortized on a straight-line basis over a contractual term of 50 years starting from October 1, 2014. Please refer to the Prospectus and Note 16(a) to the consolidated financial statements for information about these hospital management agreements, the fair value of the contractual rights to provide management services and its assessment.

Our medical licenses came from our acquisition of Weikang Investment and Fuhua Hospital 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:

	Year ended December 31,	
	2016	2015
	RMB ('000)	RMB ('000)
Pharmaceuticals	**1,759**	1,145
Medical consumables	**88**	35
Total	**1,847**	1,180

Our inventories increased by 56.5% to RMB1.8 million as of December 31, 2016, compared to December 31, 2015, primarily due to our increased purchase of pharmaceuticals as Fuhua Hospital's business operations continued to grow.

The following table sets forth our inventory turnover days during the periods indicated:

	For the year ended December 31,	
	2016	2015
Inventory turnover days (1)	**19.4**	17.2

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.

Our inventory turnover days increased from 17.2 days in 2015 to 19.4 days in 2016, primarily due to the increase in our inventory levels for reasons described above.

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.

The following table sets forth a breakdown of our trade-nature receivables as of the dates indicated:

	As of December 31,	
	2016 RMB ('000)	2015 RMB ('000)
Trade-nature amounts due from Yangsi Hospital	38,175	166,827
Trade receivables	5,213	8,484
Less: provision for impairment of trade receivables	(638)	(994)
Subtotal	4,575	7,490
Total trade-nature receivables	42,750	174,317

Our trade-nature receivables decreased significantly to RMB42.8 million as of December 31, 2016, primarily due to the collection of management service fees from Yangsi Hospital and the receipt of reimbursement for medical service fees under 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) from the local medical insurance bureau. Trade-nature amounts due from Yangsi Hospital arising from our hospital management services accounted for 89.3% and 95.7% of our trade-nature receivables as of December 31, 2016 and 2015, respectively.

The following table sets forth our trade receivables turnover days for the periods indicated:

	For the year ended December 31,	
	2016	2015
Trade receivables turnover days [(1)]	72.2	70.5

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.

Our trade receivables turnover days remained relatively stable at 70.5 days in 2015 and 72.2 days in 2016.

The following table sets forth our trade-nature receivables turnover days for the periods indicated:

	For the year ended December 31,	
	2016	2015
Trade-nature receivables turnover days (1)	**245.5**	327.4

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.

Our trade receivables turnover days decreased to 245.5 days in 2016, primarily due to the collection of management service fees from Yangsi Hospital.

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.

Our other receivables, deposits and prepayments increased significantly to RMB8.6 million as of December 31, 2016, compared to December 31, 2015, primarily due to an RMB4.4 million increase in prepayment for professional service fees in respect of Listing preparation.

Trade Payables

Our trade payables primarily related to purchases of pharmaceuticals and medical consumables from our suppliers for the 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 58.7% to RMB4.6 million as of December 31, 2016, primarily due to the increased purchase of pharmaceuticals as Fuhua Hospital's business operations continued to grow.

The following table sets forth our trade and bills payables turnover days for the periods indicated:

	For the year ended December 31,	
	2016	2015
Trade payables turnover days(1)	**48.5**	41.5

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.

Our trade payables turnover days increased from 41.5 days in 2015 to 48.5 days in 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.

Our accruals, other payables and provisions increased by 21.2% to RMB77.3 million as of December 31, 2016 compared to December 31, 2015, due to (1) an RMB30.2 million payable to the Management Subscribers (as defined below); (2) an RMB19.4 million share-based payments in connection with the grant of share-based awards to our management; (3) an RMB9.6 million increase in accrued employee benefits; and (4) an RMB5.3 million increase in accrued professional service fee in respect of the Listing preparation. This is partially offset by our full settlement of the dividends payable to non-controlling shareholders of subsidiaries of RMB53.0 million as of December 31, 2015 in February 2016.

Current Income Tax Liabilities

Our current income tax liabilities were corporate income taxes payable by us. We had current income tax liabilities of RMB4.4 million as of December 31, 2016. Our current income tax liabilities decreased by 76.1% as of December 31, 2016 compared to the prior year, because we only recognized hospital management services fees at the end of the year in 2015 which resulted in a large amount of current income tax liabilities as of December 31, 2015, while we recognized hospital management services fees on a quarterly basis in 2016.

INDEBTEDNESS

We did not have any bank loans as of December 31, 2016.

OPERATING LEASE COMMITMENTS

We lease premises for Fuhua Hospital and our offices. As of December 31, 2016, we had an amount of RMB11.2 million future aggregate minimum lease payments under non-cancellable operating leases.

FUTURE PROSPECT

In the coming year, we will continue to (i) implement strategy of multi-dimensional development to establish regional medical service centers, (ii) consolidate medical resources to form a nationwide healthcare services network; and (iii) enhance intra-group synergy to optimize resources allocation. In particular, the board of Directors (the "**Board**") will actively seek opportunities to further penetrate the existing geographic markets by means of strategic acquisition of Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale in that possess competitive advantages and are located in regions in China with sizeable population and economic activities. In the event of strategic acquisitions, they will be funded by the net proceeds from the Listing Date.

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 intend to form a nationwide medical services network leveraging our highly replicable business model. 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 the Listing.

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 we 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.

CAPITAL EXPENDITURES

We had capital expenditures of RMB11.3 million in 2016, relating primarily to upgrading and improvements of properties.

HUMAN RESOURCES AND STAFF REMUNERATION

As of December 31, 2016, we had a total of 112 employees (December 31, 2015: 112). 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. For the year ended December 31, 2016, the total employee benefits expenses (including Directors' remuneration) were RMB50.3 million (2015: RMB17.3 million).

We set performance targets for our 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.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is a hospital operation and management company in China, led by a professional team with extensive hospital management experience. The Group is principally engaged in (i) operation and management of its privately owned hospital, Fuhua Hospital and (ii) provision of management and consultation services to a not-for-profit hospital, Yangsi Hospital, in China. The Company was listed on the main board of the Stock Exchange on March 16, 2017.

Segment analysis of the Company for the year ended December 31, 2016 is set out in Note 5 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/registered share capital, is set out in Note 12 to the consolidated financial statements.

A review of the business of the Group during the year and its future development, and an analysis of the Group's performance during the year using financial key performance indicators as required under Schedule 5 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) are set out in the "Management Discussion and Analysis" on pages 7 to 22 of this annual report which constitute part of this report of the Directors.

Except for the Listing and the exercise of the over-allotment option set out in the "Share Capital" on page 23 of this annual report, there is no significant subsequent event undertaken by the Company or by the Group from the end of the reporting period to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of comprehensive income on page 63.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the period from February 21 to December 31, 2014 and the years ended December 31, 2015 and 2016, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements and the Prospectus.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2016 are set out in Note 23 to the consolidated financial statements. Upon Listing, the total share capital of the Company was HK$133,194 divided into 133,194,000 Shares of HK$0.001 each. On April 13, 2017, the Company issued 5,000,000 additional Shares pursuant to the full exercise of the over-allotment option. As of the date of this annual report, the total share capital of the Company was HK$138,194 divided into 138,194,000 Shares of HK$0.001 each.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2016.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to Shareholders by reason of their holding of the Company's securities.

RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2016 are set out in Note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As of December 31, 2016, the Company's distributable reserves amounted to RMB49.0 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2016 are set out in Note 15 to the consolidated financial statements.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on the Listing Date with net proceeds received by the Company from the global offering in the amount of approximately HK$401.6 million after deducting underwriting commissions and all related expenses and before the exercise of over-allotment option. The net proceeds received from the global offering will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Since the Listing Date and up to the date of this annual report, the proceeds from the Listing were not applied for any use.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As the Company was not listed on the Stock Exchange as of December 31, 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. Zhang Xiaopeng *(Chief executive officer)*
Mr. Lu Wenzuo

Non-executive Directors:

Mr. Zhao John Huan (*Chairman)*
Mr. Yuan Bing
Mr. Lin Sheng
Mr. Lin Tun

Independent non-executive Directors:

Ms. Chen Xiaohong (appointment with effect from the Listing Date)
Mr. Shi Luwen (appointment with effect from the Listing Date)
Mr. Zhou Xiangliang (appointment with effect from the Listing Date)

Biographical details of the Directors are set out in "Biographies of Directors and Senior Management".

Mr. Zhang Xiaopeng, Mr. Lu Wenzuo and Mr. Zhao John Huan shall retire at the forthcoming annual general meeting of the Company (the "**AGM**") pursuant to the articles of associations of the Company. All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM.

Mr. Yuan Bing and Mr. Lin Tun, who served as a non-executive Director of the Company since December 2015 and June 2015 respectively, being eligible but do not offer themselves for re-election due to their other commitments. The Board would like to propose the appointment of Ms. Liu Lu and Ms. Wang Nan as non-executive Directors at the AGM. The appointment of Ms. Liu Lu and Ms. Wang Nan is subject to the approval of the Shareholders at the AGM. The circular to the Shareholders dated April 24, 2017 contains detail information on election and re-election of Directors including details biographies of all Directors standing for election or re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE AND COMPETING BUSINESS

Save as disclosed under Note 34 "Significant related party transactions" to the consolidated financial statements, no transactions, arrangements and contracts of significance (as defined in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "***Listing Rules***")) in relation to our business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, during the year ended December 31, 2016 and up to the date of this annual report.

As of December 31, 2016, none of the Directors is interested in any businesses apart from our business which competes or is likely to compete with our business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions were set out in Notes 34 to the consolidated financial statements. 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.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, at no time during the year had the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

CONNECTED TRANSACTION

The Directors confirm that none of the related party transactions set out in Note 34 to the consolidated financial statements constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. During the reporting period, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES

As the Company was not listed on the Stock Exchange as of December 31, 2016, Division 7 and 8 of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as of December 31, 2016.

