RICI HEALTHCARE HOLDINGS LIMITED
瑞慈醫療服務控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1526

2016
Annual Report

Contents

Definitions

"2017 AGM"	the AGM to be held on June 2, 2017
"AGM"	annual general meeting of the Company
"Articles of Association" or "Articles" or "Memorandum and Articles of Association"	our memorandum and articles of association, as conditionally adopted on June 23, 2016, and as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board Committees"	the Audit Committee, the Remuneration Committee and the Nomination Committee
"Beijing Rich"	Beijing Rich Ruitai Clinic Co., Ltd. (北京瑞慈瑞泰綜合門診部有限公司), a company established in the PRC with limited liability on May 20, 2015 and a non-wholly-owned subsidiary of the Company
"Board of Directors" or "Board"	our board of Directors
"BVI"	British Virgin Islands
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"Chelsea Grace"	Chelsea Grace Holdings Limited (翠慈控股有限公司), a company established in the BVI with limited liability on July 11, 2014, which is entirely owned by Dr. Mei
"Chengdu Rich"	Chengdu Jinjiang Rich Clinic Co., Ltd. (成都錦江瑞慈門診部有限公司), a company established in the PRC with limited liability on November 6, 2013, which is an indirectly wholly-owned subsidiary of our Company
"China" or "PRC"	the People's Republic of China, which, for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"Class III Hospital"	the largest and best regional hospitals in China designated as Class III hospitals by the National Health and Family Planning Commission of the PRC's hospital classification system, typically having more than 500 beds, providing high-quality professional healthcare services covering a wide geographic area and undertaking more sophisticated academic and scientific research initiatives

"Company", "our Company", "Rici", "Group", "our Group", "we" or "us"	Rici Healthcare Holdings Limited (瑞慈醫療服務控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on July 11, 2014 and except where the context indicated otherwise, (i) our subsidiaries and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Company Secretary"	the secretary of the Company
"Controlling Shareholder(s)"	Dr. Mei and Chelsea Grace
"Director(s)"	the director(s) of our Company or any one of them
"Dr. Fang"	Dr. Fang Yixin, our chairman, executive Director and the spouse of Dr. Mei
"Dr. Mei"	Dr. Mei Hong, our executive Director, our Controlling Shareholder and the spouse of Dr. Fang
"Grade A, Grade B and Grade C"	hospitals in China can be categorized into Class I, II and III in terms of service quality, management level, medical equipment, hospital size and medical technology. Each class can be further divided into Grade A, Grade B and Grade C. Class III Grade A hospitals are the top level hospitals in China
"Hefei Haoze"	Hefei Haoze Health Management Co., Ltd. (合肥浩澤健康管理有限公司), a company established in the PRC with limited liability on February 16, 2015 and a non-wholly-owned subsidiary of the Company
"Hefei Rich"	Hefei Shushan Rich Clinic Co., Ltd. (合肥蜀山瑞慈健康體檢門診部有限公司), a company established in the PRC with limited liability on June 29, 2015, which is a wholly-owned subsidiary of Hefei Haoze
"HK$" or "Hong Kong dollars"	Hong Kong dollars and cents, both are the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited

Definitions

"IPO"	the initial public offering of the Company on October 6, 2016
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	October 6, 2016, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nanjing Rich"	Nanjing Rich Clinic Co., Ltd. (南京瑞慈門診部有限責任公司), a company established in the PRC with limited liability on December 1, 2008, which is an indirectly wholly-owned subsidiary of our Company
"Nantong Haoze"	Nantong Haoze Medical Management Co., Ltd. (南通浩澤醫療管理有限公司), a company established in the PRC with limited liability on November 13, 2014, which is an indirectly wholly-owned subsidiary of our Company
"Nantong Rich Hospital"	Nantong Rich Hospital Co., Ltd. (南通瑞慈醫院有限公司), a company established in the PRC with limited liability on August 14, 2000, which is an indirectly wholly-owned subsidiary of our Company
"Nomination Committee"	the nomination committee of the Board
"Period"	the period from the Listing Date to December 31, 2016
"Prospectus"	the prospectus of the Company dated September 26, 2016
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on September 19, 2016
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Shanghai Rich"	Shanghai Rich Clinic Co., Ltd. (上海瑞慈門診部有限公司), a company established in the PRC with limited liability on February 14, 2007, which is an indirectly wholly-owned subsidiary of our Company
"Shanghai Rich Medical"	Shanghai Rich Medical Investment Group Co., Ltd. (上海瑞慈醫療投資集團有限公司, formerly known as 上海宜新醫療投資有限公司), a company established in the PRC with limited liability on August 25, 2014, which is an indirectly wholly-owned subsidiary of our Company
"Shanghai Rich Medical Exam"	Shanghai Rich Healthcare Management Company Limited (上海瑞慈健康體檢管理有限公司, formerly known as 上海瑞慈健康體檢管理股份有限公司), a company established in the PRC with limited liability on November 7, 2005 and our connected person as defined under the Listing Rules
"Shanghai Ruijie"	Shanghai Rich Ruijie Clinic Co., Ltd. (上海瑞慈瑞杰門診部有限公司, formerly known as 上海瑞杰門診部有限公司), a company established in the PRC with limited liability on July 12, 2012, which is an indirectly wholly-owned subsidiary of our Company
"Share(s)"	ordinary share(s) of US$0.0001 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on September 19, 2016
"Shenzhen Rich Medical Exam"	Shenzhen Rich Medical Examination Management Co., Ltd. (深圳瑞慈健康體檢管理有限公司), a company established in the PRC with limited liability on September 17, 2010, which is an indirectly wholly-owned subsidiary of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Victory"	Victory Ovation Pte Ltd, a company established in the BVI with limited liability on March 7, 2008, our Shareholder, which is wholly-owned by Yang Yifeng, an independent third party
"Wuhan Rich"	Wuhan Rich Clinic Co., Ltd. (武漢瑞慈門診部有限公司), a company established in the PRC with limited liability on January 29, 2015, which is an indirectly wholly-owned subsidiary of our Company
"%"	per cent.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Fang Yixin *(Chairman)*
Dr. Mei Hong
Mr. Lu Zhenyu *(Chief Executive Officer)*

Non-executive Director

Ms. Jiao Yan

Independent Non-executive Directors

Dr. Wang Yong
Dr. Wang Weiping
Ms. Wong Sze Wing

COMPANY SECRETARY

Ms. Chau Hing Ling *(LLM, FCIS, FCS)*

AUTHORISED REPRESENTATIVES

Dr. Fang Yixin
Ms. Chau Hing Ling *(LLM, FCIS, FCS)*

AUDIT COMMITTEE

Ms. Wong Sze Wing *(Chairlady)*
Ms. Jiao Yan
Dr. Wang Yong

REMUNERATION COMMITTEE

Dr. Wang Weiping *(Chairman)*
Ms. Wong Sze Wing
Mr. Lu Zhenyu

NOMINATION COMMITTEE

Dr. Fang Yixin *(Chairman)*
Dr. Wang Yong
Dr. Wang Weiping

AUDITOR

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE

4th Floor, Harbour Place,
103 South Church Street,
P.O. Box 10240,
Grand Cayman KY1-1002,
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

19/F, Catic Mansion
No. 212 Jiangning Road
Jingan District
Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
4–4A Des Voeux Road Central
Hong Kong

Shanghai Pudong Development Bank
Zhangjiang Hi-Tech Park Branch
151 Keyuan Road
Pudong New District
Shanghai
PRC

China Merchants Bank
Jinshajiang Road Branch
1759 Jinshajiang Road
Putuo District
Shanghai
PRC

COMPLIANCE ADVISER

BOSC International Company Limited
34th Floor, Champion Tower
3 Garden Road, Central
Hong Kong

HONG KONG LEGAL ADVISER

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Services (Cayman) Limited
4th Floor, Harbour Place,
103 South Church Street,
P.O. Box 10240,
Grand Cayman KY1-1002,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE AND BOARD LOT

Stock Code: 1526
Board Lot: 1,000

WEBSITE

www.rich-healthcare.com

Milestones

Year	Events
2000	We established our first operating entity, Nantong Rich Hospital
2002	Nantong Rich Hospital came into operation
2007	Our first medical examination center, Shanghai Rich, was established
2008	We expanded our medical examination business into Jiangsu Province by establishing Nanjing Rich
2010	We expanded our medical examination business into Guangdong province by establishing Shenzhen Rich Medical Exam
2013	We expanded our medical examination business into Sichuan province by establishing Chengdu Rich
2015	We expanded our medical examination business into Hubei province, Anhui province and Beijing by establishing Wuhan Rich, Hefei Rich and Beijing Rich, respectively
2016	We are listed on the Main Board of the Stock Exchange on October 6, 2016 with stock code: 1526

Financial Summary

	For the Year Ended December 31,			
	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	488,919	597,750	802,796	**935,383**
Gross profit	164,997	188,942	280,043	**354,131**
Profit before income tax	48,828	5,933	49,587	**90,982**
Income tax expense	(8,974)	(265)	(20,471)	**(36,593)**
Profit for the year	39,854	5,668	29,116	**54,389**
Profit attributable to:				
Owners of the Company	36,520	8,319	28,982	**58,924**
Non-Controlling interests	3,334	(2,651)	134	**(4,535)**
Adjusted EBITDA [Note]	125,140	117,233	173,802	**249,922**

	As at December 31,			
	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	894,269	1,374,961	891,110	**1,579,792**
Total liabilities	545,463	806,607	683,261	**629,037**
Equity attributable to the owners of the company	266,898	557,318	207,160	**947,301**

Note: To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted EBITDA as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Please refer to page 23 of this annual report for more details.

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I would like to present this annual report of the Group for the year ended December 31, 2016.

The successful Listing on the Main Board in Hong Kong marks a new milestone for the Group. It does not only serve as a recognition of the Group's business development, but also provides us with more resources through Listing proceeds to implement various projects and further expand the Group's medical and healthcare service capacity and network. During 2016, the Group actively carried out various development strategies and achieved a certain level of success. For the year ended December 31, 2016, the Group recorded revenue of RMB935.4 million, representing a year-on-year increase of 16.5% while net profit attributable to owners of the Company was RMB58.9 million, representing a year-on-year increase of 103.1%. Adjusted EBITDA amounted to RMB249.9 million(1), representing a year-on-year increase of 43.8%.

The Group is committed to safeguarding the health of customers. In view of China's aging population, continuous rise in morbidity rates of chronic diseases and increasing public health awareness, the Group established a comprehensive medical and healthcare services platform in a proactive and strategic manner. With respect to medical examination, the Group operated 22 medical examination centers nationwide as of December 31, 2016, providing high-end quality medical examination services to 1,302,410 customers during 2016. The Group will continue to cooperate with strategic partners to provide medical examination services to its customers, which could further expand the Group's customer base and strengthen its leading position.

(1) See details on page 23 of this annual report.

To tap the enormous growth potential of mid-to-high end obstetrics and gynecology specialty hospital services in China due to the introduction of "Two-child" Policy, the Group actively pushed forward the development of obstetrics and gynecology specialty hospitals in Shanghai and Changzhou. The Group will extend its scope of medical services and implement a diversified development strategy to seize the huge business opportunity arising from the increasing demand for obstetrics and gynecology medical services. The Group expects that the obstetrics and gynecology specialty hospitals in Shanghai and Changzhou will commence operation in 2017.

In order to implement our development strategy of providing diversified services, the Group opened specialty outpatient clinics on the premise of its existing medical examination centers to provide comprehensive medical and healthcare services to customers. In 2017, the Group will continue to identify suitable locations to establish clinics as part of our strenuous effort to provide high-quality healthcare services to Chinese residents.

Looking forward, the Group will continue to expand its network of medical examination centers, obstetrics and gynecology specialty hospitals and clinics to meet the rising demand of individual and corporate customers. We will maintain the confidence of our customers through providing high-quality and high-end services. In particular, the Group will continue to look for suitable locations to open new medical examination centers, clinics and hospitals in the downstream area of Yangtze River with a view to carve out a larger market share.

We believe that our quality services, strong brand influence and development strategies with clear objectives, will enable us to move forward, realize long-term sustainable growth and deliver substantial investment return to our Shareholders.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to the Shareholders, investors and cooperating partners of the Group for their continuous support and trust. I would also like to express my gratitude to our management members and staff for their hard work and contribution which helped the Group achieve substantial business growth during the past year. With the support from various parties, the Group will actively seek to seize the opportunities arising from the domestic medical and healthcare market and provide the best medical and healthcare services to customers and consumers.

Fang Yixin
Chairman

March 31, 2017

Profiles of Directors and Senior Management

Below are the brief profiles of the current Directors and senior management of the Group.

DIRECTORS

The Board currently consists of seven Directors, comprised of three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Dr. Fang Yixin (方宜新)	52	Chairman and executive Director	February 3, 2016
Dr. Mei Hong (梅紅)	52	Executive Director	July 11, 2014
Mr. Lu Zhenyu (盧振宇)	47	Chief executive officer and executive Director	February 3, 2016
Non-executive Director			
Ms. Jiao Yan (焦焱)	39	Non-executive Director	February 3, 2015
Independent non-executive Directors			
Dr. Wang Yong (王勇)	50	Independent non-executive Director	June 23, 2016
Dr. Wang Weiping (王衛平)	65	Independent non-executive Director	June 23, 2016
Ms. Wong Sze Wing (黃斯穎)	38	Independent non-executive Director	June 23, 2016

Executive Directors

Dr. Fang Yixin (方宜新), aged 52, is the chairman and an executive Director of our Company. Dr. Fang is responsible for managing the overall business operations and strategic planning of our Group. Dr. Fang has over 23 years of experience in the healthcare industry and is a founder of our Group. Prior to establishing our Group, Dr. Fang served as a medical doctor in the Affiliated Hospital of Nantong University (南通大學附屬醫院) from September 1986 to July 1992. In 1992, Dr. Fang first ventured into the healthcare industry and set up Jiangsu Tayoi Cosmetics Co., Ltd. (江蘇東洋之花化妝品股份有限公司) and has been its director since then. Dr. Fang established the first company of our Group, Nantong Rich Hospital, in August 2000. He has also served as an executive director of the majority of our Group companies. Dr. Fang is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Dr. Fang graduated from Yangzhou College of Medicine (揚州醫學院) (currently known as Yangzhou University School of Medicine) majoring in medicine in August 1986 and an EMBA from Tsinghua University in July 2006. Dr. Fang is the spouse of Dr. Mei.

Dr. Mei Hong (梅紅), aged 52, is an executive Director of our Company. Dr. Mei is responsible for logistics management, project management, chain store development and internal audit of our Group. Prior to establishing our Group, Dr. Mei served as a medical doctor in Nantong Women and Children Health Clinic (南通市婦幼保健院) from September 1986 to December 1999. Dr. Mei, as a co-founder of our Group, has been a director of Nantong Rich Hospital since its inception and as director of the majority of our Group companies. Dr. Mei is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Dr. Mei graduated from Yangzhou College of Medicine (揚州醫學院) (currently known as Yangzhou University School of Medicine) majoring in clinical medicine in August 1986. Dr. Mei is the spouse of Dr. Fang.

Mr. Lu Zhenyu (盧振宇), aged 47, is the chief executive officer and an executive Director of our Company. Mr. Lu is responsible for financial management, human resources, information management, e-commerce and customer services of our Group. Prior to joining our Group, Mr. Lu joined Amoi Technology Co., Ltd. (夏新電子股份有限公司) (a company listed on Shanghai Stock Exchange and now known as Xiangyu Co., Ltd. (廈門象嶼股份有限公司) and its stock code is 600057) as the president in charge of research and development, production and sales in December 2007 and served concurrently as a director and the president from September 2008 to February 2010, after which, he worked freelance until joining our Group. Between June 2004 to December 2007, Mr. Lu worked as an executive vice president in charge of research and development, production and sales of computer products for China Great Wall Computer Shenzhen Co., Ltd (中國長城計算機深圳股份有限公司) (a company listed on Shenzhen Stock Exchange and its stock code is 000066). Mr. Lu is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Mr. Lu received a bachelor's degree in computer science and engineering from Southeast University (東南大學) in July 1991 and subsequently an EMBA from Tsinghua University (清華大學) in July 2006.

Non-executive Director

Ms. Jiao Yan (焦焱), aged 39, is the non-executive Director of our Company. Ms. Jiao is responsible for overseeing the corporate development and strategic planning of our Group. Prior to joining our Group, Ms. Jiao was an analyst of Credit Suisse First Boston, LLC from July 1999 to June 2001, and subsequently a corporate strategy and development associate of Borden Chemical, Inc. from August 2001 to July 2002. Between September 2004 and November 2005, Ms. Jiao was a consultant of the Boston Consulting Group. Ms. Jiao joined Baring Private Equity Asia Limited in November 2005 and is currently holding a position as a managing director. Ms. Jiao is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Ms. Jiao received a bachelor of science in economics and a bachelor of science in chemical engineering, from Massachusetts Institute of Technology in June 1999 and subsequently an MBA from the Wharton School of the University of Pennsylvania in May 2004.