As of the date of this report, the interests or short positions of our Directors and 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) (i) which were required to be notified to the Company and the 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), (ii) which were required, under Section 352 of the SFO, to be entered in the register referred to in that section, or (iii) which were required under the Model Code to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest[3]
Mr. Zhao John Huan	Interest in controlled corporation	97,000,000	70.19%
	Deemed interest[1]	2,500,000	1.81%
Mr. Zhang Xiaopeng	Interest in controlled corporation[2]	2,860,000	2.07%

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.

(3) As of the date of this report, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of the date of this annual report, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As the Company was not listed on the Stock Exchange as of December 31, 2016, Division 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company as of December 31, 2016.

As of the date of this annual report, the interests or short positions of the persons (not being Directors and chief executives of the Company) in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and/or required to be entered into the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of Shareholder	Capacity/Name of interest	Number of Shares	Approximate percentage of interest in the Company(4)
Vanguard Glory	Beneficial owner	97,000,000	70.19%
Hony Fund V(2)	Interest in controlled corporation	97,000,000	70.19%
Hony Capital Fund V GP, L.P.(2)	Interest in controlled corporation	97,000,000	70.19%
Hony Capital Fund V GP Limited(2)	Interest in controlled corporation	97,000,000	70.19%
Hony Group Management Limited(1)(2)	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Hony Managing Partners Limited(1)(2)	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Exponential Fortune Group Limited(1)(2)	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Mr. Zhao John Huan(1)(2)	Interest in controlled corporation; deemed interest	99,500,000	72.00%
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))(3)	Beneficial owner	9,098,800	6.58%
Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司)(3)	Interest in controlled corporation	9,098,800	6.58%
Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥))(3)	Interest in controlled corporation	9,098,800	6.58%
Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司)(3)	Interest in controlled corporation	9,098,800	6.58%
Mr. Li Yuan(3)	Interest in controlled corporation	9,098,800	6.58%

Notes:

(1) Aggregating the Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.

(2) 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.

(3) Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is Anhui Zhong'an Health Investment Management Co., Ltd. ("Anhui Zhong'an"). Anhui Zhong'an is jointly held as to 50% by Hefei Kangyang Capital Management Partnership (Limited Partnership) and as to 45% by Anhui Investment Group Holdings Co., Ltd.. Mr. Li Yuan is the general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership).

(4) As of the date of this report, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENTS SCHEMES

Save as disclosed below and Note 24 to the consolidated financial statements, the Company does not have other share option schemes.

(a) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the "**Share Subscription Agreement**") with certain members of the management (collectively, the "**Management Subscribers**"), their respective investment holding companies, Midpoint Honour (a Shareholder collectively owned by the Management Subscribers) and Hony Capital 2008 Management Limited (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 Share 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 for RMB31,152,000. Pursuant to the Share Subscription Agreement and the amendment agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the subscription shares to us, when any one of the management subscribers resign with our consent. As a result, it is accounted for as a share option scheme in accordance with relevant accounting standards, of which the granted share options were considered as equity-settled share-based payment to the subscriber. The share-based compensation expense related to the Share Subscription Agreement of RMB3,334,000 was recognized as "cost of revenue" for year ended December 31, 2016.

Details of the Share Subscription Agreement were set out in Note 24 to the consolidated financial statements and the Prospectus.

(b) Pre-IPO Share Appreciation Rights Scheme

At 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.

Share-based compensation expense related to the Pre-IPO SARs Scheme of RMB2,775,000 was recognized as "cost of revenue" in 2016. Details of Pre-IPO Share Appreciation Rights Scheme were set out in Note 24 to the consolidated financial statements.

(c) Service Contract with Mr. Lu Wenzuo

At the end of June 2016, the key terms and conditions of a service contract were discussed with Mr. Lu Wenzuo. Mr. Lu Wenzuo 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 Wenzuo (the "**Service Contract**"). Pursuant to the Service Contract, New Pride Holdings Limited, a indirect wholly-owned subsidiary of the Company ("**New Pride**") conditionally granted certain awards and share appreciation rights to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator till December 31, 2017.

Share-based compensation expense related to the Service Contract of RMB16,767,000 was recognized as "cost of revenue" in 2016.

Details of share-based payment plan in connection with the Service Contract were set out in Note 24 to the consolidated financial statements.

(d) Post-IPO Share Appreciation Rights Scheme

We adopted the Post-IPO Share Appreciation Rights Scheme (the "**Post-IPO SARs Scheme**") on December 13, 2016 to enable the Company to grant the Post-IPO Share Appreciation Rights (the "**Post-IPO SARs**") to Post-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. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company. Under the scheme, 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 (the "**Post-IPO SARs Eligible Participants**" or each a "**Post-IPO SARs Eligible Participant**") who, in the sole opinion of the Board, have contributed to the Company and/or any of the subsidiaries 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. The Post-IPO SARs Grantee (as defined below) do not have any voting rights and rights to dividends entitled by the Shareholders.

Details of the Post-IPO SARs Scheme were set out in the Prospectus.

Since the Listing Date and up to the date of this annual report, no Post-IPO SARs had been granted under the Post-IPO SARs Scheme.

EQUITY-LINK AGREEMENTS

Save for the share-based payment schemes as set out above, no equity-linked agreement that would or might result in the Company issuing shares, or that requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year of 2016 or subsisted at the end of 2016.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The controlling shareholders' compliance of the deed of non-competition entered into with the Company on December 13, 2016 is set out in the Corporate Governance Report.

MINIMUM PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as of the date of this annual report, the Company has maintained the prescribed public float as approved by the Stock Exchange since the Listing Date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands (place of incorporation of the Company) or under the Company's articles of association (the "**Articles**") which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

CORPORATE GOVERNANCE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Board considered that during the period from the date of the Listing up to the date of this annual report, the Company has complied with the applicable code provisions set out in the CG Code. For details please refer to the "Corporate Governance Report" on pages 43 to 51 of this annual report.

EMOLUMENT POLICY AND SENIOR MANAGEMENT'S EMOLUMENTS

The Directors' fees are subject to shareholders' approval at general meetings. Their emoluments are determined by the Company's Board with reference to directors' duties, responsibilities and performance and the results of the Group.

The five individuals whose remuneration was the highest in the Group in 2016 included two Directors and three members of the senior management. The annual remuneration of the members of the senior management (other than the Directors) by bands for the year ended December 31, 2016 is set out below:

Remuneration bands	Number of individuals
HK$500,000 to HK$1,000,000	1
HK$1,500,000 to HK$2,000,000	1
HK$2,000,000 to HK$2,500,000	1

Details of the remuneration of each of the Directors for the year ended December 31, 2016 are set out in Note 36 to the consolidated financial statements.

None of the Directors has agreed to waive any emoluments for the year ended December 31,2016.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or substantial part of the business of the company were entered into or existed during the year ended December 31, 2016.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

MAJOR CUSTOMERS AND SUPPLIERS

Yangsi Hospital was our largest customer in 2016, and the Group received management service fees from Yangsi Hospital by providing management and consultancy services to it. In 2016, Yangsi Hospital generated revenue of RMB617.4 million, and management service fees (net of value-added tax) from Yangsi Hospital (by Weikang Investment and Honghe Ruixin) were RMB129.6 million, which accounted for approximately 80% of our revenue in the years ended December 31, 2016. Our other customers are patients of Fuhua Hospital, from whom we derive revenue by providing general hospital services. The majority of these patients rely on public medical insurance programs to pay for their medical treatments.

The five largest suppliers of the Group comprised 75.0% by value of our total purchases during the year, with the largest supplier accounted for 17.2%.

None of the Directors, their close associates or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has an interest in any of our five largest customers and suppliers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time from the Listing Date was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RISK MANAGEMENT

Market Risk

We conduct our business in 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 in 2016 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 its 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 as of December 31, 2016.

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 in 2016. Management service fees from Yangsi Hospital accounted for approximately 83% and 80% of our revenue in the years ended December 31, 2015 and 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.

Capital Risk

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 13% as of December 31, 2015 and 10% as of December 31, 2016. There were no changes in our approach to capital management in 2016. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental friendly environment. The Group has implemented internal policies and procedures with respect to environmental protection at Fuhua Hospital and has engaged qualified service providers to dispose of Fuhua Hospital's medical waste. The Group has established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections. For the year ended December 31, 2016, the Group incurred RMB49,313 (2015: RMB4,232) in environmental compliance costs.

COMPLIANCE WITH LAWS AND REGULATIONS

Our operations are mainly carried out by the Company's subsidiaries in China while the Company itself is listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China and Hong Kong. During the year ended December 31, 2016 and up to the date of this report, the Group has complied with all the relevant laws and regulations in China and Hong Kong in all material respects.

AUDITOR

The consolidated financial statements for the year ended December 31, 2016 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the AGM and offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the AGM.

On behalf of the Board

Zhang Xiaopeng
Executive and Chief Executive Officer
Hong Kong

March 30, 2017

DIRECTORS

Zhang Xiaopeng (張曉鵬)

Executive Director and chief executive officer

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.

Lu Wenzuo (陸文佐)

Executive Director

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.

Zhao John Huan (趙令歡)

Chairman and non-executive Director

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 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 Stock Exchange (Stock Code: 1025) prior to December 2015 (listed on the GEM Board of the 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 Stock Exchange (Stock Code: 1336) from November 2012 to March 2015, a non-executive director of Chinasoft International Limited, a company listed on the Stock Exchange (Stock Code: 0354) from July 2011 to April 2015, an executive director of CSPC Pharmaceutical Group Limited, a company listed on the 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.

Yuan Bing (袁兵)

Non-executive Director

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 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.

Lin Sheng (林盛)

Non-executive Director

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 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.

Lin Tun (林暾)

Non-executive Director

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.

Chen Xiaohong (陳曉紅)

Independent non-executive Director

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.

Shi Luwen (史錄文)

Independent non-executive Director

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	Time of commencement
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.

Zhou Xiangliang (周向亮)

Independent non-executive Director

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.

SENIOR MANAGEMENT

Yang Wen (楊文)

Deputy general manager of Weikang Investment, chief medical service officer of Weikang Investment

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.

Le Meifen (樂美芬)

Deputy general manager of Weikang Investment

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.

Yuchi Min (尉遲敏)

Deputy general manager of Weikang Investment

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.

Zang Chuanbo (臧傳波)

Deputy general manager of the Company

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.

Pang Jiayi (龐家漪)

Financial director of Weikang Investment

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).

Ding Yue (丁玥)

Chief nursing officer of the Company

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.

COMPANY SECRETARY

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 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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the best interest of the Company and its Shareholders. The Company had adopted the applicable code provisions and, where appropriate, adopted the recommended best practices as set out in the CG Code since the Listing Date. The Board considered that the Company has complied with all applicable code provisions set out in the CG Code since the Listing Date.

The Company was listed on the Stock Exchange with effect from the Listing Date. As the Company was not a listed company during the year ended December 31, 2016, the CG Code was not applicable to it during that period, but has been applicable to the Company since the Listing Date.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. As the Company was not listed on the Stock Exchange as of December 31, 2016, related rules under the Listing Rules concerning the Model Code that Directors shall observe do not apply to the Company for the year ended December 31, 2016.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:

Mr. Zhang Xiaopeng *(Chief executive officer)*
Mr. Lu Wenzuo

Non-executive Directors:

Mr. Zhao John Huan *(Chairman)*
Mr. Yuan Bing
Mr. Lin Sheng
Mr. Lin Tun

Independent non-executive Directors:

Ms. Chen Xiaohong
Mr. Shi Luwen
Mr. Zhou Xiangliang

The biographical information of the Directors and relationship between the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 34 to 42 of this annual report.

Insurance for Directors

Code provision A.1.8 stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has yet to arrange the insurance cover. The Company has been in the process of identifying a director liability insurance policy with reasonable insurance premium while providing adequate insurance cover to the Director since Listing, and will make such arrangement as appropriate.

Chairman and chief executive officer

The Company has appointed Mr. Zhao John Huan as the chairman, who is primarily responsible for overseeing the corporate development and strategic planning of the Group, and Mr. Zhang Xiaopeng as the chief executive officer, who is primarily responsible for overall business operation and strategic planning of the Group as well as overseeing investment, supervising public affairs management, resources development and logistics management of the Group.

Independent Non-executive Directors

In compliance with the Listing Rules, the Company has appointed three Independent non-executive Directors, representing at least one-third of the Board, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent non-executive Directors are independent.

Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is engaged on a service agreement (for executive Director) for a term of 3 years or an appointment letter (for non-executive Director and independent non-executive Director) for a term of 1 year, and is subject to retirement provision pursuant to the Company's Articles.

In accordance with the Articles, all Directors are subject to retirement by rotation and re-election at annual general meeting at least once every three years and any director appointed by the Board or elected by the Shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting, as the case may be, of the Company after his/her appointment and be subject to re-election at such meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate.

Immediately prior to the Listing, all Directors have been given the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest.

In addition, relevant reading materials including legal and regulatory updates have been provided to the Directors for their reference and studying.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of the Company and of Hong Kong Exchanges and Clearing Limited ("**HKEX**") and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 2 and 3 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting system, internal control procedures and risk management system, relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

No meeting had been held by the Audit Committee during the year ended December 31, 2016 as the Company was listed on the main board of the Stock Exchange on March 16, 2017. From the Listing Date and up to the date of this annual report, one Audit Committee meeting was held on March 30, 2017. Mr. Zhou Xiangliang and Mr. Shi Luwen of the Audit Committee attended the meeting in person and the following matters have been discussed and considered:

(a) reviewed the consolidated financial statements of the Group for the year ended December 31, 2016;

(b) discussed with the auditor of the Company on the independent auditor's report;

(c) reviewed the draft results announcement of the Company as at December 31, 2016 and the draft of this report;

(d) reviewed the Company's internal controls systems and risk management system and discussed with the management on the effectiveness of these systems; and

(e) recommended to the Board for the proposal for re-appointment of the external auditor of the Company.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

No meeting had been held by the Remuneration Committee during the year ended December 31, 2016 as the Company was listed on the main board of the Stock Exchange on March 16, 2017. From the Listing Date and up to the date of this annual report, one Remuneration Committee meeting was held on March 30, 2017 for considering and recommending to the Board the remuneration and other benefits paid by the Company to the Directors and senior management. All members of the Remuneration Committee attended the meeting in person.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning for directors, and assessing the independence of Independent Non-executive Directors.

The Board has adopted a "Board Diversity Policy" to achieve and maintain diversity on the Board in order to strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Company considered that diversity of board members can be achieved through consideration of number of aspects, including but not limited to skills, experience and cultural and educational background, geographical, industry and professional experience, ethnicity, gender, age, knowledge and length of service.

Based on the business needs of the Group, the Nomination Committee has recommended and the Board has adopted the following measurable objectives:

(a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors; and

(b) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications.

The Nomination Committee shall monitor the implementation of the Board Diversity Policy and review the progress of its measurable objectives from time to time.

No meeting had been held by the Nomination Committee during the year ended December 31, 2016 as the Company was listed on the main board of the Stock Exchange on March 16, 2017. From the Listing Date and up to the date of this annual report, one Nomination Committee meeting was held on March 30, 2017 and determined and adopted the Board diversity policy, reviewed the structure, size and composition of the Board, assessed the independence of INEDs and made recommendation to the Board on the appointment or re-appointment of Directors. All members of the Nomination Committee attended the meeting in person.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF BOARD MEETINGS

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximately quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication. As the Company was not a listed company during the year ended December 31, 2016, the above Code provision was not applicable to the Company in 2016.

From the Listing Date and up to the date of this annual report, one Board meeting and no general meetings were held and the attendance record of each Director is set out in the table below:

Directors	Attended/Eligible to attend the Board meeting(s)	Attended/Eligible to attend the general meeting(s)
Mr. Zhang Xiaopeng	1/1	N/A
Mr. Lu Wenzuo	1/1	N/A
Mr. Zhao John Huan	1/1	N/A
Mr. Yuan Bing	0/1	N/A
Mr. Lin Sheng	1/1	N/A
Mr. Lin Tun	1/1	N/A
Ms. Chen Xiaohong	1/1	N/A
Mr. Shi Luwen	1/1	N/A
Mr. Zhou Xiangliang	1/1	N/A

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2016.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 57 to 62 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended December 31, 2016 is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	1,200
Non-audit Services	500
Total	1,700

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining an adequate risk management and internal control system to safeguard the interest of the Company and shareholders and through the Audit Committee, reviewing the effectiveness of such system on an annual basis. During the reporting period, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company and considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Company confirmed that the above risk management and internal control system is adequate and effective.

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne of SW Corporate Services Group Limited, external service provider, has been engaged by the Company as its company secretary. The biographical information of Ms. Kwong Yin Ping Yvonne are set out in the section headed "Biographies of Directors and Senior Management" of this annual report. Ms. Kwong has confirmed that she has compiled with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Congshan Sun, the senior management of the human resources department.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of HKEX after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 12.3 of the Articles, any two or more shareholders or any one shareholder which is a recognized clearing house (or its nominee(s)) (the "Requisitionist(s)") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suite 2701, One Exchange Square, Central, Hong Kong
(For the attention of the Company Secretary)

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.hcclhealthcare.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

Constitutional Documents

In preparation for the Listing, the Company has conditionally adopted the Amended and Restated Memorandum and Articles of Association by special resolution passed on December 13, 2016 which became effective on March 16, 2017. Since the Listing Date and up to the date of this annual report, the Company has not made any changes to the Articles. An up to date version of the Articles is also available on the Company's website and HKEX's website.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited are the controlling shareholders (has the meaning ascribed thereto in the Listing Rules) of the Company (collectively, the "**Controlling Shareholders**"). 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**") as set out in section headed "Relationship with Our Controlling Shareholders Non-Competition Undertaking" in the Prospectus. The Controlling Shareholders confirmed its compliance of all the undertakings provided under the Deed of Non-Competition. There are no matters which required to be deliberated by the independent non-executive Directors in relation to the compliance and enforcement of the Deed of Non-Competition and it is considered that the terms of the Deed of Non-Competition have been complied by the Controlling Shareholders.

A. ENVIRONMENT

Emissions

We are a hospital operation and management group, our operating activities do not generate any emissions or wastes that would severely pollute the environment. We are committed to achieving environmental sustainability and incorporating it in daily operations, of which we are subject to various Chinese laws, rules and regulations with respect to environmental matters, including those with respect to the disposal of medical waste and the discharge of wastewater, pollutants and radioactive substances. Yangsi Hospital and Fuhua Hospital have both implemented internal policies and procedures with respect to environmental protection and have engaged qualified service providers to dispose of their medical wastes.

There were no non-compliance cases noted in relation to environmental laws and regulations for the year ended December 31, 2016.

Use of Resources

Due to our business nature, the resources we principally use are electricity and water consumed at our offices and Fuhua Hospital. We are committed to building an environmental friendly working environment that conserve natural resources. We strive to minimize the environmental impact by saving electricity, encouraging recycle of office supplies and using environmental friendly equipment and tools in the program production and event organisation.

We apply energy saving measures in the workplace including installation of an energy-saving lighting system, setting optimal temperature on the air-conditioning, and switching off the lighting and air-conditioning after office hours. We also encourage our employees to switch off their computers and other office equipment when not utilised.

Our water consumption is minimal and we encourage our employees to reduce the use of papers by assessing the necessity of printing and where appropriate to use duplex printing and reuse any single-side printed papers. We are committed to continue to reduce our paper consumption and reduction of waste.

Environment and Natural Resources

Although our core business has remote impact on the environment and natural resources, as an ongoing commitment to good corporate citizenship, we recognize the responsibility in minimizing the negative impact of our business operations on the environment and natural resources. We regularly access the environmental risks of our business, and adopt preventive measures as necessary to reduce the risks and ensure the compliance of relevant laws and regulations.