Independent Non-executive Directors

Dr. Wang Yong (王勇), aged 50, is an independent non-executive Director of our Company. Dr. Wang is responsible for supervising and providing independent judgment to our Board. Dr. Wang has extensive experience in EMBA education research, particularly in the area of innovation and business growth management. Dr. Wang served as the project director of the Institute of Mechanical and Electrical, and the manager of Water and Power Equipment Plant and Exhibition Model Plant of China Institute of Water Resources and Hydropower Research (中國水利水電科學研究院) in charge of scientific research and operation management from July 1988 to July 2002. Since August 2002, Dr. Wang has been the executive deputy director, executive director and director of Tsinghua University School of Economics and Management EMBA Center (清華大

學經濟管理學院EMBA教育中心) in succession. Dr. Wang served as an independent director of Shenzhen Clou Electronics Co., Ltd. (深圳市科陸電子科技股份有限公司) and Ocean's King Lighting Science and Technology Co., Ltd. (海洋王照明科技股份有限公司), both of which were listed on the Shenzhen Stock Exchange, from November 2009 to February 2013, and from August 2011 to August 2014, respectively. Save as disclosed above, Dr. Wang is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Dr. Wang received a bachelor of science degree in hydraulic machinery from Huazhong University of Science and Technology (華中科技大學) in July 1988, a master of business administration and a doctor of business administration degree from Tsinghua University in January 2001 and January 2009, respectively.

Dr. Wang Weiping (王衛平), aged 65, is an independent non-executive Director of our Company. Dr. Wang is responsible for supervising and providing independent judgment to our Board. Dr. Wang has been serving at Children's Hospital of Fudan University (復旦大學附屬兒科醫院) since 1982. He has over 34 years of experience in clinical pediatrics care. In addition to providing medical care, Dr. Wang is a professor specialized in clinical education and research in the area of pediatrics. Dr. Wang is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Dr. Wang received a bachelor's degree in medicine from Norman Bethune University of Medicine (白求恩醫科大學) (currently known as Norman Bethune Health Science Center of Jilin University (吉林大學白求恩醫學部)) in August 1978, and subsequently a doctor of philosophy in pediatrics from Shanghai Medical University (上海醫科大學) in December 1988. He was recognized as a senior professor by Shanghai Medical University in December 1994.

Ms. Wong Sze Wing (黃斯穎), aged 38, is an independent non-executive Director of our Company. Ms. Wong is responsible for supervising and providing independent judgment to our Board. Prior to joining our Group, Ms. Wong was an associate and later an audit manager of PricewaterhouseCoopers from September 2001 to December 2006. From January 2007 to April 2008, Ms. Wong was the chief finance director of Orange Sky Golden Harvest Entertainment (Holdings) Limited (橙天嘉禾娛樂(集團)有限公司) (a company listed on the Stock Exchange and its stock code is 1132), and has been its independent non-executive director since April 2010, responsible for advising on strategic and financial planning in the China market. Ms. Wong was also previously the chief finance director of Avex Music and Imaging Production (China) Co., Ltd. 艾迴音樂影像製作(中國)有限公司), a joint venture company under Orange Sky Entertainment (International) Holdings Limited, from January 2007 to April 2008. Ms. Wong was the deputy chief financial officer of Yingde Gases Company Limited (盈德氣體集團有限公司) (a company listed on the Stock Exchange and its stock code is 2168) from July 2008 to February 2009 and the joint company secretary from July 2008 to March 2017, and has been the chief finance officer since February 2009, responsible for its investor relations, financial, investment and internal control. Save as disclosed above, Ms. Wong is not and has not been a director of any other listed company in Hong Kong or overseas in the past three years. Ms. Wong received a bachelor's degree in business administration from the University of Hong Kong in November 2001 and an EMBA from the China Europe International Business School (中歐國際商學院) in July 2012. Ms. Wong has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since February 2005.

SENIOR MANAGEMENT

Ms. Cai Di (蔡廸), aged 39, has been our chief finance officer and a vice president of the Company since February 2015 and January 2017, respectively. Ms. Cai is responsible for supervising the financial operations of our Group. Prior to joining our Group, Ms. Cai was an audit manager of Ernst & Young Hua Ming LLP Shanghai Branch from October 2000 to June 2008, responsible for matters relating to auditing and tax consulting. From June 2008 to March 2013, Ms. Cai was the chief finance officer of Shanghai Newsummit Biopharma Research Co., Ltd. (上海新生源生物醫藥研究有限公司), responsible for its financial management, budgeting, internal control and internal administration. Ms. Cai received a bachelor's degree in international trade from Fudan University in July 2000. Ms. Cai received certification as an accountant by the Ministry of Finance of the People's Republic of China in December 2005.

Management Discussion and Analysis

BUSINESS REVIEW

In 2016, with a wide range of benefits achieved from the healthcare planning under the 13th Five-Year Plan, the PRC government continued to implement the "Healthy China" policies and prioritized healthcare sector in economic and social development. With the support of national policies, the Group proactively expedited its development of quality and high-end medical and healthcare services, and continued to contribute to the dynamic growth of the healthcare industry in China.

The Group strives to provide comprehensive healthcare services and all-dimensional protection for the well-being of people which is in line with the goals announced in "Healthy China 2030 Planning Outline" promulgated by the State Council in 2016. The Group's long-term development planning and strategies have been at the frontier of the industry. The Group provides integrated healthcare services, continues to develop general hospital, specialty hospital, clinic and medical examination businesses, continuously explores market opportunities and expands the promising healthcare service business.

Hospital Business

General Hospital Business

According to the National Health and Family Planning Commission, as of October 31, 2016, there were 12,786 public hospitals and 15,798 private hospitals in China, representing a decrease of 451 public hospitals and an increase of 2,038 private hospitals from October 31, 2015. It shows that private hospitals have more potentials to satisfy public medical demands. Our hospital located in Nantong, Nantong Rich Hospital, is a Class III hospital with 520 registered beds. In 2016, Nantong Rich Hospital served a total of 281,853 out-patients (2015: 268,017), representing a year-on-year increase of 5.2% and it served a total of 18,006 in-patients (2015: 18,045), which was comparable to that of 2015. During the year, the Group strengthened specialist team of pediatric surgery, pediatric internal medicine and cardiovasculogy and further enhanced its medical service capabilities. In addition, the Group bought various high-end and advanced equipment for Nantong Rich Hospital to enhance its medical examination efficiency and diagnosis accuracy.

Speciality Hospital Business

With the implementation of the two-child policy in China, pediatrics and gynecology specialties will become a focus of the private hospital development. During the year, the Group was working with the Obstetrics and Gynecology Hospital of Fudan University to build two high-end obstetrics and gynecology hospitals in Shanghai and Changzhou, respectively. We will integrate expert resources from public hospitals and further utilize our advantages in providing quality services and environment of the Group, aiming to satisfy the need for high-end obstetrics and gynecology specialty medical services from mid-to-high-end customers.

Medical Examination Business

With growing aging population and increasing citizens' health awareness, huge healthcare service demand has brought lots of business opportunities to the medical examination industry. In 2016, the medical examination market in China continued to grow steadily. The medical examination business of the Group achieved satisfactory results.

During 2016, our medical examination centers throughout China served in aggregate 1,302,410 customers (2015: 1,046,464), representing a year-on-year increase of 24.5%, including 219,412 individual customers (2015: 194,820), representing a year-on-year increase of 12.6%, and 1,082,998 corporate customers (2015: 851,644), representing a year-on-year increase of 27.2%. As of December 31, 2016, the Group had 28 medical examination centers, 22 of which were in operation.

While the Group endeavors to enhance corporate profit, the Group focuses on long-term development and optimizes three aspects, namely service, products and business development. In respect of service, in order to implement standardized management system on all of our medical examination centers, the Group established the healthcare quality department which is responsible for supervising, managing and improving healthcare service quality. In respect of product, the Group targeted different consumer age groups and various high-risk diseases to design various customized medical examination services. In the meantime, the Group also focuses on the variety of product design to meet healthcare demand of different people. In respect of business development, the Group proactively explored cooperation opportunities with various strategic partners for the long-term development.

Facing competitive market environment in the medical examination industry, our medical examination business maintained robust growth dynamics during the year. This was attributable to our outstanding physician team. Moreover, the medical examination centers were equipped with high-end and advanced medical equipments in addition to effective quality management system and customized value-added post-medical-examination services, which led customers to have satisfactory medical examination experience.

Clinic Business

In recent years, the PRC government has continuously supported and introduced social capital into healthcare industry, in the hope of increasing medical resources and meeting the multi-level and diversified demands of the public through the introduction of more private medical operators. Clinics play a bridging role between hospitals and medical examinations, which also proactively promote community healthcare. In 2016, the clinic of the Group located in Shanghai started operation. The operation scale of the clinic is flexible so that the Group can develop in an orderly and steady manner. In 2016, the Group opened eight new clinics on the premise of its existing medical examination centers. The clinics of the Group currently provide 23 types of specialty medical services including internal medicine, surgery, gynecology, pediatrics, dermatology, rehabilitation medicine, ophthalmology, otolaryngology, dentistry and Chinese medicine specialty outpatient services.

INDUSTRY OUTLOOK AND GROUP STRATEGIES

The healthcare service industry is prospering quickly in China. With the implementation of relevant national policies, standardization, transparency and branding will be major concerning elements in the market. The platforms with high quality medical resources will be well positioned in the industry.

The Group is well prepared to embrace the golden time for the industry development in the next few years.

Management Discussion and Analysis

Due to the special nature of the healthcare service industry, there are stringent service standards. Medical service quality is inextricably linked with the authoritative expert resources and exquisite medical technology possessed by an operator. As national policies encourage multi-site practices, the Group is actively working with Class III Grade A hospitals in Shanghai to further enrich the resources of reputable physicians, which could enhance its core competitiveness to develop its high-end medical platforms.

An efficient management system is essential to the Group's long-term development. To ensure the standardized premium service quality of our medical examination centers throughout the country, each medical examination center of the Group is implementing centralized management system with regulated standard and management and conducts regular assessment and evaluation on service and quality control. Hospitals and clinics are implementing a standardized management system based on the standards of public hospitals.

The Group will proactively implement its diversified development strategies. The Group strives to expand its medical examination, clinic, general and specialty hospital businesses. In respect of medical examination business, the Group will cooperate with its strategic partners and provide high-end and quality medical examination services to its customers, which could further expand customer base and increase market shares. In the meantime, the Group will actively enlarge its service network and increase the number of medical examination centers to provide accurate, efficient and quality medical examination service to more customers throughout the country. In respect of clinic business, the Group is committed to working with more medical organizations and increase the number of specialty physicians to further strengthen its physician team. Moreover, starting from Shanghai, the Group will gradually set up chain clinics across China and increase its penetration into the domestic healthcare market. In view of the national policy of "Internet + Healthcare", the Group will develop telemedicine outpatient services to satisfy the medical demand of different consumers. In respect of hospital business, our obstetrics and gynecology specialty hospitals in Shanghai and Changzhou are expected to commence operation in 2017. The Group will utilize its branding and service advantages and strives to provide high-end obstetrics and gynecology specialty services to citizens in Shanghai and Changzhou.

The Group will continue to conduct in-depth exploration for new development opportunities so as to establish brand value with national influence and provide quality and efficient medical service to more citizens in China.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group conducts business in a heavily regulated industry. If the Group fails to obtain or renew any licenses or permits required for our operations, or are found to be non-compliant with such licenses or permits, or any applicable laws or regulations, the Group may face penalties, suspension of operations or even revocation of such licenses or permits, depending on the nature of the findings. Any of such events could materially and adversely affect the business, financial condition and results of operations of the Group. The Group has duly obtained or renewed the licenses or permits required for our operations and none of our hospitals, medical examination centers and clinics have been notified of any material non-compliance with such licenses, permits or applicable laws or regulations.

The Group is exposed to potential risks that are inherent to healthcare services. In recent years, physicians, hospitals and other healthcare service providers in China have become subject to an increasing number of medical disputes or legal actions alleging malpractice or other causes of action. The Group purchased medical liability insurance for our Nantong Rich Hospital. However, the Group did not purchase medical liability insurance for our medical examination business and clinic business which the Group believes is consistent with industry practice. The Group has implemented internal operating procedures to monitor the physicians and other medical staff of the Group regarding their professional responsibilities in examining and treating our customers. Please refer to page 39 of this annual report for more details.

FINANCIAL REVIEW

Revenue

We derive revenue mainly from our general hospital business and medical examination business. The following table sets forth the components of our revenue by operating segments for the years indicated:

	Year ended December 31,		
	2016 (RMB'000)	2015 (RMB'000)	**% of Change**
General hospital business	**313,035**	297,695	5.2%
Medical examination business	**651,098**[1]	525,435[1]	23.9%
Inter-segment	**(28,750)**	(20,334)	41.4%
Total	**935,383**	802,796	16.5%

Note:

(1) Include the revenue from our clinic business.

Our revenue increased by 16.5% from RMB802.8 million in 2015 to RMB935.4 million in 2016, mainly as a result of an increase in revenue from our medical examination business.

Revenue from our general hospital business in 2016 amounted to approximately RMB285.2 million, representing an increase of 2.6% from approximately RMB278.0 million in 2015, excluding inter-segment revenue of RMB27.8 million and RMB19.7 million in 2016 and 2015, respectively. The increase is mainly attributable to an increase in the number of visits of our patients as we improve our operational efficiency as well as an increase in average spending per visit by our patients which was primarily attributable to an increase in the amount of diagnostic testing ordered by our clients. The outpatient and inpatient pharmaceutical income amounted to RMB154.3 million (2015: RMB156.9 million), while the outpatient and inpatient service income amounted to RMB130.9 million (2015: RMB121.1 million). The proportion of outpatient and inpatient pharmaceutical income in revenue from our general hospital business decreased from 56.4% in 2015 to 54.1% in 2016 while the proportion of outpatient and inpatient service income in revenue from our general hospital business increased from 43.6% in 2015 to 45.9% in 2016, indicating our efforts for less dependence on pharmaceutical income to fulfil our commitment to premium service quality.

Revenue from our medical examination business in 2016 amounted to approximately RMB651.1 million, representing an increase of 23.9% from approximately RMB525.4 million in 2015. The increase is mainly attributable to our medical examination centers opened in 2015, which had full-year operation in 2016, and the number of individuals who used our medical examination services. The number of individuals who used our services was 1,046,464 and 1,302,410 in 2015 and 2016, respectively. The average spending per individual in our medical examination business was RMB498.5 and RMB493.0 in 2015 and 2016 respectively, which represented a slight decrease due to the promotional events of our newly opened medical examination centers in 2016.

The medical examination business includes a limited portion of clinic business. Revenue from our clinic business in 2016 amounted to approximately RMB2.4 million (2015: RMB0.64 million), mainly from diagnostic income.

Cost of Sales

Cost of sales primarily consists of pharmaceuticals and medical consumables costs, staff costs, rental expenses and depreciation and amortization expenses. The following table sets forth a breakdown of our cost of sales by operating segment for the years indicated:

	Year ended December 31,		
	2016 (RMB'000)	2015 (RMB'000)	**% of Change**
General hospital business	**219,764**	207,461	5.9%
Medical examination business	**390,238**[1]	335,626[1]	16.3%
Inter-segment	**(28,750)**	(20,334)	41.4%
Total	**581,252**	522,753	11.2%

Note:

(1) Include the cost of sales of our clinic business.

Our cost of sales increased by 11.2% from RMB522.8 million in 2015 to RMB581.3 million in 2016, mainly as a result of the increase in the cost of sales of our medical examination business.

Cost of sales of our general hospital business in 2016 amounted to approximately RMB219.8 million, representing an increase of 5.9% from approximately RMB207.5 million in 2015. The increase is generally in line with the growth in revenue.

Cost of sales of our medical examination business in 2016 amounted to approximately RMB390.2 million, representing an increase of 16.3% from approximately RMB335.6 million in 2015. The increase is mainly attributable to the increase in variable cost of our medical examination centers including medical consumable costs and outsourcing testing expenses, which were generally in line with the revenue growth of our medical examination business. Meanwhile, some relative fixed cost, such as depreciation and amortization and rental expenses, increased in 2016 due to the full-year charge of some medical examination centers opened in 2015 and therefore resulting in the increase in the total costs in 2016.

Gross Profit

Our gross profit increased by 26.5% from approximately RMB280.0 million in 2015 to approximately RMB354.1 million in 2016. The gross profit margin increased from 34.9% in 2015 to 37.9% in 2016, which is primarily attributable to the increase of gross profit margin of our medical examination business. The gross profit margin of our general hospital business in 2016 slightly decreased to 29.8% from 30.3% in 2015. The gross profit margin of our medical examination business in 2016 increased to 40.1% from 36.1% in 2015.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses increased by 12.9% from approximately RMB67.6 million in 2015 to approximately RMB76.4 million in 2016. This increase was largely in line with the increase in overall sales and mainly attributable to the increase in staff costs and business development expenses.

Administrative Expenses

Our administrative expenses increased by 32.4% from approximately RMB151.6 million in 2015 to approximately RMB200.8 million in 2016. The increase was mainly due to (i) the increase in the number of employees as a result of the growth of our medical examination business, (ii) the increase in pre-opening rental expense for the new hospitals, and (iii) the listing-related expenses.