B. SOCIAL

Employment and Labour Practices

Employment

Employees are regarded as our valuable assets and key stakeholders. We reward and recognize performing employees with competitive remuneration packages mainly consisting of base salary, welfare and bonus. We also sets 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.

We provide employee-related insurance to its employees, which 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. In 2016, we did not experience any significant staff turnover or any disruption to our business operations due to labor disputes.

We do not tolerate sexual harassment, discrimination or abuse in the workplace in any form, and we work to ensure an equal and fair working environment.

Health and Safety

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 employees. 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:* Our hospital and the hospital we manage 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 trainings to our 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 in Fuhua Hospital periodically against current and new health and safety regulations to identify areas which may need improvement. Further, Fuhua Hospital 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 in 2016, and our employees did not experience any material health or safety accidents in the course of our business operations.

Development and Training

We provide ongoing training for its employees. The doctors and other medical professionals in Fuhua Hospital regularly receive technical training in their relevant fields. Our administrative and management staff also receive systematic training on management skills and business operations. We have been and will continue to use its financial resources in employee training at the Fuhua Hospital and other hospitals we own or manage from time to time.

Labour Standards

We prohibit recruitment of child labor and does not tolerate forced labor. We enter into employment contracts with our employees in accordance with relevant Chinese laws and regulations. Review and verification of applicant's information, including age, identity, academic qualification and working experience is required during the recruitment process. Applicant who fails to provide or forges such information will not be employed.

Operating Practices

Supply Chain Management

The supplies required in the our operations primarily include pharmaceuticals and medical consumables purchased by Fuhua Hospital. As required by Chinese regulations, Fuhua Hospital procures 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.

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.

We have close oversight over our procurement process. We have implemented comprehensive policies and guidelines governing our procurement process, such as the 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 the procurement process and ensure its supply chain management is socially responsible.

Product Responsibility

We provide hospital management services to Yangsi Hospital and direct medical services to the patients at Fuhua Hospital. We maintain a good and steady relationship with Yangsi Hospital.

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 the 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. Fuhua Hospital's 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 the 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 we conduct, 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. In 2016, 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.

Anti-corruption

In 2016, We did 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 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 the our employees and employees of Yangsi Hospital and review and discussion of any suspicious incidents by the Board. In addition, we have adopted a comprehensive anti-bribery policy and code of conduct for its employees and employees of Yangsi Hospital to further institutionalize our anti-bribery practice. In accordance with the internal policy, both the 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.

COMMUNITY

The Group is dedicated to improving welfare and social services available in the community. We maintain close and constant communication and interaction with members in the local community to understand and better cater their needs. Our Group has developed and planned several community activities which cover areas including public healthcare services, child healthcare services, nursing home care for elderly and public health education. We serve the community in the neighborhood area and aim to bring positive impact on the health and wellbeing of the community as a whole. The goal of our community activities align with the value and mission we uphold, and we actively encourage our employees to devote their time and effort to volunteer in our community activities.

In 2016, our Group offered complimentary or discounted healthcare and consulting services as part of our community activities, including:

- engaged Yangsi Hospital in providing complimentary healthcare services that covers patients suffering from high blood pressure, diabetes, maternal and child health care, infectious diseases, cancer, etc.;
- provided 26,242 complementary vaccinations services;
- participated in the “family bed program”, we provide 24 hours home visit services to family in need in the Sanlin area;
- arranged a medical practitioner to work in a nursing home to provide services to elderlies staying in nursing homes; and
- provided healthcare education and free medical treatments in the community.

To the Shareholders of Hospital Corporation of China Limited
(incorporated in Cayman with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hospital Corporation of China Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 63 to 140, which comprise:

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

OUR OPINION

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

BASIS FOR OPINION

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

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

INDEPENDENCE

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS – *continued*

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

- Impairment assessment of goodwill
- Valuation of share-based compensation schemes
- Assessment of control over a not-for-profit hospital

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill	
Refer to note 4(a) and 16 to the consolidated financial statements. Goodwill of RMB958,864,000 was resulted from acquisitions of subsidiaries in 2014. These subsidiaries are principally engaged in the provision of hospital management services and general hospital services in the PRC. Management reviews the business performance and monitors goodwill on operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The recoverable amounts of the operating segments were determined based on value-in-use calculations. These calculations required the use of estimates and judgements. Management involved an industry consultant in determining key assumptions in the calculation. The key assumptions used in the value-in-use calculations were: compound growth rate of revenue, cost and operating expense percentage to revenue, long-term growth rate and pre-tax discount rate. Based on the management's assessment, no impairment was provided as at 31 December 2016. We focused on this area due to the relevant key assumptions applied in goodwill impairment assessment involving significant estimates and judgements.	We understood and evaluated the controls over goodwill impairment assessment, and we tested the relevant controls. We assessed the independence, competence, capabilities and objectivity of the industry consultant who was involved in management's impairment assessment. We further assessed the relevant key assumptions used in determining the recoverable amounts of each operating segment as follows: • compound growth rate of revenue by reference to the industry report from the industry consultant; • cost and operating expense percentage to revenue by reference to the historical financial performance of each operating segment; • long-term growth rate by reference to the long-term inflation rate of China; • pre-tax discount rate by reference to the cost of equity of comparable companies with the assistance from our internal valuation experts. We also checked the mathematical accuracy of the calculations within value-in-use model used by management. We assessed the sensitivity analyses performed by management on the above key assumptions to consider the extent to which adverse changes, either individually or in aggregate, would result in the goodwill being impaired. In light of the above work conducted, we found the significant estimates and judgements made by management in relation to relevant key assumptions applied in goodwill impairment assessment were supported by the evidences we gathered.

KEY AUDIT MATTERS – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of share-based compensation schemes	
Refer to note 4(d) and 24 to the consolidated financial statements. The Group has three share-based compensation schemes, with fair value of RMB11,160,000, RMB15,556,000 and RMB50,300,000, respectively. The fair value of these share-based compensation schemes were determined by a professional valuer, using valuation techniques. Judgements and estimates were applied in determining valuation method and assumptions. The key assumptions included volatility, dividend yield, expected option life, annual risk-free interest rate and discount for lack of marketability. We focused on this area because of the significant impact of share-based compensation schemes to the consolidated financial statements and the relevant key assumptions applied in valuation involving significant judgements and estimates.	We assessed the independence, competence, capabilities and objectivity of the professional valuer. We assessed the valuation methods applied and the relevant key assumptions with the assistance from our internal valuation experts as follows: • volatility by reference to the daily share price volatility of comparable companies for an observation period; • dividend yield by reference to the dividend policy of the Group for the period; • expected option life by reference to the terms in the adopted share-based compensation schemes; • annual risk-free interest rate by reference to the market yield of government bond with similar issuing date and maturity date as of the valuation date; • discount for lack of marketability by reference to relevant ratios for public and private companies for the past ten years. We also checked the mathematical accuracy of the calculation of fair value of the share-based compensation schemes with the assistance from the valuation expert. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered.

KEY AUDIT MATTERS – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of control over a not-for-profit hospital	
Refer to note 4(c) to the consolidated financial statements. Yangsi Hospital is a not-for-profit hospital founded by Shanghai Weikang Investment Management Co., Ltd. ("Weikang Investment"), a subsidiary acquired by the Group in September 2014. Weikang Investment and its affiliate entered into agreements under which the Group has obtained contractual rights to provide management services of Yangsi hospital for certain periods and is entitled to performance-based service fee. In determining whether the Group has control over the hospital, management exercised significant judgements in relation to (i) whether the Group has power over the relevant activities of the hospital; (ii) whether the magnitude and variability of returns from the hospital will indicate that the Group has substantive power and thus has control. Management concluded that the Group does not control and thus does not consolidate the not-for-profit hospital. We focused on this matter because the assessment of control over a not-for-profit hospital included significant judgement.	We discussed with management to understand the basis of their assessment, including analysis of the purpose and design, the governing power, variable returns and the ability to affect the variable returns considered by management when assessing the control over Yangsi Hospital. We corroborated management's assessment of the relevant activities of Yangsi Hospital and whether the Group has the power over those relevant activities through discussion with management, inspecting Yangsi Hospital's articles of association, the meeting minutes of internal governance body and conducting interviews with members of internal governance body of Yangsi Hospital. We obtained and inspected the hospital management agreements and other relevant documents with Yangsi Hospital. We assessed management's analysis of monetary and non-monetary variable returns received by different parties resulting from their involvement in Yangsi Hospital. We assessed the potential power of Weikang Investment as the founder of Yangsi Hospital by confirming with the Group's PRC legal advisor. Based on the work performed, we found that the management's assessment was supported by the evidences we gathered.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tsun NG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March, 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Revenue	6	**161,385**	142,524
Cost of revenue	7	**(77,766)**	(41,395)
Gross profit		**83,619**	101,129
Selling expenses	7	**(4)**	(1)
Administrative expenses	7	**(28,268)**	(13,203)
Other gains/(losses) – net	8	**1,068**	(342)
Other income	9	**2,982**	2,477
Operating profit		**59,397**	90,060
Finance income	11	**690**	53
Profit before income tax		**60,087**	90,113
Income tax expense	13	**(18,606)**	(22,788)
Profit for the year		**41,481**	67,325
Other comprehensive income		**—**	—
Total comprehensive income for the year		**41,481**	67,325
Attributable to:			
Owners of the Company		**24,068**	50,935
Non-controlling interests		**17,413**	16,390
Total comprehensive income for the year		**41,481**	67,325
Earnings per share from profit attributable to owners of the Company			
– Basic and diluted earnings per share (in RMB)	14	**0.243**	0.525

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	22,630	23,625
Intangible assets	16	1,082,071	1,085,351
Deferred income tax assets	29	276	249
Other receivables, deposits and prepayments	20	—	487
Total non-current assets		1,104,977	1,109,712
Current assets			
Inventories	17	1,847	1,180
Trade receivables	19	4,575	7,490
Other receivables, deposits and prepayments	20	8,570	3,682
Amounts due from related parties	21	38,276	166,861
Cash and cash equivalents	22	129,332	13,104
Total current assets		182,600	192,317
Total assets		1,287,577	1,302,029
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	65	—
Treasury shares	23	(2)	—
Reserves	25	1,058,416	1,044,847
Retained earnings	26	60,597	45,200
		1,119,076	1,090,047
Non-controlling interests		41,867	38,492
Total equity		1,160,943	1,128,539

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	36,465	37,069
Accruals, other payables and provisions	28	19,442	—
Total non-current liabilities		55,907	37,069
Current liabilities			
Amounts due to related parties	21	3,855	51,296
Trade payables	27	4,631	2,919
Accruals, other payables and provisions	28	57,838	63,753
Current income tax liabilities		4,403	18,453
Total current liabilities		70,727	136,421
Total liabilities		126,634	173,490
Total equity and liabilities		1,287,577	1,302,029

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

The financial statements on pages 63 to 65 were approved by the Board of Directors on March 30, 2017 and were signed on its behalf.