Other Income

Our other income increased by 7.0% from approximately RMB13.3 million in 2015 to approximately RMB14.2 million in 2016. Other income was mainly generated from government grants.

Other Losses

Our other losses increased from approximately RMB0.81 million in 2015 to approximately RMB0.86 million in 2016 primarily due to an increase in losses on disposal of equipment.

Finance Income/(Expenses) — net

The Group had net finance income of RMB1.6 million in 2016, comparing to net finance expenses of RMB21.7 million in 2015, mainly due to exchange gain of RMB20.7 million in 2016 arising from the bank deposits denominated in HKD and USD.

Share of Results of a Joint Venture

For the year ended December 31, 2016, the Group recognised a loss of RMB1.0 million (2015: RMB2.0 million) in its consolidated profit or loss, mainly due to the operating loss of Nantong Rich Meidi Nursing Home Co. Ltd., a joint venture of the Group and a company primarily engaged in providing elderly care services.

Income Tax Expense

For the year ended December 31, 2016, income tax expense amounted to approximately RMB36.6 million, increased by approximately RMB16.1 million as compared with approximately RMB20.5 million in 2015, which is largely in line with the increase in profit before income tax. The effective tax rate remained relatively stable at 40.2% in 2016 as compared to 41.3% in 2015.

Profit for the Year

For the foregoing reasons, our profit increased by 86.9%, from approximately RMB29.1 million in 2015 to RMB54.4 million in 2016.

Adjusted EBITDA

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted EBITDA as an additional financial measure. We define adjusted EBITDA as profit for the year before certain expenses and depreciation and amortization as set out in the table below. Adjusted EBITDA is not an alternative to (i) profit before income tax or profit for the year (as determined in accordance with HKFRS) as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs, or (iii) any other measures of performance or liquidity. The following table reconciles our profit for the years under HKFRS to our definition of adjusted EBITDA for the years indicated.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Adjusted EBITDA calculation		
Profit for the year	**54,389**	29,116
Adjusted for:		
Income tax expense	**36,593**	20,471
Finance income/(expense) — net	**(1,633)**	21,746
Depreciation and amortization	**81,617**	68,862
Restructuring and reorganization expense[(1)]	**—**	1,500
Pre-opening expenses and EBITDA loss of soft-opening[(2)]	**37,846**	23,202
Listing expenses[(3)]	**37,966**	8,905
Pre-IPO share option expenses	**3,144**	—
Adjusted EBITDA	**249,922**	173,802
Adjusted EBITDA margin[(4)]	**26.7%**	21.6%

Notes:

(1) Primarily represents legal and other professional service expenses associated with our internal corporate restructuring and the reorganization prior to the IPO in October 2016.

(2) Primarily represents (a) pre-opening expenses, such as staff costs and rental expenses, incurred in the applicable year in connection with new medical examination centers and specialty hospitals to commence operation in the subsequent years, and (b) EBITDA loss/(gain) of new medical examination centers incurred during the year that they commence operation.

(3) A total of RMB11.7 million and RMB64.3 million listing expense was incurred in 2015 and 2016, respectively, of which RMB8.9 million and RMB38.0 million was recorded in 2015 and 2016, respectively.

(4) The calculation of adjusted EBITDA margin is based on adjusted EBITDA divided by revenue and multiplied by 100%.

We recorded an adjusted EBITDA of RMB249.9 million in 2016, representing an increase of 43.8% from approximately RMB173.8 million in 2015.

FINANCIAL POSITION

Property and Equipment

Property and equipment primarily consist of buildings, medical equipments, general equipments, leasehold improvement and construction in progress. As of December 31, 2016, the property and equipment of the Group amounted to approximately RMB393.2 million, representing an increase of approximately RMB8.7 million as compared to approximately RMB384.5 million as of December 31, 2015. The increase was primarily due to acquisition of equipment by the new medical examination centers and obstetrics and gynecology specialty hospitals and renovation of Nantong Rich Hospital.

Inventories

Inventories slightly decreased from approximately RMB19.7 million as of December 31, 2015 to approximately RMB19.1 million as of December 31, 2016.

Trade Receivables

As of December 31, 2016, the trade receivables of the Group were approximately RMB131.0 million, representing an increase of approximately RMB9.7 million as compared to approximately RMB121.3 million as of December 31, 2015, which was generally in line with the increase in revenue during 2016.

Net Current Assets Position

As at December 31, 2016, the Group's net current assets were RMB474.0 million, representing an increase of RMB667.5 million as compared with net current liabilities of RMB193.5 million as at December 31, 2015. The improvement in net current assets position was mainly due to an increase in cash and cash equivalents as a result of the net proceeds raised from the IPO.

LIQUIDITY AND CAPITAL RESOURCES

The Group had cash and cash equivalents of RMB881.0 million as at December 31, 2016. As at December 31, 2016, the Group had outstanding bank borrowings amounting to RMB314.6 million. The Board is of the opinion that the financial position of the Group is strong and healthy and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Set forth below is the information extracted from our Group's consolidated cash flow statement during the years indicated:

	Year ended December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Net cash generated from operating activities	**173,283**	159,285
Net cash (used in)/generated from investing activities	**(127,264)**	77,991
Net cash generated from/(used in) financing activities	**579,667**	(350,019)
Net increase/(decrease) in cash and cash equivalents	**625,686**	(112,743)

Net Cash Generated from Operating Activities

For the year ended December 31, 2016, the net cash generated from operating activities was RMB173.3 million. Cash inflow generated from operating activities was approximately RMB242.0 million, which was offset by the interest paid of approximately RMB20.8 million and the income tax paid of RMB47.8 million.

Net Cash Used in Investing Activities

For the year ended December 31, 2016, the net cash used in investing activities was RMB127.3 million, primarily attributable to (i) the purchases of property and equipment and intangible assets of RMB127.2 million, and (ii) the investment in a joint venture of RMB3.0 million, partially offset by the proceeds from disposal of equipment of RMB1.7 million and the interest received from bank deposits of RMB1.2 million.

Net Cash Generated from Financing Activities

For the year ended December 31, 2016, the net cash generated from financing activities was RMB579.7 million, primarily attributable to (i) the capital contribution of RMB43.2 million from owners of the Company or non-controlling interests of subsidiaries, (ii) the net proceeds from bank borrowing of RMB30.4 million, and (iii) the net proceeds from issuance of the ordinary shares of the Company in connection with the IPO of RMB682.7 million, partially offset by the dividends payment of RMB123.9 million, payment of listing-related expenses of RMB44.1 million and the repayments to related parties of RMB8.7 million.

Significant Investments, Acquisitions and Disposals

For the year ended December 31, 2016, the Group did not have any significant investments, acquisitions or disposals, except the reorganization of the Group with details set out in the Prospectus.

Use of Proceeds from IPO

The Company's shares were listed on the Stock Exchange on October 6, 2016. After the partial exercise of the Over-allotment Option (as defined in the Prospectus) and after deducting underwriting commissions and all related expenses, the net proceeds from issuance of ordinary shares of the Company in connection with the IPO amounted to RMB682.7 million. As of the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

The Board closely monitored the use of proceeds from the IPO with reference to the use of proceeds disclosed in the Prospectus and confirmed that there was no change in the proposed use of proceeds as previously disclosed in the Prospectus.

As of December 31, 2016, the Group used the net proceeds for the following purpose:

- RMB13.6 million being used for the establishment of six medical examination centers.

- RMB76.0 million being used for the partial repayment of our bank and other borrowings.

- RMB8.7 million being used for payment of listing-related expenses.

Capital Expenditure and Commitments

For the year ended December 31, 2016, the Group incurred capital expenditures of RMB95.9 million, primarily due to purchases of medical equipment for our new medical examination centers and obstetrics and gynecology specialty hospitals and renovation of Nantong Rich Hospital and our existing medical examination centers.

As of December 31, 2016, the Group had a total capital commitment of approximately RMB26.4 million (2015: RMB9.2 million), mainly comprising the related contracts of capital expenditure in newly built medical examination centers and hospitals.

Borrowings

As at December 31, 2016, the Group had total bank and other borrowings of RMB314.6 million. Details are set out in note 21 to the consolidated financial statements in this annual report.

Contingent Liabilities

The Group had no material contingent liability as of December 31, 2016.

Financial Instruments

The Group did not have any financial instruments as of December 31, 2016.

Gearing Ratio

As of December 31, 2016, on the basis of net debt divided by total capital, the Group's gearing ratio was (147.4%) (2015: 19.5%). The decrease in gearing ratio as of December 31, 2016 was mainly resulted from the net proceeds raised from the IPO, which led to a significant increase in cash and cash equivalents of the Group as of December 31, 2016.

Cash Flow and Fair Value Interest Rate Risk

Our exposure to changes in interest rates is mainly attributable to our borrowings from banks and other non-bank financial institutions.

Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We do not hedge our cash flow and fair value interest rate risk during the year.

Foreign Exchange Risk

During the year ended December 31, 2016, the Group is not exposed to significant foreign currency risk, except for the bank deposits from the IPO, which are denominated in Hong Kong dollars, and the bank deposits denominated in US dollars. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need raise.

Credit Risk

We have no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, trade and other receivables and deposits from long-term leases represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problem.

Cash and cash equivalents were deposited in major financial institutions, which the Directors believe are of high credit quality.

We established policies in place to ensure that we assess the credit worthiness and financial strength of our customers as well as considering prior dealing history with the customers and volume of sales. Our management team makes periodic collective assessment as well as individual assessment on the recoverability of trade receivables and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

The credit risk of hospital business is related to the recoverability of trade receivables and other receivables. The credit risk of medical examination business is related to the length of the overdue period of trade receivables and other receivables by corporate customers.

Liquidity Risk

Our finance department monitors rolling forecasts of our liquidity requirements to ensure we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants (where applicable) on any of our borrowing facilities. We expect to fund the future cash flow needs through cash flows generated from operations, borrowings from financial institutions and issuing debt instruments or capital injection from shareholders, as necessary. Based on contractual undiscounted payments, our financial liabilities were RMB495.2 million as of December 31, 2016.

Pledge of Assets

As of December 31, 2016, the Group had assets in an amount of RMB46,601,000 pledged for bank borrowings (December 31, 2015: RMB48,296,000).

Corporate Governance Report

The Board is pleased to present this corporate governance report in this annual report of the Company for the year ended December 31, 2016.

1. CORPORATE GOVERNANCE PRACTICES

The Shares have been listed on the Stock Exchange since the Listing Date. The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code. The Company has complied with the code provisions as set out in the CG Code during the period from the Listing Date to December 31, 2016. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

2. THE BOARD

(1) Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

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

(2) Directors' and Senior Management's Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify the Directors and senior management of the Company for their liabilities arising out of corporate activities. The insurance coverage shall be reviewed on an annual basis and the Board has reviewed the insurance coverage for the 12 months ended December 31, 2016.

(3) Board Composition

During the Period and up to the date of this annual report, the Board comprised three executive Directors, namely Dr. Fang Yixin (Chairman), Dr. Mei Hong and Mr. Lu Zhenyu, one non-executive Director, namely Ms. Jiao Yan and three independent non-executive Directors, namely Dr. Wang Yong, Dr. Wang Weiping and Ms. Wong Sze Wing.

Except that Dr. Fang is the spouse of Dr. Mei, no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Board members.

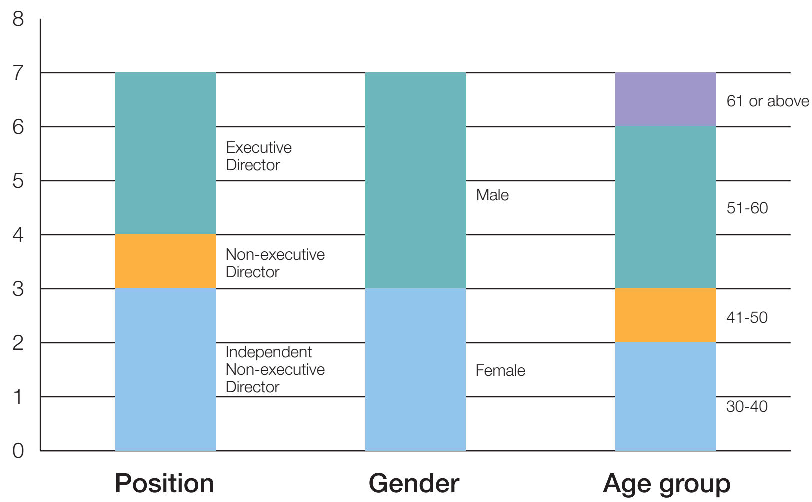
Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. Among the three independent non-executive Directors, Ms. Wong Sze Wing has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

(4) Board Diversity Policy

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The policy specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. The appointment of Directors will be based on meritocracy, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, knowledge and skills.

The composition of the Board shall be disclosed in the Corporate Governance Report every year and the Nomination Committee will supervise the implementation of this policy. The Nomination Committee will review the effectiveness of this policy, as appropriate, discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 12 to page 15 of this annual report.



The Nomination Committee has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain high standard of operation.

(5) Confirmation of Independence by the Independent Non-executive Directors

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

Except that Dr. Mei Hong (an executive Director) is the wife of Dr. Fang Yixin (an executive Director), none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship), with any other Director.

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

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

(6) Induction and Continuous Professional Development

Pursuant to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Pursuant to the code provision A.6.1 of the CG Code, each newly appointed Director should be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. During the period from the Listing Date to December 31, 2016, the Directors were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year of 2016, all Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers have facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Dr. Fang Yixin, Dr. Mei Hong, Mr. Lu Zhenyu, Ms. Jiao Yan, Dr. Wang Yong, Dr. Wang Weiping and Ms. Wong Sze Wing all received this training. The Directors are asked to submit a signed training record to the Company on an annual basis.

(7) Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organization structure of the Company, Dr. Fang Yixin is the chairman of the Board and Mr. Lu Zhenyu is the Chief Executive Officer of the Company.

The Board and the senior management, which comprises experienced and high calibre individuals, can ensure the balance of power and authority. As at the date of this report, the Board comprised three executive Directors, one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

(8) Appointment and Re-Election of Directors

Each of the executive Director has entered into a service contract with the Company on June 23, 2016 for a term of three years commencing from their respective appointment date and may be terminated by not less than three months' notice in writing served by either of the executive Director or the Company.

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Company on June 23, 2016 for an initial term of three years commencing from their respective appointment date, which may be terminated by not less than three months' notice in writing served by either of the Director or the Company.

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for election by the Shareholders at the first general meeting of the Company after appointment and any new Director appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring and make recommendations to the Board on the appointment, re-election and succession planning of Directors, in particular the Chairman and the Chief Executive Officer.

(9) Board Meetings and Committee Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Both the Nomination Committee and the Remuneration Committee shall meet at least once every year and the Audit Committee shall meet at least twice a year. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying papers are dispatched to the Directors or committee members at least three days before the intended date of the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or the committee members prior to the meeting. Minutes of meetings are kept by the Company Secretary with copies circulated to relevant Board or committee for comment and records.

Minutes of the Board meetings and the committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Board or committee members and dissenting views expressed. Draft minutes of each Board meeting and committee meeting are sent to the relevant Board or committee members for comments within a reasonable time after the date on which the meeting is held. The minutes of the board meetings are open for inspection by any Directors.

Since the Listing Date and up to the date of this annual report, two board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/Eligible to attend
Dr. Fang Yixin (Chairman and Executive Director)	2/2
Dr. Mei Hong (Executive Director)	2/2
Mr. Lu Zhenyu (Chief Executive Officer and Executive Director)	2/2
Ms. Jiao Yan (Non-executive Director)	2/2
Dr. Wang Yong (Independent Non-executive Director)	2/2
Dr. Wang Weiping (Independent Non-executive Director)	2/2
Ms. Wong Sze Wing (Independent Non-executive Director)	2/2

(10) Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code since the Listing Date and up to the date of this annual report.

(11) Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board to ensure that they remain appropriate to the Company's needs. Approval has to be obtained from the Board prior to any significant transactions entered into by the management on the Company's behalf.

(12) Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors and has delegated the corporate governance duties to the Audit Committee which include:

(a) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;

(c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees of the Group; and

(e) to review the Group's compliance with the CG Code from time to time adopted by the Group and the disclosure in the Corporate Governance Report to be contained in the Company's annual reports.

3. BOARD COMMITTEES

(1) Nomination Committee

As at the date of this report, the Nomination Committee comprised three members, namely Dr. Fang Yixin (an executive Director), Dr. Wang Yong and Dr. Wang Weiping (each being an independent non-executive Director). The majority of the committee members are independent non-executive Directors. Dr. Fang is the chairman of this committee.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors;
- To assess the independence of independent non-executive directors; and
- To regularly review and report to the Board on the performance and suitability of the senior management and make recommendations to the Board on the reappointment or replacement of any senior management.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. Their written terms of reference are available on the respective website of the Stock Exchange and the Company.

Due to the fact that the Company was listed on October 6, 2016, no Nomination Committee meeting was held during the year ended December 31, 2016.

One meeting of the Nomination Committee was held on March 31, 2017 and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Dr. Fang Yixin (Chairman)	1/1
Dr. Wang Yong	1/1
Dr. Wang Weiping	1/1

In the meeting, the Nomination Committee reviewed and discussed the policy, procedure and criteria for nomination of the Directors, reviewed and discussed the Board diversity policy, assessed the independence of independent non-executive Directors, considered the re-appointment of the retiring Directors, reviewed the time commitment required from the non-executive Director and fulfilled duties as required aforesaid.

(2) Procedure for Nomination of Directors

When there is a vacancy in the Board, the Nomination Committee evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy. The Nomination Committee will then identify suitable candidates and convene a Nomination Committee meeting to discuss and vote on the nomination of Directors and make recommendation to the Board on the candidate(s) for directorship.

(3) Criteria for Nomination of Directors

The Nomination Committee will consider candidates who possess the particular skills, experience and expertise that will best complement the Board's effectiveness at that time.

In considering the overall balance of the Board's composition, the Nomination Committee will give due consideration to the Board diversity policy of the Company as disclosed under the paragraph "2. THE BOARD — (4) Board Diversity Policy" above.

(4) Remuneration Committee

As at the date of this report, the Remuneration Committee comprised three members, namely Dr. Wang Weiping (an independent non-executive Director), Mr. Lu Zhenyu (an executive Director) and Ms. Wong Sze Wing (an independent non-executive Director), the majority of whom are independent non-executive Directors. Dr. Wang Weiping is the chairman of this committee.

The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Director and senior management member).

The principal duties of the Remuneration Committee include making recommendations to the Board on and approving the Company's remuneration policy and structure and the remuneration packages of the executive Directors and the senior management of the Company. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. It also makes recommendation to the Board on the remuneration of non-executive Directors.

Their written terms of reference are available on the respective website of the Stock Exchange and the Company.

Due to the fact that the Company was listed on October 6, 2016, no Remuneration Committee meeting was held during the year ended December 31, 2016.

One meeting of the Remuneration Committee was held on March 31, 2017 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Dr. Wang Weiping (Chairman)	1/1
Mr. Lu Zhenyu	1/1
Ms. Wong Sze Wing	1/1

In the meeting, the Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company assessed performance of executive Directors, made recommendations to the Board on the remuneration packages of individual executive Directors and senior management and fulfilled duties as required aforesaid.

Details of the remuneration by band of the members of the senior management of the Company for the year ended December 31, 2016 are set out below:

Remuneration band (in HKD)	Number of individual
1,000,000 and below	1

(5) Audit Committee

As at the date of this report, the Audit Committee comprised three members, namely Ms. Wong Sze Wing (an independent non-executive Director), Ms. Jiao Yan (a non-executive Director) and Dr. Wang Yong (an independent non-executive Director), the majority of whom are independent non-executive Directors. Ms. Wong Sze Wing is the chairlady of this committee. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor;

- To review the adequacy and effectiveness of the Group's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, risk management and internal control and financial reporting functions, on an annual basis;

- To review the adequacy and effectiveness of the Company's and its subsidiaries' internal control systems, covering all material controls, including financial, operational and compliance controls and risk management functions including financial, business, operational and other risks of the Company and its subsidiaries, and to undertake any related investigations; and

- To perform the Company's corporate governance functions.

Due to the fact that the Company was listed on October 6, 2016, one Audit Committee meeting was held during the year ended December 31, 2016. One meeting of the Audit Committee was held on March 28, 2017. The attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Ms. Wong Sze Wing (Chairlady)	2/2
Ms. Jiao Yan	2/2
Dr. Wang Yong	2/2

The Audit Committee reviewed the Group's policies on corporate governance and discussed the same with the Board, reviewed the financial reporting system, compliance procedures, internal control and risk management systems (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal control and financial reporting function) and associated processes and the reappointment of the external auditor and fulfilled duties as required aforesaid. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

The Audit Committee also reviewed the annual results of the Company and its subsidiaries for the year ended December 31, 2016 as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit.

There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. Their written terms of reference are available on the respective website of the Company and the Stock Exchange.

4. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2016 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the external auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report in this annual report.

5. RISK MANAGEMENT AND INTERNAL CONTROL

The Company defines risk as effects of different uncertainties to the achievement of strategic, operating and governance goals in the course of operation and development. The Company adopts comprehensive risk management and internal control structure to manage risk proactively. The structure is developed by the Board and the Audit Committee in order to assist the Board to monitor risk management conditions, design and enhance the efficiency of related risk management and internal control systems.

(a) Risk Management and Internal Control Structure

Responsible Parties	Principal Responsibilities
The Board	• As the leading body of comprehensive risk management of the Company, the Board is responsible for assessing and determining the nature of risk that the Company is willing to take or averse from to ensure that the risk management and internal control system of the Company is maintained appropriately and efficiently. For achieving the goal, the Board supervises the management's work on the design, implementation and inspection of risk management and internal control systems through the Audit Committee.
Audit Committee	• Assists the Board in oversight of the risk management and internal control systems.
Management	• Responsible for the establishment and overall operation of the risk management and internal control systems and provides confirmation to the Board on the efficiency of the risk management and internal control systems. • Appoints responsible persons in-charge of relevant risk and be responsible for identifying risks and assessing and carrying out corresponding contingency measures to address the risks of their respective areas.
Internal Audit Department	• Conducts independent assessment of risk management and internal control systems.

(b) Risk Management

In 2016, the Company adopted comprehensive risk management system, delineated roles and duties, developed risk management strategies and preferences in accordance with five risk categories, namely strategic, market, financial, operation and legal risks, identified and assessed major risks that the Group was exposed to before Listing and during the period after Listing and up to December 31, 2016, developed corresponding risk contingency measures and formulated risk control duties undertaken by risk responsible persons. The Company also completed annual risk management report to be submitted for the approval of the Audit Committee and the Board.

The table below sets forth further details on the Company's major risks and risk control measures.

(c) Description on Major Risks, Risk Changes and Risk Control Measures of the Company

Number	Major Risk	Main Description	Changes after Listing	Major Monitoring Measures and Risk Control Strategies
1	Entry Barriers and Competition	Low entry barrier for products/ services of the Company, severe homogeneousness with products/services of competitors as well as the risk of failure to develop products that cannot replicated with competitive advantages. (for example, high-end customer orientation)	• Unchanged	• To allocate further resources to enhance product development and develop heterogeneous products; and • To allocate further resources to enhance customer services in order to provide medium-to-high end quality services.
2	Business Expansion and Standardization Risk	Headquarters to provide newly expanded business with sufficient support due to business overexpansion of the Company. The lack of adequate expansion plan that promotes corporate control system and standardized operational procedures would result in the risk of decline in quality of the newly expanded business and incapability to meet corporate standard.	• Increased	• To enhance the expansion of control system, set up and rationalize the expansion system and standardized operational procedures; • To increase manpower, material and financial resources allocation in order to carry out and supervise the implementation of the expansion plans; and • To enhance staffing of related personnel and to further rationalize the workflow standardization of the Group.

Number	Major Risk	Main Description	Changes after Listing	Major Monitoring Measures and Risk Control Strategies
3	License Management Risk	The Company conducts business in a heavily regulated industry. If the Company fails to obtain or renew any licenses or permits required for our operations, or are found to be non-compliant with such licenses or permits or any applicable laws or regulations, the Company may face penalties, suspension of operations or even revocation of such licenses, depending on the results of such events. Any of such events could materially and adversely affect the results of operations of the Company.	• Unchanged	• The Company has duly obtained and renewed the licenses or permits required for our operations and none of our hospitals, medical examination centers and clinics have been notified of involving in any material non-compliance with such licenses, permits or applicable laws or regulations; and • The Company particularly focuses on the requirements of industry operation according to laws and regulations, timely handle or remind the management to handle the licenses, permits, approvals and certificates required for operation in order to prevent the business situation of the Company from being affected due to untimely manner of handling relevant licenses.

Number	Major Risk	Main Description	Changes after Listing	Major Monitoring Measures and Risk Control Strategies
4	Medical Dispute Risk	The Company is exposed to inherent risks of medical disputes and legal proceedings against the Company arising from its operation which may result in significant cost and have material adverse impact on our business operation.	• Unchanged	• The Company enhances the training, education and monitoring of current medical staff (including physicians, nurses and pharmacists, etc.) in accordance with laws and regulations and industry norms in order to reduce the risk of medical disputes between the Company and customers due to the failure of strict compliance with internal control procedures; • The Company has purchased liability insurance for Nantong Rich Hospital; and • The Company considers to recruit experts, professional lawyers and legal staff to take action in response to potential medical disputes and in order to protect the interest of the Company to the greatest extent.

Number	Major Risk	Main Description	Changes after Listing	Major Monitoring Measures and Risk Control Strategies
5	Control and Compliance Risk	The defective standardized operation procedure of the Company and the failure of strict compliance operation staff to the operation requirements to result in the failure of business undertaken to satisfy the workflow settings of the Company that in turn would affect the operation efficiency of the Company and hinder the completion of transformation from "the rule of man" to "rule of law".	• Unchanged	• The Company established a specialized function unit, being responsible for collecting laws and regulations and industry standards, and formulating operation procedures of various operating business and regularly conducting training and monitoring of operation staff. In respect of non-compliance, the Company should formulate subsequent follow-up procedures and measures, appoint related responsible persons and set up corresponding reward and punishment measures; and • To promulgate compliance system and regularly conduct inspection on medical hygiene and healthcare safety conditions.
6	Informatization Construction Risk	The failure of IT construction and planning to meet future operation development requirements of the Company which may cast limitations to the development of the Company and impact the achievement of the Company's strategic goals.	• Unchanged	• To enhance staffing of related personnel and further rationalize the workflow standardization of the Group; and • To integrate business workflow and internal control into information system in order to achieve management goals.

Number	Major Risk	Main Description	Changes after Listing	Major Monitoring Measures and Risk Control Strategies
7	Human Resources Risk	The future of the structure of staffing/quality of staff to satisfy the Company's requirements for its current development, as evidenced by the failure to timely adjust staffing structure and to timely adjust the appraisal system and update the training content to satisfy the Company's requirement for its current development, or the failure of the Company to timely acquire talents (through internal training or external recruitment) that satisfy the requirements for the Company's current stage of development, which may result in the slowdown of the overall development scale of the Company and the failure of the achievement of expected strategic planning and gradual loss of industry position.	• Unchanged	• To enhance the establishment of recruitment channel system, especially the recruitment channels of medical personnel that are closely related to the Group's business; to develop scientific channel with respect to supplier assessment and management system in order to ensure the satisfaction of personnel demand for business development; to enhance the training and education of administrators and other professional medical personnel (including physicians, nurses and pharmacists, etc.) and to improve their occupational skills and administration quality and provide customers and patients with services of better quality; • To formulate comprehensive assessment systems in accordance with different business units and occupation, regularly carry out staff assessment and to determine staff remuneration based on the assessment results in order to incentivize their work enthusiasm and potential; and • To reasonably forecast and arrange the staffing of the Company, reduce redundancies in different department and provide personnel with clear definitions of their functions in order to improve their work efficiency.

Number	Major Risk	Main Description	Changes after Listing	Major Monitoring Measures and Risk Control Strategies
8	Litigation Risk	The non-compliance in respect of fraud caused by the practice of the Company would result in risks of legal sanctions, regulatory penalties or material financial loss or reputation loss.	• Unchanged	• To establish anti-fraud systems and conduct staff training in order to enhance anti-fraud awareness; and • To set up whistle-blowing channels including mailbox and direct line in order to encourage whistleblowing from staff against fraudulent practices and provide protection for whistleblowers.

(d) Internal Control

The Company has set up an internal audit department as its department for internal audit that is responsible for conducting audit for the Company and its subsidiaries. Such duties of the department are with the aim of ensuring the normal operation of internal monitoring and its due effectiveness. The Company attaches full importance to the reports from external auditors on their findings regarding the deficiencies and inadequacies of the internal monitoring and accounting procedures of the Group and makes respective improvements. The internal audit department directly reports to the Audit Committee on all audit matters.

The internal control system of the Company is established in accordance with the principles of the Committee of Sponsoring Organizations of the Treadway Commission. In the meantime, the Company had conducted independent audit (including interviews, walkthrough tests and risk-oriented testing on sample basis) during the year ended December 31, 2016 on the business segments that had material impact on corporate strategies and internal control and monitoring and prepared the internal control and monitoring report submitted for the approval of the Audit Committee and the Board. During the year under review, under the assistance of the Audit Committee and taken into consideration of the confirmation of evaluation on the efficiency of the risk management and internal control systems conducted by the management and the Audit Committee and the assessment results, the Directors confirmed that the risk management and internal control systems of the Company were effective and adequate.

The investors relationship department is responsible for establishing standards to assess and identify inside information pursuant to Rules 13.09 and 13.10 of the Listing Rules and the provisions in relation to inside information under Part XIVA of the Securities and Futures Ordinance, communicating to all relevant staff on the policies of inside information reporting and disclosure and providing related training and timely disclosing inside information in accordance with the requirements set out in the Securities and Futures Ordinance and the Listing Rules.

6. AUDITOR'S REMUNERATION

Annual audit fees of the Group for the year ended December 31, 2016 payable to the external auditor were approximately RMB2.9 million. The Company incurred approximately RMB2.2 million in 2016 for services provided by external auditor in connection with the initial public offering of the Company's shares and incurred approximately RMB0.6 million in 2016 for non-audit services related to the provision of consultation services in respect to internal control systems pursuant to the CG Code.

7. COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

The Company engaged Ms. Chau Hing Ling, the director of Corporate Services of Vistra Corporate Services (HK) Limited (a company secretarial service provider), as the company secretary of the Company. Her primary contact at the Company is Ms. Cai Di, the chief finance officer and a vice president of the Company.

In compliance with Rule 3.29 of the Listing Rules, Ms. Chau Hing Ling undertook not less than 15 hours of relevant professional training to update her skills and knowledge during the year ended December 31, 2016.

8. GENERAL MEETING

The Company became listed on October 6, 2016. No general meeting was held after the Listing.

9. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Shareholders and potential investors on the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The AGM provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Board, the chairman/chairlady of the Board committees of the Company will attend the AGM to answer Shareholders' questions. The external auditors of the Company will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at http://www.rich-healthcare.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. The Board will review the Shareholders' communication policy regularly to ensure its effectiveness.

10. SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at Shareholder meetings, including the election of individual Directors.

All resolutions put forward at Shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the respective website of the Company and the Stock Exchange in a timely manner after each Shareholder meeting in accordance with the Listing Rules.

(1) Procedures for Shareholders to convene an extraordinary general meeting

In accordance with Article 17.3 of the Articles of Association, any one or more Shareholders 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 the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(2) Procedures for putting forward proposals at general meeting

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Companies Law of the Cayman Islands. However, Shareholders who wish to propose resolutions may follow Article 17.3 of the Articles for requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures of Article 17.3 are set out above.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

(3) Enquiries to the Board

Shareholders and investors may send written enquiries or requests to the Company as follows:
Address: 19/F, Catic Mansion, No. 212 Jiangning Road, Jingan District, Shanghai, PRC

Enquiries will be dealt with in a timely and informative manner.

11. CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association has been amended and restated with effect from the Listing Date, and are available on the respective website of the Stock Exchange and the Company.

Environmental, Social and Governance Report

CONTENTS OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group adheres to its sustainable development strategy, and is committed to providing quality medical services for the community. The purpose of this report is to provide the stakeholders with the Group's performance on environmental and social aspects, and the Group's future plans and targets, including the impact of the Group's operation to the environment, society and economy.

The Group attaches great importance to the transparency of information, and will report annually on its environmental and social practice and progress and manage its results in a responsible manner. This report can also assist the Group to set benchmarks in its environmental and social work, identify areas where performance can be enhanced, and adjust the guidelines based on the annual work schedule and stakeholders' advice collected.

The Group's business covers the four major business units of general hospital, speciality hospital, medical examination, and clinics, and currently with concentration on general hospital and medical examination. This report focuses on the specific guidelines and performance of the Group's environmental and social work as of December 31, 2016, covering the relevant performance and measures of the business units of general hospital (Nantong Rich Hospital) and medical examination centers (including the Group's headquarters and 22 medical examination centers in operation).

ENVIRONMENTAL PROTECTION

Environmental protection is one of the important social responsibilities of corporate citizens. On the basis of operating in compliance with laws and regulations, the Group has taken all necessary measures to conduct environmental protection and pollution prevention work, actively reduced the consumption of various resources and increased the recycling rate of resources, in order to reduce the impact of corporate business activities on the environment. Also, the Group strived to reduce emissions of various pollutants such as atmospheric emissions and solid wastes, continuously improved corporate environmental management, and vigorously promoted the concept of green office and low-carbon travel, in order to create an environment-friendly society.

The Group, on the aspect of its organizational structure, has commenced the construction of its environmental health and safety management system which has gradually formed a top-to-bottom management mechanism from the Group's board of directors to each business segment, so that every level and every employee has its own responsibility for the implementation of environmental health and safety work. The Healthcare Quality Department is responsible for the relevant matters of the environmental health and safety of the medical examination segment, while the Logistics Department is responsible for the relevant matters of the environmental health and safety of the hospital segment. Each segment is staffed with specialists responsible for the management and exercise of environmental health and safety work, which forms work groups with clearly defined responsibilities and capabilities of exercise the duties delegated.