Lin Sheng **Zhang Xiaopeng**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital RMB'000	Treasury share RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company							
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	25&26	—	—	—	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 year		—	—	—	—	24,068	24,068	17,413	41,481
Transfer of reserves	25&26	—	—	—	8,671	(8,671)	—	—	—
Proceeds from share issued	23	65	—	31,150	—	—	31,215	—	31,215
Modification of share-based payments scheme	23&24	—	(2)	(31,150)	—	—	(31,152)	—	(31,152)
Dividend	30	—	—	—	—	—	—	(14,038)	(14,038)
Capital contribution by shareholders	25	—	—	—	1,464	—	1,464	—	1,464
Share-based payments	24	—	—	—	3,434	—	3,434	—	3,434
Balance at December 31, 2016		65	(2)	—	1,058,416	60,597	1,119,076	41,867	1,160,943

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	31	194,354	30,048
Income tax paid		(30,738)	(22,656)
Interests received		423	53
Net cash generated from operating activities		164,039	7,445
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,252)	(1,275)
Purchase of available-for-sale financial asset		—	(81,620)
Proceeds from disposal of available-for-sale financial asset		—	163,409
Net cash (used in)/received from investing activities		(11,252)	80,514
Cash flows from financing activities			
Repayment to related parties		—	(80,000)
Cash used in relation to the listing		(3,808)	—
Proceeds from share issued	23	31,215	—
Dividend paid		(64,231)	—
Net cash used in financing activities		(36,824)	(80,000)
Net increase in cash and cash equivalents		115,963	7,959
Cash and cash equivalents at beginning of year		13,104	5,145
Exchange gains on cash and cash equivalents		265	—
Cash and cash equivalents at end of year		129,332	13,104

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Hospital Corporation of China 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. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company, together with its subsidiaries (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') 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, L.P., which is considered as the ultimate holding company of the Company.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on March 16, 2017.

These financial statements are presented in Renminbi ('RMB'), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of Hospital Corporation of China Limited have been prepared in accordance with all applicable the International Financial Reporting Standards ('IFRS') and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements 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 the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.1 Basis of preparation– *continued*

2.1.1 Changes in accounting policy and disclosures

Impact of new or revised standards and amendments to existing standards that are effective on or after January 1, 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 January 1, 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to IAS 7	Disclosure Initiative	January 1, 2017
Amendments to IAS 12	Recognition of deferred tax	January 1, 2017
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Lease	January 1, 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 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 January 1, 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 January 1, 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.1 Basis of preparation– *continued*

2.1.1 Changes in accounting policy and disclosures– continued

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 account 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.1 Basis of preparation– *continued*

2.1.1 Changes in accounting policy and disclosures– continued

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. The directors of the Company are in the process of performing assessment on the impact of the forthcoming standard which is effective on January 1, 2018. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.1 Basis of preparation– *continued*

2.1.1 Changes in accounting policy and disclosures– continued

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 2.22 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheet. As at December 31, 2016, the Group's total non-cancellable operating lease commitments amounted to RMB11,248,000. 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.

Amendment to IFRS 10 and IAS 28. The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) 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.

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable IFRSs.

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 receivables.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

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 steering committee 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 statement of profit or loss.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the statement of profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in statement of profit or loss within 'other gains/(losses) – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

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 statement of profit or loss 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 or 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 (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses)– net' in the statement of profit or loss.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

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. 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.

(d) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

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 that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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

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 19, 20, 21 and 22).

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.8 Financial assets– *continued*

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 carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of 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 and financial assets at fair value through profit or loss 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 statement of profit or loss as ‘gains and losses from investment securities’.

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

2.9 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

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 statement of profit or loss. 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 statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.10 Impairment of financial assets– *continued*

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is 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 statement of comprehensive income.

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 statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

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.

Where any entity within the Group purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the owners of the Company.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.16 Current and deferred income tax– *continued*

(b) Deferred income tax – continued

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, 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

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 payables 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.18 Share-based payments

(a) 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.

(b) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.18 Share-based payments– *continued*

(c) *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.

(d) *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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.18 Share-based payments– *continued*

(e) Modification and cancellation

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

2.19 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.

2.20 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 receivables, and represents amounts receivables 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– *continued*

2.20 Revenue recognition– *continued*

(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.

2.21 Interest income

Interest income is recognised using the effective interest method.

2.22 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 statement of profit or loss on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders 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 foreign exchange 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

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2016, the Group's assets and liabilities are primarily denominated in RMB.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors– *continued*

(b) Credit risk

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

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

The Group mainly engages in providing management services to hospital and its largest customer is Yangsi Hospital which comprised 80% of total revenue during the year ended December 31, 2016 (2015: 83%). 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.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors– *continued*

(c) Liquidity risk

RMB'000	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total
At December 31, 2016 Trade payables	4,631	—	—	—	4,631
Accruals and other payables (excluding accrued employee benefits, share-based payments, other taxes and advance from third parties)	38,450	—	—	—	38,450
Amounts due to related parties	3,855	—	—	—	3,855
	46,936	—	—	—	46,936
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

3.2 Capital Risk Management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity 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, 2016 was 10% (2015: 13%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2016 and 2015.

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 assumptions 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) Impairment assessment 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 December 31, 2016 (estimates based on the operations during the year ended December 31, 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 2017 to 2024. In particular, the Company's management has estimated that the compound growth rate of its general hospital services segment revenue will be 8.97% during the period and the compound growth rate of its hospital management services segment revenue will be 9.42%. 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. Driven by stimulus from government on private capitals investing in healthcare services, the market size of the non-public hospital market in Shanghai is projected to reach RMB16.3 billion in 2024, representing a CAGR of 10.8% during the period from 2017 to 2024. 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(a) Impairment assessment of goodwill – *continued*

(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 16.

No impairment was charged during the years ended December 31, 2016 and 2015.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(c) Assessment of control over a not-for-profit hospital

Not-for-profit hospital founded by Weikang Investment

Yangsi Hospital, a not-for-profit hospital, was founded by Shanghai Weikang Investment Management Co., Ltd. ('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 for the years ended December 31, 2016 and 2015.

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.

(d) Share-based payments

Share-based compensation expense for share-based payment schemes granted is determined based on the grant date fair value. The fair value of the share-based compensation schemes were determined by using valuation techniques. The Group applied judgements and estimates in determining valuation method and assumptions. For the details of the valuation method and key assumptions used, please refer to Note 24 to the consolidated financial statements.

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.

5 SEGMENT INFORMATION – *continued*

Segment information about the Group's reportable segment is presented below:

	General hospital services RMB'000	Hospital management services RMB'000	Unallocated RMB'000	Total RMB'000
Year ended December 31, 2016				
Revenue from external customers	30,503	130,882	—	161,385
EBITDA	1,908	83,608	—	85,516
Depreciation	(634)	(1,864)	(1,188)	(3,686)
Amortization	(1,150)	(2,307)	(3)	(3,460)
Finance income on deposit	13	410	—	423
Headquarter expenses excluding depreciation and amortization			(18,706)	(18,706)
Profit before tax	137	79,847	(19,897)	60,087
As at December 31, 2016				
Segment assets	25,814	267,690	35,209	328,713
Goodwill	7,948	950,916	—	958,864
Total assets	33,762	1,218,606	35,209	1,287,577
Total liabilities	9,005	73,580	44,049	126,634
Other Segment information for the year ended December 31, 2016				
Depreciation, amortization and impairment	(1,894)	(4,171)	(1,191)	(7,256)
Additions of non-current assets excluding goodwill and deferred income tax assets	661	2,030	180	2,871

5 SEGMENT INFORMATION – *continued*

	General hospital services RMB'000	Hospital management services RMB'000	Unallocated RMB'000	Total 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 on deposit	4	49	—	53
Headquarter expenses excluding 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 excluding goodwill and deferred income tax assets	984	2,213	82	3,279

6 REVENUE

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
General healthcare services		
- Pharmaceutical sales	**22,016**	15,207
- Treatments and general healthcare services	**8,487**	8,240
Hospital management services		
- Management services fee (a)	**129,563**	117,847
- Other services fee	**1,319**	1,230
	161,385	142,524

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 for the years ended December 31, 2016 and 2015. For its hospital management services, there is a single client, Yangsi Hospital, contributed to 1% or more of the Group's revenue for the years ended December 31, 2016 and 2015.

(a) Management services fee

On January 1, 2013, Weikang Investment entered into a hospital management framework agreement ('HMFA') with Yangsi Hospital. Pursuant to the HMFA, 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 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 Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin') further entered into a long-term hospital management agreement ('LTHMA') with Yangsi Hospital. Pursuant to the LTHMA, 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, 2016, Weikang Investment and Honghe Ruixin signed the annual HMA with Yangsi Hospital respectively and derives management fee based on pre-set formulas set out in the annual HMA respectively.

7 EXPENSES BY NATURE

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Advertising and marketing expenses	4	1
Amortisation and depreciation	7,146	6,909
Business tax and other transaction taxes	1,371	3,903
Cost of pharmaceuticals, consumables and inspection fees	19,352	12,874
Employee benefits expenses (Note 10)	50,262	17,274
Operating lease rental expenses	4,077	4,127
Utilities and office expenses	1,806	1,003
Travelling and entertainment expenses	967	702
Expenses in relation to the listing	18,204	5,041
Provision for impairment of trade receivables (Note 19)	110	994
Other expenses	2,739	1,771
	106,038	54,599

8 OTHER GAINS/(LOSSES) – NET

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Foreign exchange gains/(losses)	1,125	(231)
Medical compensation	(2)	(90)
Others	(55)	(21)
	1,068	(342)

9 OTHER INCOME

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Government grants and subsidies (a)	**2,982**	1,838
Interest income on wealth management products	—	639
	2,982	2,477

(a) The Government grants and subsidies of RMB1,720,000 (2015: RMB1,790,000) is granted by the People's Government of Sanlin Town in Shanghai for the year ended December 31, 2016 in consideration of the taxation contribution of Weikang Investment.

The Government grants and subsidies of RMB1,262,000 (2015: nil) is granted by the Finance Bureau of Dazi County in Tibet Autonomous Region for the year ended December 31, 2016 in consideration of the taxation contribution of Honghe Ruixin.

10 EMPLOYEE BENEFIT EXPENSE

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**24,786**	15,511
Share-based compensation expenses	**22,876**	—
Contribution to pension plans and other expenses	**2,600**	1,763
	50,262	17,274

Employee benefit expenses of RMB47,481,000 (2015: RMB15,749,000) has been charged in 'cost of revenue', RMB2,781,000 (2015: RMB1,525,000) in 'administrative expense'.

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.

10 EMPLOYEE BENEFIT EXPENSE – *continued*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 36.

The emoluments payables to the remaining three (2015: three) individuals during the year are as follows:

	Year ended December 31,	
	2016	2015
	RMB' 000	RMB' 000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,485**	1,206
Bonuses	**1,358**	1,160
Share-based compensation expenses	**1,413**	—
	4,256	2,366

The number of highest paid non-director individuals whose remunerations fell within the following band is as follows:

	Year ended December 31,	
	2016	2015
Emolument bands		
HK$500,000 - HK$1,000,000	**1**	3
HK$1,500,000 - HK$2,000,000	**1**	—
HK$2,000,000 - HK$2,500,000	**1**	—
	3	3

For the years ended December 31, 2016 and 2015, 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.

11 FINANCE INCOME

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Interest income on short-term bank deposit	423	35
Interest income on short-term fixed deposits	—	18
Foreign exchange gains	267	—
	690	53

12 SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2016 and 2015:

Company name	Country/place and date of incorporation/ establishment	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Attributable equity interest of the Group December 31, 2016	2015
Directly owned:					
Acute Sky Holdings Limited (天鋭控股有限公司) ('Acute Sky')	The BVI, on January 2,2014	Investment holding, The BVI	US$1	100%	100%
Ever Surpass Investments Limited (恒越投資有限公司) ('Ever Surpass')	The BVI, on December 10, 2013	Investment Holding, The BVI	US$1	100%	100%
Indirectly owned:					
Bliss Success Holdings Limited (妙榮控股有限公司) ('Bliss Success')	Hong Kong, on December 20, 2011	Investment Holding, Hong Kong	HK$1	100%	100%
New Pride Holdings Limited (捷穎控股有限公司)	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	100%	100%
Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司) ('Honghe Yixin')	The PRC, on July 29, 2014	Investment holding, The PRC	RMB 30,000,000	100%	100%
Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司) ('Honghe Zhiyuan')	The PRC, on October 10, 2014	Management services, The PRC	RMB 30,000,000	100%	100%

12 SUBSIDIARIES – *continued*

Company name	Country/place and date of incorporation/ establishment	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Attributable equity interest of the Group December 31,	
				2016	2015
Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司)	The PRC, on December 23, 2014	Hospital management, The PRC	RMB 500,000	80%	80%
Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司)	The PRC, on April 15, 2002	Hospital management, The PRC	RMB 30,000,000	80%	80%
Shanghai Fuhua Hospital Co., Ltd. (上海福華醫院有限公司)	The PRC, on October 17, 2007	General hospital services, The PRC	RMB 1,000,000	80%	80%

(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 for the year ended December 31, 2016 is RMB41,867,000 (2015: RMB38,492,000), of which RMB30,483,000 (2015: RMB29,973,000) is for Weikang Investment and RMB11,384,000 (2015: RMB8,519,000) is attributed to Honghe Ruixin.

Significant restrictions

Cash and short-term deposits of RMB120,935,000 (2015: RMB13,086,000) is held in China and is subject to local exchange control regulations. 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.

12 SUBSIDIARIES – *continued*

(b) Material non-controlling interests – *continued*

Summarised balance sheet

	Weikang Investment		Honghe Ruixin	
	As at December 31,		As at December 31,	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Assets	**82,789**	132,609	**65,504**	56,785
Liabilities	**(44,910)**	(99,724)	**(8,654)**	(14,188)
Total current net assets	**37,879**	32,885	**56,850**	42,597
Non-current				
Assets	**145,292**	148,600	**70**	—
Liabilities	**(30,758)**	(31,622)	**—**	—
Total non-current net assets	**114,534**	116,978	**70**	—
Net assets	**152,413**	149,863	**56,920**	42,597

Summarised comprehensive income statement

	Weikang Investment		Honghe Ruixin	
	Year ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**89,626**	89,234	**71,759**	53,290
Profit before income tax	**44,991**	52,409	**57,870**	46,881
Income tax expense	**(10,573)**	(13,108)	**(5,225)**	(4,233)
Profit for the year	**34,418**	39,301	**52,645**	42,648
Other comprehensive income	**—**	—	**—**	—
Total comprehensive income	**34,418**	39,301	**52,645**	42,648
Total comprehensive income allocated to Non-Controlling Interests	**6,884**	7,860	**10,529**	8,530
Dividends paid to Non-Controlling Interests	**47,480**	—	**6,132**	—

12 SUBSIDIARIES – *continued*

(b) Material non-controlling interests – *continued*

Summarised cash flows

	Weikang Investment		Honghe Ruixin	
	Year ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	134,443	29,941	89,545	—
Income tax paid	(22,650)	(22,656)	(8,088)	—
Interest received	164	46	259	—
Net cash generated from operating activities	111,957	7,331	81,716	—
Net cash (used in)/generated from investing activities	(7,976)	80,621	(88)	—
Net cash used in financing activities	(58,099)	(80,000)	(38,326)	—
Net increase in cash and cash equivalents	45,882	7,952	43,302	—
Cash and cash equivalents at beginning of year	13,086	5,134	—	—
Cash and cash equivalents at end of year	58,968	13,086	43,302	—

13 INCOME TAX EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 9% and 25% for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Current income tax:		
- PRC corporate income tax	**19,237**	18,454
Deferred income tax (Note 29)	**(631)**	4,334
	18,606	22,788

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:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**60,087**	90,113
Calculated at taxation rate of 25%	**15,022**	22,528
Effect of different tax rates available to different subsidiaries of the Group	**(9,288)**	(7,525)
Expenses not tax deductible	**10,411**	136
Tax effect of unrecognized tax losses	**330**	2,202
Utilization of tax losses in previous years	**(678)**	—
Withholding tax	**2,809**	5,447
Income tax expense	**18,606**	22,788

13 INCOME TAX EXPENSE – *continued*

(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 was 16.5% (2015: 16.5%) for the year ended December 31, 2016. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2016 and 2015.

(c) PRC Corporate Income Tax ('CIT')

The income tax rate of Weikang Investment, Fuhua Hospital and Honghe Yixin was 25% (2015: 25%) for the year ended December 31, 2016. The income tax rate of Honghe Zhiyuan and Honghe Ruixin was 9% (2015: 9%) for the year ended December 31, 2016.

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 企业所得 政策实施 法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

(d) Withholding Tax

The withholding tax rate of New Pride and Bliss Success was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from Honghe Ruixin and Weikang Investment in the foreseeable future, respectively.

14 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 for the year excluding ordinary shares purchased by the Company.

	Year ended December 31,	
	2016	2015
Total profit attributable to owners of the Company (RMB'000)	**24,068**	50,935
Weighted average number of ordinary shares in issue (thousands)	**98,943**	97,000
Basic earnings per share (in RMB)	**0.243**	0.525

The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 98,943,000 and 97,000,000 shares for the years ended December 31, 2016 and 2015.

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.

On December 4, 2016, the Company repurchased and subsequently cancelled 14 out of 300 ordinary shares, for the details please refer to Note 23(c) and Note 24(a). The remaining 286 shares held by Midpoint Honour were treated as treasury share due to the amendments of the Subscription Agreement on December 4, 2016 and January 23, 2017, for the details of the amendments, please refer to Note 24(a).

The earning per share as presented above has taken into account of the proposed Capitalization Issue of 99,850,014 shares, which is effective on March 16, 2017, the listing date of the Company. Accordingly, the weighted average number of ordinary shares in issue have been adjusted retrospectively as if it was effective from the date of the beginning.

(b) Diluted Earnings per share

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

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
At January 1, 2015						
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
At 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
At December 31, 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	(1,686)	(1,307)	(136)	(557)	—	(3,686)
Closing net amount	19,570	1,295	394	1,371	—	22,630
At December 31, 2016						
Cost	23,255	4,239	721	2,541	—	30,756
Accumulated depreciation	(3,685)	(2,944)	(327)	(1,170)	—	(8,126)
Net amount	19,570	1,295	394	1,371	—	22,630

Depreciation expense of RMB2,324,000 (2015: RMB2,118,000) has been charged in 'cost of revenue', and RMB1,362,000 (2015: RMB1,334,000) in 'administrative expenses'.

15 PROPERTY, PLANT AND EQUIPMENT – *continued*

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 shareholder 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 shareholder 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.