The impact of the Group's business activities on the environment is mainly the consumption of relevant resources, such as water resources required in daily operation, and energy consumption from electricity and fuel consumption. The main sources of environmental pollution are atmospheric emissions (greenhouse gases, vehicle exhaust, etc.), and the main pollution factors are: carbon dioxide, nitrogen oxides, sulphur oxides, particulates and solid wastes (hazardous wastes include medical wastes from hospital and medical examination services, and harmless wastes include domestic wastes from living and office and kitchen wastes).

Compliance of Environmental Protection Management

The Group adheres to the compliance of environmental protection laws and regulations. All subsidiaries and branches have timely made pollutant discharge declaration and registration with local environmental management institutions in accordance with the environmental protection laws and regulations for admitting themselves into the scope of legal supervision of the local environmental protection institutions. In the area where the pollutant discharge license system is implemented, all subsidiaries have applied for the "Pollutant Discharge Permit" from the local environmental protection departments, or in the process of applying for the "Wastewater Discharge Permit". The results of the environmental monitoring report of the subsidiaries of the Group issued by the local environmental monitoring institutions or third parties show that, in 2016, all subsidiaries were capable of ensuring that the standards for discharge of three waste pollutants were consistently met.

Promotion of Environmental Protection

In the design of office environment and workplace for daily work, the Group has always adhered to establishing standards of an environmental-friendly office environment, implementing standards on energy-saving and emission reduction and recycling of resources, integrating the concept and action of environmental protection into the normal operations of the enterprise. The Group has taken the following environmental protection measures to reduce the impact of business operations to the environment:

1) **Use of electricity and water**
   - Turning off all unnecessary electricity consumption equipment (computer, air conditioning, lighting, etc.)
   - Increasing the number of lighting switches or changing the lightings to sensitive-lightings, and replacing lighting tubes with LED lightings
   - Inspecting water supply facilities on a regular basis, and checking whether the response to the shutting down instruction is timely and whether there are faults, in order to prevent water leakage and eliminate evaporation, emission, drip and leakage

2) **Use of paper**
   - Printing double-sided and reducing the amount of use of paper to half
   - If not necessary, performing internal communication through e-mail and instant communication tools instead of issuing paper documents

3) **Low-carbon travel**

- In recruitment, under the same employee condition, prioritising the choice of local employees to reduce commuting distance

- Encouraging employees to commute by public transport and providing commuting shuttle bus for hospital employees in order to reduce the use of private cars

- Whenever use of private cars for business trip is required, asking the relevant persons to share personal cars in order to save fuel consumption

Use and Consumption of Resources

The statistics of the water resources, electricity resources, paper and energy consumed by the service operation of the Group (the medical examination segment includes the Group's headquarters and 22 medical examination centers in operation and the hospital segment includes Nantong Rich Hospital) in 2016 are as follows:

Resources consumed	Business segment	Resource consumption of 2016
Water resources (m^3/year)	Medical examination	235,932
	Hospital	42,988
Electricity resources (kWh/year)	Medical examination	4,425,547
	Hospital	6,808,710
Paper consumption (kg/year)	Medical examination	97,213
	Hospital	15,069
Oil consumption (L/year)	Medical examination	64,502
	Hospital	12,656

Control and Emission of Environmental Pollutants

The hazardous wastes from the service operation of the Group in 2016 were medical wastes, and we out sourced to entities with relevant qualifications for processing all medical wastes. The statistics of medical wastes (including the Group's headquarters and 22 medical examination centers in operation and the hospital segment includes Nantong Rich Hospital) are as follows:

- Medical examination segment: 117,641.41 kg/year
- Hospital segment: 84,167.00 kg/year

The statistics of the emission of greenhouse gases from the service operation of the Group (the medial examination segment includes the Group's headquarters and 22 medical examination centers in operation and the hospital segment includes Nantong Rich Hospital) in 2016 are as follows:

Emissions	Business segment	Emissions in 2016
Carbon dioxide (ton)	Medical examination	3,644.78
	Hospital	6,566.53
Nitrogen oxides (kg)	Medical examination	242.65
	Hospital	123.78
Sulphur oxides (kg)	Medical examination	0.95
	Hospital	0.19
Particulates (kg)	Medical examination	23.25
	Hospital	11.86

QUALITY SERVICE PRACTICE

Bringing prolonging and healthier lives for people is the mission of the Group. The Group is continuously committed to providing high-quality services to customers and establishing healthy assets for society, enterprise, employees and customers.

Provision of High-quality Services

Medical quality is the core content and eternal subject of the Group's medical service management. The Group puts the quality of medical care in the first place of work, and includes the process of constantly improving and continuously enhancing the quality of medical care and raising the service level into each work of the Group.

In order to strengthen the quality management of the Group's medical services, we have regulated medical activities, ensured medical security, protected the legitimate rights and interests of customers, comprehensively improved the quality of medical care, and enhanced the quality of medical services. We have established the Medical Examination Business Department Service Leading Group in the medical examination segment, and set up the Quality and Safety Management Committee, the Medical Records Management Committee, the Pharmacy Management Committee, the Hospital Infection Management Committee and the Blood Transfusion Management Committee. All quality management and enhancement structures are deployed with full-time or part-time employees responsible for quality management work.

At the same time, we have established a green channel mechanism in the hospital to regulate the admission, examination, rescue and treatment of patients with emergency needs or patients from cooperated hospitals, in order to provide timely, standardised, efficient and considerate medical services, increasing the success rate of rescue and reducing medical risks.

The Group has established a comprehensive written record of quality management, and the record through the line management compiled by the quality management department would be reported and escalated on a regular basis progressively. Through measures such as inspection, analysis, evaluation and feedback, we continuously enhance the medical quality and service level.

The Group has formulated assessment and evaluation criteria for the relevant full-time or part-time staff, and carried out whole-process monitoring and continuous improvement on the medical service quality and service level. At the end of 2016, the Group, with medical quality as the focus, conducted a comprehensive performance evaluation, and the results of the evaluation showed that the medical quality and standard of each member of the Group significantly improved as compared with that of the previous year.

Social Honours

Some of the significant awards and certifications received by the Group in 2016 are as follows:

Recipient	Awarded Time	Honour	Award Unit	Photo
The Group	October 2016	The large-scale voluntary medical consultation activities of the Shanghai Nantong Top-notch Doctors Promotion Committee was awarded Silver Award in the 8th Shanghai's Outstanding Public Relations Case Selections (上海市第八屆優秀公共關係案例評選)	Shanghai Public Relations Association	
The Group	January 2016	Professor Miao Xiaohui's Project "Research Progress on Out-of-Hospital Sudden Cardiac Arrest Emergency First Aid" (院外突發心臟呼吸驟停緊急急救的研究進展》) was approved as the national continuous medical education project of 2017	National Continuous Medical Education Committee (全國繼續醫學教育委員會)	
Shanghai Rich Medical	November 2016	Top 10 Health Benefit Suppliers of the 2016 China's Remuneration and Benefits Supplier Value Awards (2016中國薪酬與福利供應商價值大獎健康福利供應商10強)	HR Excellence Center (HREC)	
Nantong Rich Hospital	January 2017 (Certified in 2016)	National level Class III Grade B general private hospital (國家級三級乙等綜合性民營醫院)	Jiangsu Province Health Department	

Recipient	Awarded Time	Honour	Award Unit	Photo
Shanghai Rich Ruibo Clinic Co., Ltd. (上海瑞慈瑞鉑門診部有限公司)	December 2016	2015–2016 "Shanghai Non-government Medical Institutions Advanced Group" ("上海市社會醫療機構先進集體")	Shanghai Association for Non-Government Medical Institutions (上海市社會醫療機構協會)	

Medical Complaints and Medical Disputes

The Group attaches great importance to the handling of customer complaints. Designated staff of the Group is responsible for the reception and handling of complaints, and complies customer complaints handling records, with details of the complaints, patiently explains to customers, and gives satisfactory replies.

- **Medical examination segment**

  The customer services department of each medical examination centre is responsible for receiving various kinds of complaints and disputes relevant to medical examination, while the customer services department in the headquarters is responsible for collecting various kinds of complaints and disputes relevant to medical examination received by each medical examination institution on a regular basis and following-up the handling status of complaints handled earlier, and summarising and preparing the List of National Customer Complaint.

- **Hospital segment**

  The handling of complaints of the hospital segment is led by the doctor-patient communication office, and relevant functional departments are involved. The hospital has established medical malpractice handling procedures and management systems, such as the "Doctor Patient Communication System", the "Complaints Management Approach of Nantong Rich Hospital", the "Punishment Approach of Nantong Rich Hospital's Doctor-patient Disputes Involving Economic Loss" and the "Responsibilities of Relevant Department of Nantong Rich Hospital in the Handling of Medical Disputes", including contents covering the collection of medical disputes, communication channels, the time limit requirements for follow-up handling, the punishment standard after the identification of responsibilities and the division of responsibilities of relevant departments. The doctor-patient communication office is responsible for the collection, follow-up and handling of medical disputes, and establishes medical disputes desks to record the status of complaints handling and follow-up. The medical department and the head of each department discuss and analyse all medical disputes in the previous month during meetings, and discuss the next step of handling measures regarding the medical disputes which cannot be solved.

CUSTOMER PRIVACY PROTECTION

The Group attaches great importance to the privacy of customer information, and has strictly implemented relevant laws and regulations (such as the "Regulations on Medical Records Management of Medical Institutions" (《醫療機構病歷管理規定》), the "Law on Practicing Doctor of the People's Republic of China" (《中華人民共和國執業醫師法》) and the "Administrative Measures of Nurses of the People's Republic of China" (《中華人民共和國護士管理辦法》)) and the "Information Data Security Management System" (《信息數據安全管理制度》), in order to strictly protect customers' data and privacy while providing services to customers. Customer data security management primarily ensures the safe storage and use of customer data, including private data, medical records, diagnosis, prescriptions and other data. The Group has appointed designated staff to be responsible for proper safekeeping customers' data and maintaining the relevant systems for processing and storing data. The Group has implemented a confidential data security policy providing, among other things, all employees shall keep all customer data confidential and receive mandatory trainings on data security policies; take security measures while transmitting, storing and disposing customer information; and that customer data is only for research purposes in anonymous manner for the provision of services to customers.

The Group has taken a number of measures to ensure network and data security, including installing web application firewall systems to block external-sourced attacks and malicious access; installing a database review system to monitor and analyze all requests for internal data access and identify and reject suspicious requests for data access; installing internal access gateways in hospitals, medical examination centres and clinics to control and ensure the safety of data exchange between hospitals, medical examination centres and clinics and the central database; and installing gateways and firewalls to limit the access of external network from the internal computer network.

During the reporting period, we did not receive any valid complaints about the breach of customer privacy or loss of customer information.

SUPPLIER MANAGEMENT

Supplier management is one of the important segments in quality control of the medical industry. The choice of suppliers directly affects the quality and level of the Group's medical services. Therefore, the Group has always adhered to an open and transparent supplier screening and review process, and would select qualified suppliers which commensurate with our standards, on the basis of providing high-quality services to the community, and giving priority to cooperate with suppliers with senses of social responsibilities.

As at December 31, 2016, the total number of suppliers of the Group's medical examination and hospital segments was 1,404 (of which 591 suppliers for the medical examination segment and 813 suppliers for the hospital segment).

Supplier Selection Mechanism

Based on standardised supplier assessment screening criteria, the Group, taking into account of its peculiarity and complexity of the medical industry, has established a mature procurement system. In terms of supplier screening, the Group has developed stringent access requirements: suppliers must have a positive sense of service and reputation, and must be selected with preference to manufacturers and then regional agents with strong establishment. For the procurement management of pharmaceuticals, the Group has provided strict inspection on the legal qualifications and quality reputation of the supplying enterprises, in order to ensure the rationality and security of procurement. First-time suppliers/categories have to be assessed and approved by the procurement department and the pharmacy committee. Through the comprehensive consideration of quality assurance, supply capacity, technical capability and product price, the Group ensures that the selected suppliers meet the Group's standards.

In addition, for all procurement business, in order to prevent and combat unfair competition to reflect the spirit of fair cooperation between the two parties, the Group requires itself to sign a "Corruption-free Agreement" with the suppliers.

Periodic Assessment of Suppliers

The Group has established a supplier review system that all materials used are procured from suppliers with legitimacy, relevant qualifications and quality assurance capabilities. In supplier management, the Group's procurement department, together with the warehouse department and the usage departments that consume the materials, assesses the performance of suppliers according to the usage, supply capacity and after-sales service, etc., of the materials procured and conducts annual assessment on suppliers through the use of "supplier annual assessment form", and the assessment results are reviewed by the management. The results are considered as the justifications for the selection of qualified suppliers and elimination of unqualified suppliers, in order to achieve effective management of suppliers.

OUR EMPLOYEES

Corporate Culture

The Group's corporate culture includes two main aspects, namely values and culture.

Rici's values:

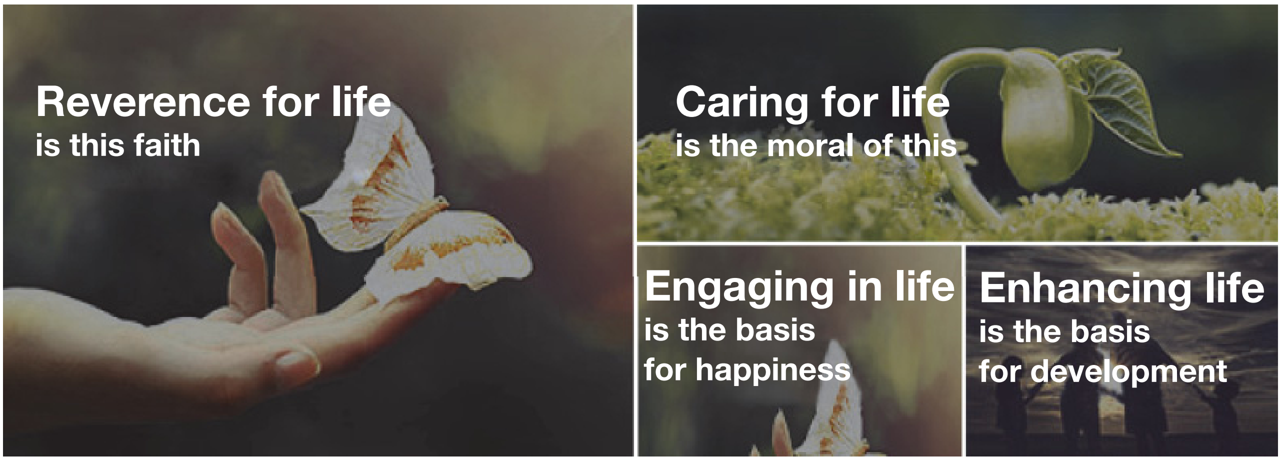
- Being Rici for a lifetime, building health assets for society, enterprise, employees, and customers

We protect lives for our customers, enhancing health values	We construct platforms for our employees, achieving personal values	We build assets for our investors, returning ideal benefits	We establish positive values for the society, setting up an enterprise model

- Creating healthy homes, innovation, integrity, dedication and conservation, together setting up enterprise energy

We continuously innovate, enhancing service capability through innovation	We adhere to integrity, believing that integrity is the basis for establishment	We dedicate and devote to our work, being responsible to every life	We conserve energy and protect the environment, constructing a sustainable environment

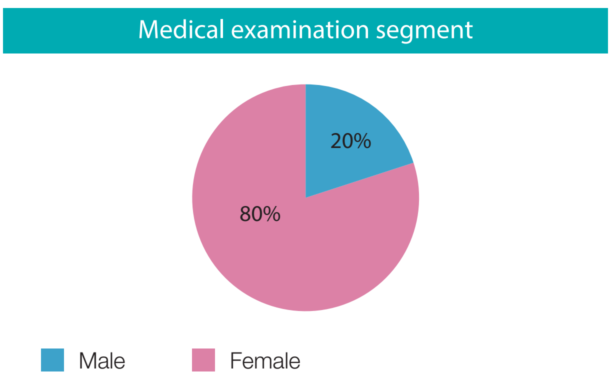
Rici's culture:

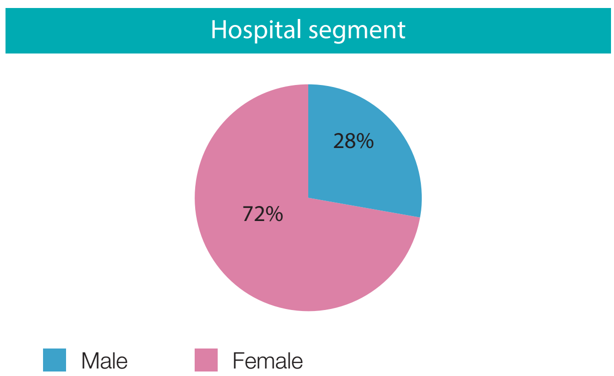


Sustainable Development of Talents

The Group firmly believes that excellent talents are valuable assets of the enterprise and the cornerstone of the sustainable development of the Company. Through the combination of external recruitment and internal trainings, the Group actively attracts external talents, and at the same time strengthens internal trainings and enhancement, building a high-calibre pool of talents for the Group. As at December 31, 2016, the total number of employees of the Group's medical examination and hospitals segments was 3,540.