16 INTANGIBLE ASSETS

	Software RMB'000	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Medical licenses RMB'000	Total RMB'000
At January 1, 2015					
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
At 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
At December 31, 2016					
Opening net amount	—	958,864	112,925	13,562	1,085,351
Additions	180	—	—	—	180
Amortisation	(3)	—	(2,306)	(1,151)	(3,460)
Closing net amount	177	958,864	110,619	12,411	1,082,071
At December 31, 2016					
Cost	180	958,864	116,000	15,000	1,090,044
Accumulated amortisation	(3)	—	(5,381)	(2,589)	(7,973)
Net amount	177	958,864	110,619	12,411	1,082,071

16 INTANGIBLE ASSETS – *continued*

(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 rovides 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 RMB2,306,000 (2015: RMB2,306,000) was charged in 'cost of revenue' for the year ended December 31, 2016.

(b) Impairment tests for goodwill

Goodwill of RMB958,864,000 is resulted from acquisitions of subsidiaries in 2014. 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.

16 INTANGIBLE ASSETS – *continued*

(b) Impairment tests for goodwill – *continued*

The following is a summary of goodwill allocation for each operating segment:

	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Closing 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 RMB'000	**Addition RMB'000**	**Impairment RMB'000**	**Closing RMB'000**
Year ended December 31, 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. 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.

16 INTANGIBLE ASSETS – *continued*

(b) Impairment tests for goodwill – *continued*

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, 2016 and 2015 are as follows.

	General hospital services segment	
	2016	2015
Revenue (% compound growth rate)	**8.97%**	9.69%
Costs and Operating Expenses(% of revenue)	**87.38%**	85.00%
Long-term growth rate	**3.00%**	3.00%
Pre-tax discount rate	**16.20%**	16.36%
Recoverable amount of operating segment (RMB'000)	**39,666**	36,522

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 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,			
	2016		2015	
	Key assumption	**Breakeven point**	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	**8.97%**	**-8.44%**	9.69%	-17.19%
Percentage of costs and operating expenses over revenue	**87.38%**	**91.88%**	85.00%	91.65%
Percentage of the pre-tax discount rate	**16.20%**	**22.52%**	16.36%	27.35%

16 INTANGIBLE ASSETS – *continued*

(b) Impairment tests for goodwill – *continued*

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, 2016 and 2015, are as follows.

	Hospital management services segment	
	2016	2015
Revenue (% compound growth rate)	**9.42%**	9.59%
Costs and Operating Expenses (% of revenue)	**17.72%**	9.95%
Long term growth rate	**3.00%**	3.00%
Pre-tax discount rate	**14.51%**	14.67%
Recoverable amount of operating segment (RMB'000)	**1,432,463**	1,448,760

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.

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.

16 INTANGIBLE ASSETS – *continued*

(b) Impairment tests for goodwill – *continued*

Hospital Management Services Segment – continued

The table below sets forth each key assumption for the eight-year forecast period as of each 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,			
	2016		2015	
	Key assumption	**Breakeven point**	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	**9.42%**	**8.80%**	9.59%	8.68%
Percentage of costs and operating expenses over revenue	**17.72%**	**20.49%**	9.95%	14.20%
Percentage of the pre-tax discount rate	**14.51%**	**14.87%**	14.67%	15.21%

No impairment was charged during the year ended December 31, 2016 (2015: nil).

17 INVENTORIES

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Pharmaceuticals	**1,759**	1,145
Medical consumables	**88**	35
	1,847	1,180

The cost of inventories recognised as expense and included in 'cost of revenue' amounted to RMB19,263,000 (2015: RMB12,836,000).

18 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables As at December 31, 2016 RMB'000	Loans and receivables As at December 31, 2015 RMB'000
Assets as per consolidated balance sheets		
Trade receivables	4,575	7,490
Other receivables and deposits	704	585
Amounts due from related parties	38,276	166,861
Cash and cash equivalents	129,332	13,104
	172,887	188,040

Notes to the consolidated financial statements (Continued)

	Financial liabilities at amortised costs As at December 31, 2016 RMB'000	Financial liabilities at amortised costs As at December 31, 2015 RMB'000
Liabilities as per consolidated balance sheets		
Trade payables	4,631	2,919
Accruals and other payables (excluding accrued employee benefits, share-based payments, other tax liabilities and advance from third parties)	38,450	55,816
Amounts due to related parties	3,855	51,296
	46,936	110,031

19 TRADE RECEIVABLES

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables	5,213	8,484
Less: provision for impairment of trade receivables	(638)	(994)
Trade receivables – net	4,575	7,490

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

As at December 31, 2016 and 2015, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
1 - 90 days	4,514	6,025
91 - 180 days	—	2,459
181 days – 1 year	—	—
Over 1 year	699	—
	5,213	8,484

As at December 31, 2016, the Group's trade receivables of RMB1,656,000 (2015: RMB1,491,000) were past due but not impaired. 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,	
	2016	2015
	RMB'000	RMB'000
1 - 90 days	957	1,491
91 - 180 days	—	—
181 days – 1 year	—	—
Over 1 year	699	—
	1,656	1,491

19 TRADE RECEIVABLES – *continued*

The Group's trade receivables impaired were RMB638,000 (2015: RMB994,000). The ageing analysis of these trade receivables was as follow:

	As at December 31,	
	2016 RMB'000	2015 RMB'000
1 - 90 days	638	994
91 - 180 days	—	—
181 days – 1 year	—	—
	638	994

Movement on the Group's provision for impairment of trade receivables are as following:

	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	638
Receivables written off during the year as uncollectible	(466)
Reversal of provision	(528)
Balance at December 31, 2016	638

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

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Prepayment for professional service fee in respect of the listing	7,270	2,876
Prepayments for rental	331	484
Prepayments for construction	81	—
Deposits	499	487
Others	389	322
Total	8,570	4,169
Less: non-current portion	—	487
Current portion	8,570	3,682

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate their fair values.

21 BALANCES WITH RELATED PARTIES

As at December 31, 2016 and 2015, the balances with related parties are unsecured, interest free, receivable/repayable on demand and are denominated in RMB.

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Amounts due from related parties		
– Trade in nature		
Yangsi Hospital	38,175	166,827
– Others		
Vanguard Glory Limited	46	—
Midpoint Honour Limited	30	—
Grand Roc Holdings Limited	13	—
Marco Alliance Ltd.	12	—
Yangsi Hospital	—	34
Total	38,276	166,861

21 BALANCES WITH RELATED PARTIES – *continued*

As at December 31, 2016 and 2015, the ageing analysis based on trading date of the trade receivables was as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Within 30 days	**38,175**	38,444
30 to 90 days	**—**	—
90 to 180 days	**—**	27,936
More than 180 days	**—**	100,447
	38,175	166,827

As at December 31, 2016, none of the trade receivables was individually determined to be impaired (2015: nil).

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Amounts due to related parties		
– Others		
Yangsi Hospital	**2,937**	24,419
Vanguard Glory Limited	**918**	6,789
Hony Capital Management (Tianjin) L.P.	**—**	18,650
Hony Capital Fund V, L.P.	**—**	1,438
	3,855	51,296

Amounts due to non-controlling shareholders of subsidiaries was recorded in other payables (Note 28).

Their carrying values due as at December 31, 2016 and 2015, approximate their fair values.

22 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Cash at banks	129,318	12,919
Cash on hand	14	185
	129,332	13,104

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

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
US dollars	2,545	6
Hong Kong dollars	5,843	1
RMB	120,944	13,097
	129,332	13,104

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.

23 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of shares	Nominal value of shares
		HK$
Authorised		
Ordinary shares (a)	500,000,000	500,000

23 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM – *continued*

	Number of shares	Ordinary shares RMB'000	Treasury shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and Paid					
As at December 31, 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
Repurchase of share (c)	(14)	—	—	—	—
Modification of share-based payments scheme (d)	(286)	—	(2)	(31,150)	(31,152)
As at December 31, 2016	9,700	65	(2)	—	63

(a) The Company was incorporated in the Cayman Islands on February 21, 2014 with an authorized share capital of US$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.

Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, the authorized share capital of the Company 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.

Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, following the change in authorized share capital of the Company and conditional on the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of shares by the Company pursuant to the global offering, the directors of the Company were authorised to capitalize HK$99,850.014 standing to the credit of the share premium account of the 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 the 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 in the Company or in accordance with the direction of such member ('Capitalization Issue'). The Capitalization Issue was completed on March 16, 2017, immediately at the listing date of the Company.

Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, 9,986 shares were allotted and issued to the then existing shareholders in proportion to their respective shareholdings in the Company and credited as fully paid. 9,986 ordinary shares of a par value of US$1.00 each of the Company were repurchased and cancelled and the 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 the Company would be HK$500,000 divided into 500,000,000 Shares of a par value of HK$0.001 each. The issuance, buy back and cancellation were completed on January 3, 2017.

23 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM – *continued*

(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 24).

(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 Presitge 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 24(a).

(d) Due to the amendment of the Subscription Agreement on December 4, 2016 and January 23, 2017, the Subscription Shares with par vlaue amounted to RMB2,000 were treated as treasury shares. The share premium arised from the Subscription Shares amounted to RMB31,150,000 was recognized as financial liability, please refer to Note 24(a).

24 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. 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 wholly owned by Ms. Xia, Hony Capital 2008 Management Limited ('Hony Management'), a management company established by Hony Capital and Vanguard Glory, the controlling shareholder of the 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,

24 SHARE-BASED PAYMENTS – *continued*

(a) Share Subscription Agreement – *continued*

(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 Subscribers 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, 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.

24 SHARE-BASED PAYMENTS – *continued*

(a) Share Subscription Agreement – *continued*

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 RMB3,334,000 (2015: nil) was recognised as 'cost of revenue' for year ended December 31, 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 Subscribers 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 Subscribers through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contribution made by such Management Subscribers 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 Subscribers through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contribution made by such Management Subscribers. Pursuant to the Amendment Agreements, the Subscription Shares should be treated as treasury shares. The fair value of the 300 share options granted to the Management Subscribers did not change due to the modification. Moreover, the Subscription Consideration proceed from the Management Subscribers of approximately RMB31 million was 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.

24 SHARE-BASED PAYMENTS – *continued*

(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 significant inputs in the valuation model were listed as below:

The fair value of the notional shares granted to the Pre-IPO SARs grantee as at December 31, 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.

	As at December 31, 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)	20.50	32.50	44.50	56.50
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 RMB2,775,000 (2015: nil) was recognized as 'cost of revenue' for the year ended December 31, 2016.

24 SHARE-BASED PAYMENTS – *continued*

(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 into 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

24 SHARE-BASED PAYMENTS – *continued*

(c) Service Contract with Mr. Lu Wenzuo – *continued*

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 RMB13,900,000 (2015: nil) and share-based compensation expenses related to the Mr. Lu's SARs of RMB2,867,000 (2015: nil) was recognized as 'cost of revenue' for the period ended December 31, 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.

25 RESERVES

	Capital reserve RMB'000	Other reserve RMB'000	Total RMB'000
At January 1, 2015	1,037,035	10	1,037,045
Transfer of reserves (a)	—	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
Transfer of reserves (a)	—	8,671	8,671
Share-based payments (Note 24)	3,434	—	3,434
Capital contribution by shareholders (b)	1,464	—	1,464
At December 31, 2016	1,041,933	16,483	1,058,416

25 RESERVES– *continued*

(a) 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.

(b) On October 31, 2016, the amount due to Hony Capital Fund V, L.P. was exempted and deemed as a capital contribution by shareholders.

26 RETAINED EARNINGS

	RMB'000
At January 1, 2015	2,067
Profit for the year	50,935
Transfer of reserve	(7,802)
At December 31, 2015	45,200
At January 1, 2016	45,200
Profit for the year	24,068
Transfer of reserve	(8,671)
At December 31, 2016	60,597

27 TRADE PAYABLES

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

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Less than 60 days	**4,604**	2,892
61 to 180 days	—	—
181 days to 1 year	—	—
Over 1 year	**27**	27
	4,631	2,919

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

28 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Accrued employee benefits	11,217	1,588
Share-based payments	19,442	—
Payables to Management Subscribers (Note23(c)&24(a))	30,234	—
Accrued professional service fee in respect of the listing	6,839	1,534
Advance from third parties	167	151
Duty and tax payables other than corporate income tax	2,647	6,198
Payables to non-controlling shareholders of subsidiaries and withholding tax (a)	5,357	53,000
Others	1,377	1,282
Total accruals, other payables and provisions	77,280	63,753
Less: non-current portion	19,442	—
Current portion	57,838	63,753

(a) 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.

Weikang Investment declared a dividend of RMB31.9 million including withholding tax on September 12, 2016, out of which RMB6.4 million was declared to its minority shareholders. The withholding tax amonuted to RMB2.5 million and RMB 1.3 million of Weikang Investment's majority shareholders and minority shareholders, respectively, had been recognized as liability as of December 31, 2016. The after-tax dividend amounted to RMB5.1million was fully paid to Weikang Investment's minority shareholders on December 15, 2016.

Honghe Ruixin declared a RMB38.3 million dividend including withholding tax on November 25, 2016, out of which RMB7.7 million was declared to its minority shareholders. The withholding tax amounted to RMB 1.5 million of Honghe Ruixin had been recognized as liability as of December 31, 2016. The after-tax dividend amounted to RMB6.1million was fully paid to Weikang Investment's minority shareholders on December 27, 2016.

The carrying amounts of accruals, other payables and provisions are denominated in RMB. The carrying amounts approximate their fair values.

29 DEFERRED INCOME TAX

	As at December 31, 2016 RMB'000	As at December 31, 2015 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	**276**	249
	276	249
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(35,601)**	(36,205)
– Deferred income tax liabilities to be settled within 12 months	**(864)**	(864)
	(36,465)	(37,069)
Deferred income tax liabilities – net	**(36,189)**	(36,820)

Deferred income tax assets

	Provisions RMB'000	Total RMB'000
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	27	27
Balance at December 31, 2016	276	276

29 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities

	Intangible assets RMB'000	Withholding tax RMB'000	Total RMB'000
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 to profit or loss	864	(260)	604
Balance at December 31, 2016	(30,758)	(5,707)	(36,465)

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 was RMB109,000 (2015: RMB308,000) in respect of losses amounting to RMB1,211,000 (2015: RMB3,422,000) that can be carried forward against future taxable income for the year ended December 31, 2016. 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 was RMB5,707,000 (2015: RMB5,447,000) as at the year ended December 31, 2016, 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 RMB57,073,000 (2015: RMB54,469,000), as it was considered probable that these profits would be distributed in the foreseeable future.

30 DIVIDENDS

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on September 12, 2016, a dividend, including withholding tax, of RMB25,493,000 to its majority shareholders and RMB6,373,000 to its minority shareholders was declared. The after-tax dividend to its minority shareholders of RMB5,099,000 had been settled on December 15, 2016.

Pursuant to a resolution of the board of directors' meeting of Honghe Ruixin on November 25, 2016, a dividend, including withholding tax, of RMB30,611,000 to its majority shareholders and RMB7,665,000 to its minority shareholders was declared. The after-tax dividend to its minority shareholders of RMB6,132,000 had been settled on December 27, 2016.

31 CASH GENERATED FROM OPERATIONS

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	60,087	90,113
Adjustments for:		
– Foreign exchange (gain)/loss	(1,392)	231
– Interest received	(423)	(53)
– Amortisation of intangible assets (Note 16)	3,460	3,457
– Depreciation of property, plant and equipment (Note 15)	3,686	3,452
– Gain on disposal of available-for-sale financial asset	—	(639)
– Provision for impairment of trade receivables	110	994
– Share-based compensation expenses (Note 24)	3,434	—
Changes in working capital:		
– Inventories	(667)	(329)
– Trade receivables	2,805	(6,921)
– Other receivables, deposits and prepayments	(4,321)	(3,213)
– Amounts due from related parties	128,585	(87,074)
– Amounts due to related parties	(38,377)	25,293
– Trade payables	1,712	925
– Accruals, other payables and provision	35,655	3,812
Cash generated from operations	194,354	30,048

32 CONTINGENCIES

The Group has been named defendants in a number of lawsuits arising in the ordinary course of business. Provision will be made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice. As of the reporting date, no significant lawsuit provision has been made as based on directors' assessment, the pending lawsuits have little impact on the Group's finance results or the outflow of resources is not probable.

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:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Not later than one year	2,376	4,140
Later than one year and not later than five years	7,834	8,025
Later than five years	1,038	3,084
	11,248	15,249

34 SIGNIFICANT 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
Grand Roc Holdings Limited	Related party which is owned by Mr. Zhang
Midpoint Honour Limited	Related party which is owned by the Management Subscribers
Marco Alliance Ltd.	Related party of ultimate controlling shareholder

34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

As set out in Note 4, 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 for the years ended December 31, 2016 and 2015. 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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Continuing transactions		
Management Service fee		
–Yangsi Hospital	**129,563**	117,847

(b) Balances with related parties

Balances with related parties as at December 31, 2016 were disclosed in Note 21.

(c) Key management compensation

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

	Year ended December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**14,039**	6,374
Share-based compensation expenses	**22,482**	—
Contributions to pension plans and other expenses	**608**	493
	37,129	6,867

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		1,044,509	1,038,400
Total non-current assets		1,044,509	1,038,400
Current assets			
Cash and cash equivalents		8,346	8
Amounts due from subsidiaries		347	171
Other receivables, deposits and prepayments		7,270	2,876
Total current assets		15,963	3,055
Total assets		1,060,472	1,041,455
Equity			
Equity attributable to owners of the Company			
Share capital		65	—
Treasury Shares		(2)	—
Reserves	(a)	1,041,734	1,038,400
Accumulated losses	(a)	(22,090)	(5,268)
Total equity		1,019,707	1,033,132

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

	Note	As at 31 December	
		2016	2015
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Accruals, other payables and provisions		**2,774**	—
Total non-current liabilities		**2,774**	—
Current liabilities			
Amounts due to related parties		**916**	6,789
Accruals, other payables and provisions		**37,075**	1,534
Total current liabilities		**37,991**	8,323
Total liabilities		**40,765**	8,323
Total equity and liabilities		**1,060,472**	1,041,455

The balance sheet of the Company was approved by the Board of Directors on March 30, 2017 and was signed on its behalf:

Lin Sheng **Zhang Xiaopeng**

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(a)	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2015	—	1,038,400
Profit for the year	(5,268)	—
At 31 December 2015	**(5,268)**	**1,038,400**
At 1 January 2016	(5,268)	1,038,400
Profit for the year	(16,822)	—
Share base payment	—	3,334
At 31 December 2016	**(22,090)**	**1,041,734**

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

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

	Emoluments paid or receivables in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payments RMB'000	Estimated money value of other benefits RMB'000	Total RMB'000
Year ended December 31, 2016							
Executive directors							
Mr. Zhang Xiaopeng	—	2,625	2,400	47	4,302	141	9,515
Mr. Lu Wenzuo*	—	226	3,917	—	16,767	—	20,910
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Yuan Bing*	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Mr. Lin Tun*	—	—	—	—	—	—	—
	—	2,851	6,317	47	21,069	141	30,425

36 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(a) Directors' emoluments – *continued*

	Emoluments paid or receivables 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 payments	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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

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 years ended December 31, 2016 and 2015. No emoluments were paid to directors as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended December 31, 2016 and 2015.

36 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(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 for the year ended 2016 (2015: nil).

37 EVENTS AFTER THE REPORTING PERIOD

On March 16, 2017, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited with the global offering of ordinary shares of HK$0.001 each of the Company, including, a public offering in Hong Kong of 3,333,600 shares and an international offering of 30,000,400 shares, in each case at a price of HK$12.80 per share. The net proceeds from the global offering amounting to approximately HK$402 million (after deduction of underwriting fees and any discretionary incentive fee) were received on the same date.