Personnel structure of the Group:





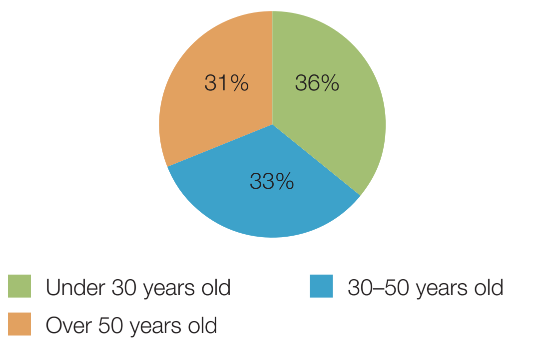
Pioneer Employer

The Group adheres to nurture staff through excellent corporate culture, conscientiously building a comprehensive and caring platform for the employees. The Group shall never employ child labour or forced labour. Despite the absence of similar problems within the Group, the Group has still regularly reviewed the employment policies to ensure that all employment practices are strictly implemented and incorporated into the human resources policies. In 2016, the total number of employees aged under 50 in the medical examination and hospital segments of the Group was 2,625, accounting for 74.15%of our total employees.

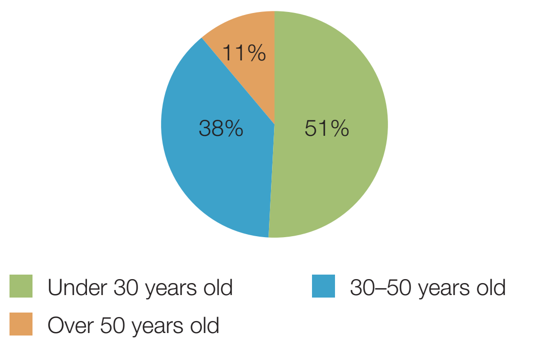
More and more young talents have become the backbone of the development of the Group.

Age structure of the personnel of the Group:

Medical examination segment

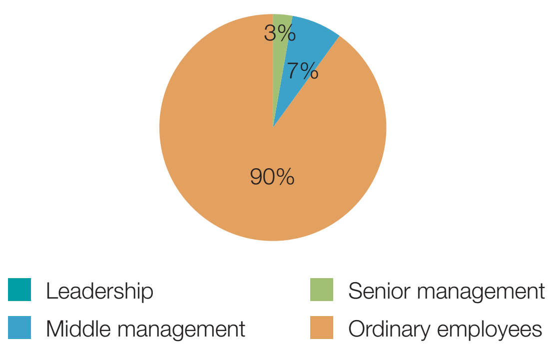


Hospital segment

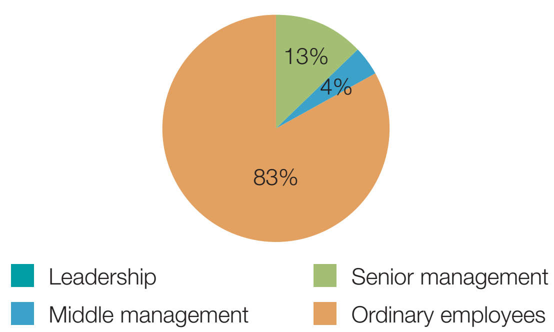


Position categories of the Group:

Medical examination segment



Hospital segment



Health and Safety

The Group regards human resources as the most valuable asset and is committed to providing a safe, healthy and harmonious working environment for all employees. From aspects such as system construction, formulation of technical standards, enhancement of employees' risk awareness and supervision and evaluation of management, the Group has conducted prevention and control on the health and safety risks of the employees.

1. **System construction**

   In accordance with the "Law of the Peoples Republic of China on the Prevention and Treatment of Infectious Diseases" (《中華人民共和國傳染病防治法》), the Group has formulated 20 professional protection standards such as the "Sterilisation and Isolation System", the "Infectious Disease Case Monitoring and Reporting System" and the "Medical Personnel Occupational Protection System", and revised the safe operation practices for positions with close contacts to infectors. Through the systemisation of the occupational health and safety management system and the clarification of responsibilities, the Company's infection management work switched from passive to active and post-handling to pre-prevention. Through the systematic and comprehensive safety management standards, the infection rate and infection incidents arising from the ineffective prevention and monitoring are reduced, and this protected the safety of lives and properties of employees and patients.

2. **Raising personnel's risk awareness**

   At the beginning of each year, the Group formulates infection management annual training programs for personnel at all levels, and according to the training programs, conducts trainings and examinations for the employees on the knowledge and skills relevant to infection policies and regulations, medical wastes treatment and occupational protection, assisting the employees to become familiar with the rules and regulations and operation process on occupational health and safety, in order to enhance the ability to prevent infection incidents and control occupational hazards.

Development and Training

The Group actively supports employee development, and through the enhancement of employees' knowledge and skills, promotes the sustainable development of the Group's business. The Group relies on corporate culture and has carried out four series of training courses: "new staff training", "leadership development training", "professional development training" and "general working skills training".

- **New staff training**

  In order for new staff to adapt quickly to the new working environment and to integrate better into the team, the Group provides a variety of induction training activities for new staff.

  In the medical examination segment, the institution provides trainings for new staff on employee information, enterprise briefing, sales and customer guidance, etc., in order to improve their theoretical standard and professionalism. The business department of the respective company of new staff also organises field visit, assisting them to have a better understanding of the corporate culture and system. New staff trainings of the hospital segment comprise internal training and external training methods. Internal training for new recruits is a week of group training, and the training mode will switch to professional pre-job skills training, so that new staff can quickly understand and master more knowledge.

- **Leadership development training**

  In January each year, the Group conducts a series of senior leadership training seminars or working sessions for general managers, institution heads and department heads. Management staff with certain experience and seniority are provided with projects targeting the enhancement of management ability and leadership, in order to reserve outstanding management personnel for the Group. In 2016, the Group invited external leadership lecturers to carry out trainings for our medical executive team on the theme of "initial leadership", and through methods such as simulation experience, lecture, video learning and classroom analysis activities, the team learnt the model of emotional intelligent leadership, self-leadership role, positioning and leadership methods.

- **Professional development series**

  In egrating specific needs of different professional lines, the Group has developed systematic and advanced professional courses for groups of key positions, in particular, doctors and nurses. In 2016, each line actively carried out professionalised learning activities, and through exchange and visits with domestic and foreign advanced enterprises, advanced skills were learned.

  In March 2016, the Group and GE Healthcare signed a strategic cooperation agreement, and with the brand new hardware base and medical information technologies of GE's industrial network, Rici medical service cloud platform was developed, which achieved timely health understanding and health management for the public and enhanced the life-cycle of health management and services.

- **General working skills series**

  "Customer-oriented" care model is one of the core corporate cultures of the Group, and hence the Group's human resources centre and corporate culture department regularly carry out "service etiquette" training. In early 2016, through methods such as lectures and role simulation, the Group actively conveyed the common knowledge and skills of service etiquette to its employees, in order to achieve the value-enhancement effect of quality services after meeting customers' needs.

- **Performance evaluation**

  The Group stresses "to assess a person through performance", and adheres to the allocation principle of prioritising performance, working harder and earning more, allocation according to workload and taking into account of fairness, in order to stimulate the enthusiasm and creativity of employees. The design, implementation and results of the performance management system of the Group focus on the comprehensive and objective evaluation of the overall performance of employees, in order to enhance the matching of employees' quality, ability, performance, and position requirements.

Employee Care

The Group has always adhered to the principle of fairness, opposed discrimination, achieved equal pay for same-sex employees, abided by the same minimum wage standard and equal pay for equal work. In respect of employee composition of 2016, female employees accounted for 78%.

The Group has complied with the labour laws and regulations of the places where it operates, and provides statutory benefits and paid leave for all full-time employees. The Group provides leave and benefits in line with national and local laws for all female employees during pregnancy, maternity and lactation, and male workers with pregnant spouse can also enjoy paternity leave.

As an "in-depth medical examination" advocate and practitioner, the Group also always concerns about the health of its employees. In 2016, the Group formulated the "Employee Care Program" to provide employees and their families with free medical examinations for RMB1,500 each year, or to provide discounted medical examination gift cards, in order to enhance their sense of identity and loyalty to the Company, so that employees can grow up and develop together with the Group.

SOCIAL INVESTMENT

On the pledge of the continuously performing corporate citizenship responsibility and the concept of sincerely serving the society, the Group actively participates in various community activities such as charity donation, voluntary medical consultation services and environmental protection health education, and hopes to continuously bring positive changes to the society through corporate charity activities and encouragement of employee participation.

Charity Donations

- **Xinghu Run (星湖行) – charity fundraising running event**

  In order to help the disadvantaged groups and assist students facing hardship to raise grants, Nantong City Development Zone General Union launched the "Xinghu Run, I run for charity" event. The majority of the staff of Nantong Rich Hospital immediately responded to the call, with the participation of doctors, nurses and administrative staff forming a caring team. In order to protect the safety of the participants in the event, Nantong Rich Hospital also specially arranged medical staff on site to provide full medical support for the event.

- **The Third Season of Healthy Charity Walk (健康萬人行第三季)**

  In the era of accelerating tempo of life, irregular life rhythm and increasing psychological pressure of the public have become common social phenomena, which have also led to the trend of emergence of various diseases at younger ages. Rici, as an influential healthcare brand in China, has never forgot its own social responsibilities, i.e. serving the public with a charity heart. As a regular activity with long duration, high participation and enthusiastic response, Rici Healthy Charity Walk, since 2014, has been successfully held three times. Through the daily three-time lucky draw opportunities on "Rici Group" official WeChat platform, we give out for free 20,000 medical examination package of RMB600 and 2,000 points of healthy gifts to share and guide people to attach importance to health problems, transforming treatment into prevention, and giving the public a full range of in-depth healthcare. The number of participants of the 2016 Healthy Charity Walk reached 150,000, representing an increase of 50,000 as compared with 2015.

- **Gifting first aid boxes to Metro Company**

  Shanghai Metro system is one of the busiest traffic systems in the country, with an average daily passenger flow of nearly 10 million. Subway staff is dedicated and diligent, and provides convenient services to the people of Shanghai and tourists from all over the world. Due to the special nature of subway stations' work environment, certain conventional treatment or emergency medicine are essential supplies. In order to protect the safety of Metro Company's staff during work and meet the emergency medical and rescue needs of the staff, since September 2016, our medical examination centers have been gifting caring first aid boxes in various major transport hubs of Shanghai Metro. The charity action has covered 105 subway stations such as People's Square, Xujiahui and Shanghai Railway Station, and the gifted first aid boxes are functional first aid boxes of RMB300 equipped with basic commonly used pharmaceutical products.

  As an important medical examination partner of Shanghai Metro No.1 Operation Co., Ltd., the Group hopes that, through this event, its service concept of "all-rounded and high-quality" can be better delivered. The Group not only gives out comprehensive health management services, but also concerns about the public's health conditions in various aspects such as work and living, and strives to promote the enhancement of public health awareness.

Voluntary Medical Consultation Services

- **Rich Hospital nephrology voluntary consultation activity**

  March 10 is the annual World Kidney Day. In order to arouse people's concern to children kidney diseases, Nantong Rich Hospital's Department of Nephrology and Department of Pediatrics jointly organised a "giving children a future" Kidney Day free voluntary consultation activity. On the day of the event, a number of children and their parents had kidney disease consultation. For the children who came from time to time, specialists provided children with consultation and auscultation and answered to questions, voluntarily served them with their professionalism and patience, and explained the importance of regular body check to them, encouraging them to establish a positive and optimistic attitude towards life. The attentiveness and friendliness of the medical staff in the event won acclaim from the parents.

- **Second Military Medical University alumni voluntary consultation activity**

  On October 22, 2016, Shanghai Ruijie, the Party Committee of Wujiaochang street and the Second Military Medical University's Department of Military Medicine all-round action team co-hosted a large-scale voluntary consultation activity. Specialists of various fields of 15 hospitals, such as Changhai Hospital, Changzheng Hospitaland and Dongfang Gandan, gathered together to contribute to the community through voluntary consultation. The voluntary consultation covered disciplines such as cardiology, respiratory, neurology and orthopedics, meeting the common disease consultation needs of community residents. The residents all exclaimed that the specialists of hospitals who were usually difficult to make appointments with came to the community for consultation, and that it was a huge benefit for them. During the voluntary consultation activity, our staff said they were deeply impressed by practicing the mission of "bringing the domestic population a prolonging and healthier life".

In addition, in various of cities, we regularly organises specialist voluntary consultation, and each time provide free consultation to more than 100 people. The voluntary consultation includes the 2016 Rici clinic & BDG in commemoration of the 95th anniversary of the establishment of party organised by heart and brain health voluntary consultation and Nantong Rich Hospital's Haimen promotion voluntary consultation, etc. and has been strongly praised by the public, which has undoubtedly fully displayed the social responsibilities of Rici as a leader in China's medical business. Rici has adhered to its beginning mind in promoting the spirit of humanity, fraternity and dedication.

Health and Safety Education

- **The 9th Global Conference on Health Promotion visited Rici Healthcare**

  On November 21, 2016, the Global Conference on Health Promotion was held at the banquet hall on the third floor of the headquarters of the Group. The chairman of the Group and the leaders of the city and foreign guests made an earnest exchange and discussion on how to further promote the health of the public.

  The Group as a leader in the domestic healthcare industry, has always set enhancing the health standard of the public as its own mission. In the era of accelerated tempo of life, we found out that white-collar workers is a group with rapid health needs. Therefore, considering the limited time of white-collar workers, the Group normally arranges its location to the core shops in cities for the convenience of customer consultation. In addition, we have combined medical examination and clinics, giving customers a private examination environment, free interpretation of medical examination reports, after-examination health seminars and a green medical channel, forming a one-stop consultation service. At the same time, our medical examination certers have from time to time carried out seminars on healthcare knowledge for white-collar workers and special medical project experience activities, such as scoliosis correction and cardiac resuscitation training, as well as cooperated with companies in office building to carry out voluntary consultation activities in enterprises, fully displaying the social responsibilities of our Group, and actively contributing to the promotion of the public health awareness of "early discovery, early diagnosis".

- **Flower blossoms in March, benefiting health (花開三月　約惠健康)**

  Female health has always been a hot topic in the medical service industry. Since March 2016, our medical examination certers have been giving back to the female public, not only offering gifts to female customers, but also explaining and promoting healthy female lifestyle, and promoting female self-examination of health and awareness of prevention, in order to arouse female's concern to their own health. Female customers visiting Rici said that it was an unexpected surprise, and would pay more attention to their own health conditions in the future life.

ANTI-CORRUPTION

The Group has always been pursuing strict policies to prevent corruption, and has set "striving to uphold integrity and believing that integrity is the basis for establishment" as its core values, and implemented it in the daily operation.

On the basis of strict adherence to the laws and regulations such as the "Criminal Law of the People's Republic of China" (《中華人民共和國刑法》) and the "Anti-unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》), and in accordance with the internal management needs of the Company, the Group has formulated the "Regulations on Fraud and Violation of Rici Healthcare Group" (《瑞慈醫療集團舞弊及違規行為條例》), which has defined the fraud and violation monitoring mechanism.

The Group has developed a formal staff handbook with clear guidelines on aspects such as conflicts of interest, privacy and confidentiality, prevention of bribery and corruption. All employees must comply with the relevant system and code of conduct formulated by the Group. The staff handbook is also an important part of the new staff induction training, and all new employees must pass the code of conduct assessment before they can be officially posted.

In order to strengthen the ideological education of honest and incorruptive practice and improve the awareness of business conduct, through the method of online and offline combination, the Group has conducted promotion and trainings relevant to anti-corruption for all employees. On the Group's portal website, the legal department of our medical examination segment has set up e-learning trainings relevant to anti-corruption. At the same time, in respect of offline exercise, our hospital has extended the targets of anti-corruption training from medical staff to management staff, and through weekly meetings, carried out anti-corruption trainings and promotion on the theme of industry corruption warning education cases to medical and logistics staff.

In the transactions with third parties, the Group has set up anti-fraud anti-commercial bribery provisions in procurement contracts, requiring third parties to be honest and incorruptive and law-abiding in the process of dealing with the Company in order to improve business ethics and the integrity of the management culture.

The Group has established a series of anti-corruption reporting and monitoring mechanisms that are implemented throughout the Group employees can report directly through reporting mail and reporting line, and all reports are handled in a prudent and confidential manner. Through departmental self-monitoring and internal audit, the Company has ensured timely detection and handling of matters on anti-corruption and anti-fraud, and hence reduced the negative impact of corruption and fraud.

During the reporting period, we were not served any litigation on corruption involving the Group or the employees of the Group.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on July 11, 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company, and its subsidiaries established in the PRC are primarily engaged in the operating general hospital, speciality hospital, medical examination centers and clinic in the PRC.

The activities and particulars of the Company's subsidiaries are shown under note 39 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 25 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. A discussion on relationships with the Group's key stakeholders is included in the sections headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" in this annual report. In addition, a discussion on the Group's environmental policies and performance and its compliance with relevant laws and regulations is set out in this directors' report and the "Environmental, Social and Governance Report" of this annual report. These review and discussion form part of this directors' report.

RESULTS AND DIVIDEND

The consolidation results of the Group for the year ended December 31, 2016 are set out on page 90 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2016.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years is set out on page 9 of this report.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended December 31, 2016 are set out in note 7 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended December 31, 2016 are set out in note 18 to the consolidated financial statements in this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended December 31, 2016 are set out in note 20 to the consolidated financial statements in this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company's distributable reserves were RMB785.6 million.

BORROWINGS

As at December 31, 2016, the Group had outstanding bank borrowings of RMB314.6 million. Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and note 21 to the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

USE OF NET PROCEEDS FROM THE IPO

The net proceeds from the IPO amounted to HK$790.6 million after deducting share issuance costs and listing expenses. As at December 31, 2016, the proceeds raised by the Company from the IPO have not been fully utilized. During the Period, such net proceeds were applied in accordance with the proposed applications as set out in the section headed "Future Plan and Use of Proceeds" in the Prospectus. In 2017, the Company will use the proceeds raised from the IPO in accordance with its development strategies, market conditions and intended use of such proceeds. Detailed information is set out under "Use of Proceeds from IPO" in the section headed "Management Discussion and Analysis" in this annual report.

DIRECTORS

During the Period and up to the date of this annual report, the Board consisted of the following seven Directors:

Executive Directors
Dr. Fang Yixin *(Chairman)*
Dr. Mei Hong
Mr. Lu Zhenyu *(Chief Executive Officer)*

Non-executive Director
Ms. Jiao Yan

Independent Non-executive Directors
Dr. Wang Yong
Dr. Wang Weiping
Ms. Wong Sze Wing

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out in the section headed "Profile of Directors and Senior Management" in this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company dated June 23, 2016, under which he/she agreed to act as an executive Director for an initial term of three years commencing from his/her respective appointment date, which may be terminated by not less than three months' notice in writing served by either of the executive Director or the Company.

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Company dated June 23, 2016 for an initial term of three years commencing from his/her respective appointment date, which may be terminated by not less than three months' notice in writing served by either of the Director or the Company. Under the respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive Director is not entitled to any remuneration.

The appointment of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of the Directors has entered into any service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation).

CONTRACT WITH CONTROLLING SHAREHOLDERS

Other than disclosed in the section headed "Related Party Transactions", in note 38 to the consolidated financial statements contained in this annual report, no contract of significance was entered into between the Company or any of its subsidiaries and any Controlling Shareholder or any of its subsidiaries during the year ended December 31, 2016 or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries was entered into during the year ended December 31, 2016 or subsisted at the end of the year.

DIRECTOR'S INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Other than disclosed in the section headed "Related Party Transactions" in note 38 to the consolidated financial statements contained in this annual report, no transaction, arrangement and contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2016.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the emoluments of the Directors and the highest paid individuals in the Group are set out in note 29 to the consolidated financial statements in this annual report.

For the year ended December 31, 2016, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2016.

The Company has also adopted the Pre-IPO Share Option Scheme and the Share Option Scheme as incentive for Directors and eligible participants. Details of the said schemes are set out under the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this annual report and in note 19 to the consolidated financial statements in this annual report.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2016, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

DEED OF NON-COMPETITION

On June 23, 2016, Dr. Mei, the Company's ultimate Controlling Shareholder, and Chelsea Grace, through which Dr. Mei holds equity interest in the Company entered into the deed of non-competition ("**Deed of Non-competition**") in favor of the Company, pursuant to which the Controlling Shareholders have irrevocably, jointly and severally given certain non-competition undertakings to the Company. Details of the Deed of Non-competition are set out in the section headed "Relationship with our Controlling Shareholders — Deed of Non-competition" in the Prospectus.

The Controlling Shareholders confirmed that they have complied with the Deed of Non-competition for the year ended December 31, 2016. The independent non-executive Directors have conducted such review for the year ended December 31, 2016 and also reviewed the relevant undertakings and are satisfied that the Deed of Non-competition has been fully complied with.

MANAGEMENT CONTRACTS

Other than the Directors' service contract and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended December 31, 2016.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceedings during the year ended December 31, 2016.

LOAN AND GUARANTEE

During the year ended December 31, 2016, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the Controlling Shareholders or any of their respective connected persons.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on September 19, 2016.

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate employees and Directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and Directors to participate in the growth and profitability of the Group.

On September 19, 2016 (the "**Date of Grant**"), options (exercisable for 10 years subject to vesting schedule as set out in the grant letter) to subscribe for an aggregate of 47,710,500 Shares were conditionally granted by the Company under the Pre-IPO Share Option Scheme to a total of three grantees, including two executive Directors. Such options were granted based on the performance of the grantees that have made important contributions or are important to the long term growth and profitability of the Group. The exercise price is HK$1.60 per share as determined by the Board taking into account of the grantees' contribution to the development and growth of the Group. Apart from the above share options, no options were granted under the Pre-IPO Share Option Scheme. In addition, no further options can be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The total number of Shares available for issue under the Pre-IPO Share Option Scheme is 47,710,500 Shares, representing approximately 3.0% of the issued share capital of the Company as at the date of this annual report.

Subject to the Pre-IPO Share Option Scheme, each option shall be vested in the following manner:

Tranche	Vesting Date
five percent (5%) of the Shares subject to an option so granted	third (3rd) anniversary of the offer date for an option
ten percent (10%) of the Shares subject to an option so granted	fourth (4th) anniversary of the offer date for an option
fifteen percent (15%) of the Shares subject to an option so granted	fifth (5th) anniversary of the offer date for an option
seventy percent (70%) of the Shares subject to an option so granted	sixth (6th) anniversary of the offer date for an option

Details of movement of the share options granted under the Pre-IPO Share Option Scheme for the year ended December 31, 2016 are set out below:

	Number of options					
Name of option holders	Outstanding as at September 19, 2016	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at December 31, 2016	Exercise Price
Directors of the Company						
Dr. FANG Yixin	15,903,500	–	–	–	15,903,500	HK$1.60
Dr. MEI Hong	15,903,500	–	–	–	15,903,500	HK$1.60
Other employees of the Group						
CAO Ying	15,903,500	–	–	–	15,903,500	HK$1.60
Total	47,710,500	–	–	–	47,710,500	

The Directors, who have been granted options under the Pre-IPO Share Option Scheme, have undertaken to the Company that they will not exercise the options granted to them under the Pre-IPO Share Option Scheme if as a result of which the Company would not be able to comply with the public float requirements of the Listing Rules.

The Pre-IPO Share Option Scheme does not fall within the ambit of, and are not subject to, the regulations under Chapter 17 of the Listing Rules. Details of the impact of the options granted under the Pre-IPO Share Option Scheme on the consolidated financial statements of the Company since the Date of Grant and the subsequent financial periods are set out under note 19 to the consolidated financial statements in this annual report.

Share Option Scheme

On September 19, 2016, the Company adopted the Share Option Scheme, which falls within the ambit of, and is subject to, the regulations under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 79,517,500 Shares (i.e. 5% of the aggregate of the Shares in issue on the Listing Date ("**Scheme Mandate Limit**") and as at the date of this annual report). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The Share Option Scheme will remain in force for a period of 10 years from September 19, 2016 and the options granted have a 10-year exercise period. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.

The exercise price of the option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

No share options have been granted or agreed to be granted under the Share Option Scheme during the year ended December 31, 2016.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at December 31, 2016, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) 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 and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Long position in ordinary Shares of the Company

Name of Director	Note	Capacity	Number of ordinary Shares interested (Note 1)	Approximate percentage+ of the Company's issued share capital
Dr. MEI Hong	2	Interest in controlled corporation	872,550,000	54.81%
Dr. FANG Yixin	3	Interest of spouse	872,550,000	54.81%

(B) Long position in underlying Shares of the Company — physically settled unlisted equity derivatives

Name of Director	Note	Capacity	Number of underlying shares in respect of the share options granted (Note 1)	Approximate percentage+ of the Company's issued share capital
Dr. MEI Hong	2	Beneficial owner	15,903,500	1.00%
Dr. FANG Yixin	3	Beneficial owner	15,903,500	1.00%

Notes:

(1) Details of the above share options granted by the Company are set out in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this annual report.

(2) Chelsea Grace was beneficially interested in the 872,550,000 Shares as at December 31, 2016. Under the SFO, Dr. Mei is deemed to be interested in all the Shares held by Chelsea Grace by reason of her 100% interest in its issued share capital and is also deemed to be interested in all the interests held by Dr. Fang as she is the wife of Dr. Fang. Dr. Mei is granted an option to subscribe for 15,903,500 Shares under the Pre-IPO Share Option Scheme.

(3) Dr. Fang is the husband of Dr. Mei. Therefore, Dr. Fang is deemed to be interested in Dr. Mei's interests in our Company. Dr. Fang is granted an option to subscribe for 15,903,500 Shares under the Pre-IPO Share Option Scheme.

\+ The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the issued Shares as at the date of this annual report.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this report, and to the best knowledge of the Directors, as at December 31, 2016, none of the Directors or the chief executive of the Company had any interests and/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 to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as is known to any Director or chief executive of the Company, as at December 31, 2016, the following corporations/persons (other than Directors or the chief executive of the Company) had interests of 5% or more in the issued shares of the Company according to the register of interests required to be kept by the Company under section 336 of the SFO:

Long position in ordinary Shares of the Company

Name	Note	Capacity	Number of ordinary shares interested	Approximate percentage+ of the Company's issued share capital
Chelsea Grace Holdings Limited		Beneficial owner	872,550,000	54.81%
Renaissance Healthcare Holdings Limited ("**Baring Investor**")		Beneficial owner	268,286,800	16.85%
The Baring Asia Private Equity Fund V, L.P.	1	Interest of a controlled corporation	268,286,800	16.85%
Baring Private Equity Asia GP V, L.P.	1	Interest of a controlled corporation	268,286,800	16.85%
Baring Private Equity Asia GP V Limited	1	Interest of a controlled corporation	268,286,800	16.85%
Jean Eric Salata	1	Interest of a controlled corporation	268,286,800	16.85%

Notes:

(1) Baring Investor is held as to 99.35% by The Baring Asia Private Equity Fund V, L.P.. Baring Private Equity Asia GP V, L.P. is the general partner of The Baring Asia Private Equity Fund V, L.P.. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited (the general partner of Baring Private Equity Asia GP V, L.P.). Jean Eric Salata disclaims beneficial ownership of such Shares, except to the extent of his economic interest in such entities. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Jean Eric Salata is therefore deemed to be interested in the Shares held by Baring Investor under the SFO.

\+ The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the issued Shares as at the date of this annual report.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2016, no other person had registered an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Pre-IPO Share Option Scheme and the Share Option Scheme as disclosed above, at no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of the Shares of, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's largest customer accounted for 3.5% of the Group's total revenue. The Group's five largest customers accounted for 6.5% of the Group's total revenue.

In the year under review, the Group's largest supplier accounted for 13.3% of the Group's total purchases. The Group's five largest suppliers accounted for 34.4% of the Group's total purchases.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

HUMAN RESOURCES

The Group had 3,579 employees as of December 31, 2016, as compared to 3,455 employees as of December 31, 2015. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in note 3.22 to the consolidated financial statements in this annual report.

CONNECTED TRANSACTION

During the year ended December 31, 2016, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed in this annual report pursuant to the requirements under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2016 are set out in note 38 to the consolidated financial statements in this annual report.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Period.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) in relation to the director's and officer's liability insurance is currently in force and was in force during the Period.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the CG Code as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Period.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report in this annual report.

DONATIONS

During the year ended December 31, 2016, the Group did not make any charitable donations (2015: Nil).

AUDITOR

The Shares were listed on the Stock Exchange on October 6, 2016, and there has been no change in auditors since the Listing Date. The consolidated financial statements of the Company for the year ended December 31, 2016 have been audited by PricewaterhouseCoopers, Certified Public Accountants.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2016, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Details of the environmental policies and performance of the Group are set out in the Environmental, Social and Governance Report in this annual report.

On behalf of the Board

Fang Yixin
Chairman

Hong Kong, March 31, 2017

Independent Auditor's Report

To the Shareholders of Rici Healthcare Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Rici Healthcare Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 88 to 180, which comprise:

- the consolidated balance sheet as at December 31, 2016;
- the consolidated income statement for the year then ended;
- 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 cash flow statement 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 December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the 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 identified in our audit are summarised as follows:

- Recognition of deferred tax assets arising from tax losses
- Impairment provision for trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred tax assets arising from tax losses	
Refer to Note 5(b) (Critical accounting estimates and judgements – Current and deferred income tax) and Note 12 (Deferred tax assets) to the consolidated financial statements As at December 31, 2016, the Group had deferred tax assets in respect of recoverable tax losses amounted to RMB29.06 million. Meanwhile, the Group did not recognise deferred tax assets of RMB9.42 million in relation to tax losses of RMB37.68 million incurred by the Company and certain investment holding subsidiaries within the Group. In assessing the amounts of deferred tax assets arising from tax losses that should be recognised, management exercised significant judgements to assess the probability that future taxable profit would be available against which the tax losses could be utilized. These included judgements about the amount and timing of future taxable profits relating to those subsidiaries that are currently recording operating losses. We focused on this area mainly because of the significance of amount and the judgement involved, especially in assessing the reasonableness of the profit forecasts for the relevant subsidiaries, which form the bases to assess whether future taxable profit is available and the eligibility to utilise against available tax losses.	We tested the deferred tax assets calculation schedule for mathematical accuracy, and agreed the future taxable profit projection and available tax loss information to underlying supporting evidence. In regard of the availability and eligibility of tax losses, we tested on a sample basis the tax loss information (including the respective expiry periods) to accounting records and supporting evidence including tax filings and correspondence with tax authorities. In regard of the taxable profit, we obtained the profit forecasts of the relevant operating subsidiaries prepared by management and checked the mathematical accuracy. We tested on a sample basis management's reconciliation of the profit forecasts to taxable profit calculations. With regards to the above profit forecasts: • We assessed the reasonableness of key input data and underlying assumptions adopted in the profit forecasts, especially the long-term revenue growth rates (which is the most significant assumption in the forecasts), by comparing them with management's approved budgets, recent actual performances and future business plans. • We challenged management on the adequacy of their sensitivity calculations as these calculations were most sensitive to assumptions of revenue growth rates. We calculated the degree to which these assumptions would need to move in order to result in future taxable profits insufficient to utilize current tax losses, and assessed management's assertions that such a movement is unlikely. We found that the Group's key estimates and judgements used in recognizing deferred tax assets arising from tax losses were supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment provision for trade receivables Refer to Note 3.15 (Trade receivables and other receivables), 5(c) (Critical accounting estimates and judgements – Impairment of trade receivables) and Note 14 (Trade receivables) to the consolidated financial statements As at December 31, 2016, the Group's gross trade receivables amounted to RMB139.84 million, against which an impairment provision of RMB8.88 million was set aside. Whereas, trade receivables of RMB16.80 million were past due but considered not impaired as at December 31, 2016. Management calculated the impairment provision at each period end, by performing specific assessment of recoverability and collective assessment based on risk characteristics, using the debtors' historical credit experience, ageing profile and based on assessment of the debtors' financial strengths. We focused on this area mainly because of the magnitude of the balances, and significant judgements were required to evaluate management's assessment of the recoverable amounts of trade receivables, especially in relation to its assessment of the debtors' financial strength and the amount and timing of future cash collections.	We understood and evaluated management's processes and controls over assessment of the recoverability of trade receivables. In respect of the aging profile of trade receivables (which is one of the key factors used by management in assessing recoverability), we tested the accuracy of the aging profile by tracing on a sample basis to supporting evidences, including contracts with the customers, and sales and payment records. We also obtained direct confirmations from sampled customers and tested reconciliation of the confirmed balances and the Group's recorded balances. We evaluated management's assessment of the expected cash collection of significant trade receivables by examining the payment and credit history, post-year end settlements, and credit search and other available external information. With respect to management's collective assessment of impairment of trade receivables, we assessed the appropriateness of grouping of the receivables based on their risk characteristics and management's evaluation of bad debt patterns within different aging groups by reference to historical records of the Group and other listed companies' provision policies and practices within the similar industry. Based on the above, we found that the management's assessment over adequacy of impairment provision for trade receivables was supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the Chairman's Statement and Management Discussion and Analysis sections of the Annual Report 2016 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Corporate Information, Milestones, Financial Summary, Profiles of Directors and Senior Management, Corporate Governance Report, Environmental, Social and Governance Report, and Directors' Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Corporate Information, Milestones, Financial Summary, Profiles of Directors and Senior Management, Corporate Governance Report, Environmental, Social and Governance Report, and Directors' Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

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 HKFRSs issued by the HKICPA 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, 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.

- 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 the 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 the 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 the 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 Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 31, 2017

Consolidated Balance Sheet

As at December 31, 2016

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property and equipment	7	**393,223**	384,486
Land use rights	8	**3,498**	3,598
Intangible assets	9	**8,388**	5,050
Investment in a joint venture	10	**3,959**	1,985
Deposits for long-term leases	11	**18,955**	12,839
Deferred income tax assets	12	**47,077**	35,293
Prepayments	17	**52,500**	19,685
		527,600	462,936
Current assets			
Inventories	13	**19,131**	19,686
Trade receivables	14	**130,956**	121,254
Other receivables	15	**11,111**	42,823
Prepayments		**8,966**	7,751
Amounts due from related parties	38	**1,000**	3,002
Cash and cash equivalents	16	**881,028**	233,658
		1,052,192	428,174
Total assets		**1,579,792**	891,110
Equity attributable to owners of the Company			
Share capital	18	**1,066**	—
Reserves	20	**946,235**	207,160
		947,301	207,160
Non-controlling interests		**3,454**	689
Total equity		**950,755**	207,849

Consolidated Balance Sheet

As at December 31, 2016

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	21	**4,633**	33,065
Other long-term liabilities	23	**46,195**	28,507
		50,828	61,572
Current liabilities			
Borrowings	21	**309,932**	251,057
Trade and other payables	24	**208,809**	193,325
Amounts due to related parties	38	**—**	131,824
Income tax payables		**16,904**	16,372
Deferred income	22	**40,693**	27,693
Current portion of other long-term liabilities	23	**1,871**	1,418
		578,209	621,689
Total liabilities		**629,037**	683,261
Total equity and liabilities		**1,579,792**	891,110

The notes on pages 94 to 180 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 88 to 180 were approved by the Board of Directors on March 31, 2017 and were signed on its behalf by:

Fang Yixin	**Lu Zhenyu**
Director	Director

Consolidated Income Statement

For the year ended December 31, 2016

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Revenue	25	**935,383**	802,796
Cost of sales	28, 29	**(581,252)**	(522,753)
Gross profit		**354,131**	280,043
Distribution costs and selling expenses	28, 29	**(76,350)**	(67,613)
Administrative expenses	28, 29	**(200,776)**	(151,628)
Other income	26	**14,229**	13,294
Other losses	27	**(859)**	(811)
Operating profit		**90,375**	73,285
Finance expenses	30	**(20,795)**	(22,477)
Finance income	30	**22,428**	731
Finance income/(expenses) — net	30	**1,633**	(21,746)
Share of results of a joint venture	10	**(1,026)**	(1,952)
Profit before income tax		**90,982**	49,587
Income tax expense	31	**(36,593)**	(20,471)
Profit for the year		**54,389**	29,116
Profit attributable to:			
Owners of the Company		**58,924**	28,982
Non-controlling interests		**(4,535)**	134
Profit for the year		**54,389**	29,116
Earnings per share for profit attributable to owners of the Company			
— Basic	33	**RMB0.04**	RMB0.02
— Diluted	33	**RMB0.04**	RMB0.02

The notes on pages 94 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Profit for the year	**54,389**	29,116
Other comprehensive income	**—**	—
Total comprehensive income for the year	**54,389**	29,116
Attributable to:		
Owners of the Company	**58,924**	28,982
Non-controlling interests	**(4,535)**	134
Total comprehensive income for the year	**54,389**	29,116

The notes on pages 94 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

	Note	Share capital	Reserves	Sub-total	Non-controlling interests	Total equity
		Attributable to Owners of the Company				
		RMB'000 (Note 18)	RMB'000 (Note 20)	RMB'000	RMB'000	RMB'000
Balance at January 1, 2015		–	557,318	557,318	11,036	568,354
Comprehensive income						
Profit for the year		–	28,982	28,982	134	29,116
Total comprehensive income		–	28,982	28,982	134	29,116
Capital contribution by owners of the Company	20(c)	–	343,103	343,103	–	343,103
Capital contribution by non-controlling interests of a subsidiary		–	–	–	1,500	1,500
Transactions with non-controlling interests	37	–	10,260	10,260	(10,260)	–
Changes in ownership interests in subsidiaries without change of control	20(d)	–	2,190	2,190	(1,590)	600
Deemed distribution to owners of the Company	2	–	(153,590)	(153,590)	(131)	(153,721)
Dividends	32	–	(581,103)	(581,103)	–	(581,103)
Total transaction with owners, recognized directly in equity		–	(379,140)	(379,140)	(10,481)	(389,621)
Balance at December 31, 2015		–	207,160	207,160	689	207,849
Balance at January 1, 2016		–	207,160	207,160	689	207,849
Comprehensive income						
Profit for the year		–	58,924	58,924	(4,535)	54,389
Total comprehensive income		–	58,924	58,924	(4,535)	54,389
Issuance of ordinary shares in connection with the Listing	18(v)	213	674,692	674,905	–	674,905
Capitalization issue	18(vi)	852	(852)	–	–	–
Issuance of ordinary shares in connection with the exercise of over-allotment option	18(v)	1	3,167	3,168	–	3,168
Pre-IPO share option scheme	19	–	3,144	3,144	–	3,144
Capital contribution by non-controlling interests of subsidiaries		–	–	–	7,300	7,300
Total transaction with owners, recognized directly in equity		1,066	680,151	681,217	7,300	688,517
Balance at December 31, 2016		1,066	946,235	947,301	3,454	950,755

The notes on pages 94 to 180 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended December 31, 2016

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Cash flow from operating activities			
Cash generated from operations	34	**241,964**	205,277
Interest paid		**(20,836)**	(22,311)
Income tax paid		**(47,845)**	(23,681)
Net cash generated from operating activities		**173,283**	159,285
Cash flow from investing activities			
Purchases of property and equipment		**(122,361)**	(109,980)
Purchases of intangible assets		**(4,808)**	(5,216)
Proceeds from disposal of property and equipment	34	**1,736**	144
Temporary funding provided to related parties	38	**(87)**	(543,933)
Repayments received from related parties		**87**	736,533
Interest received		**1,169**	443
Investment in a joint venture	10	**(3,000)**	—
Net cash (used in)/generated from investing activities		**(127,264)**	77,991
Cash flows from financing activities			
Transactions with non-controlling interests	37	**—**	300
Shareholder's loan from non-controlling interests of a subsidiary	24(a)	**—**	4,500
Capital contribution from non-controlling interests of subsidiaries		**7,600**	1,500
Capital contribution from owners of the Company	15(b)	**35,608**	296,992
Reorganization in relation to the acquisitions of Nantong Rich Hospital Co., Ltd. ("Nantong Rich Hospital")		**—**	(40,000)
Proceeds from bank borrowings		**432,050**	292,000
Repayments of bank borrowings		**(401,607)**	(318,752)
Temporary funding from related parties	38	**—**	13,800
Repayments to related parties		**(8,680)**	(17,581)
Repayments to Renaissance Healthcare Holding Limited ("Baring Investor")		**—**	(142,000)
Proceeds from issuance of ordinary shares in connection with the Listing — net		**682,680**	—
Payments for initial public offering fees		**(44,064)**	—
Deemed distribution to owners of the Company		**—**	(669)
Dividends	32	**(123,920)**	(440,109)
Net cash generated from/(used in) financing activities		**579,667**	(350,019)
Net increase/(decrease) in cash and cash equivalents		**625,686**	(112,743)
Cash and cash equivalents at beginning of the year		**233,658**	346,401
Exchange gains on cash and cash equivalents		**21,684**	—
Cash and cash equivalents at end of the year		**881,028**	233,658

The notes on pages 94 to 180 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1 GENERAL INFORMATION

Rici Healthcare Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands on July 11, 2014. The address of the Company’s registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company, an investment holding company and its subsidiaries (collectively, “the Group”) are principally engaged in the provision of general hospital services and medical examination services (the “Listing Businesses”) in the People’s Republic of China (“PRC”).

The Company’s shares was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on October 6, 2016 (the “Listing”).

These consolidated financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

2 REORGANIZATION

Prior to the incorporation of the Company and the completion of the reorganization as described below (the “Reorganization”), the Listing Businesses were carried out by Shanghai Rich Healthcare Management Company Limited (“Shanghai Rich Medical Exam”) and its subsidiaries and Nantong Rich Hospital controlled by Dr. Fang Yi Xin(“Dr. Fang”) and Dr. Mei Hong(“Dr. Mei”). In preparation for the Listing, the Group underwent the Reorganization to transfer the Listing Businesses to the Company. On June 30, 2015 upon completion of the Reorganization, the Listing Businesses have been operated solely by the Company and its subsidiaries and Shanghai Rich Medical Exam was no longer involved in the Listing Businesses. Upon completion of the Reorganization on June 30, 2015, the financial statements of Shanghai Rich Medical Exam were excluded from the consolidation financial statements of the Group and the assets and liabilities of Shanghai Rich Medical Exam were deemed to have been distributed to its equity holders.

Baring Investor completed the subscription for the exchangeable bonds issued by Chelsea Grace Holding limited (“Chelsea Grace”) at a principal amount of US dollar (“USD”) 67,715,000 in December 2014 at a consideration of RMB420,000,000, which are due in 2019 and exchangeable into the Company’s shares under certain conditions.

2 REORGANIZATION (continued)

Details of these assets and liabilities of Shanghai Rich Medical Exam as at June 30, 2015 were as follows:

	June 30, 2015 RMB'000
ASSETS	
Non-current assets	28,972
Current assets	301,893
Total assets	330,865
LIABILITIES	
Non-current liabilities	12,555
Current liabilities	164,589
Total liabilities	177,144
Net assets	153,721

The Reorganization was accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong institute of Certified Public Accountant (the "HKICPA") (Note 3.2.1(a)(i)).

3 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.

3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs 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 5.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standard, amendments and improvements to existing standards have been adopted by the Group for the financial year beginning on January 1, 2016 and are relevant to the Group's operations:

- *HKFRS 14 "Regulatory Deferral Accounts";*
- *Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11;*
- *Clarification of acceptable methods of depreciation and amortization – Amendments to HKAS 16 and HKAS 38;*

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

3.1.1 Changes in accounting policy and disclosures(continued)

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

- *Annual improvements to HKFRSs 2012 – 2014 cycle;*
- *Disclosure initiative – amendments to HKAS 1;*
- *Amendment to HKAS 27 "Equity method in separate financial statements";*
- *Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment entities: applying the consolidation exception".*

The adoption of the above new standard, amendments and improvements did not have any significant impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and amendments not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016 and have not been early adopted by the Group.

Amendments to HKAS 12, "Income taxes"

The HKICPA has issued amendments to HKAS 12, which is effective for annual periods beginning on or after January 1, 2017. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKAS 7, "Statement of cash flows"

The HKICPA has issued an amendment to HKAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, which is effective for annual periods beginning on or after January 1, 2017. The amendment is part of the HKICPA's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

3.1.1 Changes in accounting policy and disclosures (continued)

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

HKFRS 9, "Financial instruments"

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

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

HKFRS 9 must be applied for financial years commencing on or after January 1, 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before February 1, 2015. After that date, the new rules must be adopted in their entirety.

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

3.1.1 Changes in accounting policy and disclosures (continued)

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

HKFRS 15, "Revenue from contracts with customers"

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service — the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognized as an asset under HKFRS 15, and
- rights of return HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

HKFRS 15 is mandatory for financial years commencing on or after January 1, 2018.

Amendments to HKFRS 2, "Classification and Measurement of Share-based Payment Transactions"

The HKICPA has issued amendments to HKFRS 2, which is effective for annual periods beginning on or after January 1, 2018. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

3.1.1 Changes in accounting policy and disclosures (continued)

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

HKFRS 16, "Leases"

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,122,192,000, see Note 36. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

HKFRS 16 is mandatory for financial years commencing on or after January 1, 2019.

Amendments to HKFRS 10 and HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"

The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture, which is effective for annual periods on or after January 1, 2019. 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 management is in the process of assessing the impact of the above new standards and amendments on the financial statements of the Group.

3 Summary of significant accounting policies (continued)

3.2 Subsidiaries

3.2.1 Consolidation

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

(a) Business combinations

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.

(i) Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction cost attributable to the business combination is recorded in the consolidated income statement in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

3 Summary of significant accounting policies (continued)

3.2 Subsidiaries (continued)

3.2.1 Consolidation (continued)

(a) Business combinations (continued)

(i) Business combinations under common control (continued)

The consolidated financial statements of the Group have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated income statements, consolidated statements of comprehensive income, consolidated cash flow statements and consolidated statements of changes in equity of the Group for each of the years ended December 31, 2015 and 2016 have been prepared using the financial information of the companies engaged in the Listing Businesses, under the common control of Dr. Fang and Dr. Mei and now comprising the Group as if the current group structure had been in existence throughout each of the years ended December 31, 2015 and 2016 or since the respective dates of incorporation/establishment of the combining companies, or since the date when the combining companies first came under the control of Dr. Fang and Dr. Mei, whichever is a shorter period. The consolidated balance sheets of the Group as at December 31, 2015 and 2016 have been prepared to present the assets and liabilities of the companies now comprising the Group at these dates, as if the current group structure had been in existence as at these dates. The net assets and results of the Group were combined using the existing book values from the perspectives of Dr. Fang and Dr. Mei, the controlling shareholders.

(ii) Business combinations not under common control

The Group uses the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

3 Summary of significant accounting policies (continued)

3.2 Subsidiaries (continued)

3.2.1 Consolidation (continued)

(a) Business combinations (continued)

(ii) Business combinations not under common control (continued)

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

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

3 Summary of significant accounting policies (continued)

3.2 Subsidiaries (continued)

3.2.1 Consolidation (continued)

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

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

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized 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 recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

3.2.2 Separate financial statements

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

Impairment testing of the investments in subsidiaries is required upon receiving dividends 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.

3 Summary of significant accounting policies (continued)

3.3 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.4 Segment reporting

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

3 Summary of significant accounting policies (continued)

3.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial information is 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 recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income/(expenses) — net". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains/(losses)".

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

— all resulting currency translation differences are recognized in other comprehensive income.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

3 Summary of significant accounting policies (continued)

3.6 Property and equipment

Property and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Expected useful life
Buildings	30–50 years
Medical equipment	5–8 years
General equipment	5–10 years
Leasehold improvements	Shorter of lease term of 2–20 years or useful life
Others	5 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses" in the consolidated income statement.

Construction in progress represents property and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property and equipment and depreciated in accordance with the policy as stated above.

3 Summary of significant accounting policies (continued)

3.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual ownership rights exist. Land use rights represent upfront payments made for the leasehold land in the PRC. It is stated at cost less accumulative amortization and accumulated impairment losses, if any. Amortization is calculated using the straight-line method to allocate the cost of land use rights over the remaining period of the lease.

3.8 Intangible assets

Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. Computer software is carried at cost less accumulated amortization and impairment, if any. These costs are amortized over their estimated useful lives of 5 years.

3.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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.

3.10 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets, (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell.

3 Summary of significant accounting policies (continued)

3.11 Financial assets

3.11.1 Classification

The Group classifies its financial assets in the following categories: 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", "amounts due from related parties" and "cash and cash equivalents" in the consolidated balance sheet (Note 14, Note 15, Note 38 and Note 16).

3.11.2 Recognition and measurement

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

3.12 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 recognized amounts and there is an intention to settle on a net basis or realize 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.

3 Summary of significant accounting policies (continued)

3.13 Impairment of financial assets

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 reorganization, 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 recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

3 Summary of significant accounting policies (continued)

3.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories include pharmaceuticals and medical and other consumables, the cost of which is measured at actual purchase price. It excludes borrowing costs. Inventory cost in the medical examination centers is determined using the weighted average method. Inventory cost in the hospital is determined using the first in, first out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.15 Trade receivables and other receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of trade receivables 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 receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 3.11.2 for further information about the Group's accounting for trade receivables and other receivables and Note 3.13 for a description of the Group's impairment policies.

3.16 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

3.17 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.

3 Summary of significant accounting policies (continued)

3.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade 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 and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

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

3 Summary of significant accounting policies (continued)

3.20 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

3.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or 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 areas where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3 Summary of significant accounting policies (continued)

3.21 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized 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 recognized if they arise from the initial recognition of favorable lease term, 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 realized or the deferred income tax liability is settled.

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

Outside basis differences

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

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries 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 utilized.

3 Summary of significant accounting policies (continued)

3.21 Current and deferred income tax (continued)

(c) Offsetting

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

3.22 Employee benefits

(a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

(b) Housing funds, medical insurances and other social insurances

The PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period and recognized as employee benefit expense when they are due.

3 Summary of significant accounting policies (continued)

3.23 Share-based payments

(a) Equity-settled share-based payment transactions

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

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and 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 options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to equity.

3 Summary of significant accounting policies (continued)

3.23 Share-based payments (continued)

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

3.24 Provisions and contingent liabilities

Provisions are recognized 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. Provisions are not recognized for future operating losses.

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 recognized 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 recognized as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

3 Summary of significant accounting policies (continued)

3.25 Leases

3.25.1 Operating 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 consolidated income statement on a straight-line basis over the period of the lease.

3.25.2 Finance leases

The Group leases certain property and equipment. Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

3 Summary of significant accounting policies (continued)

3.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for service rendered and pharmaceuticals sold. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Revenue from general hospital service

The Group offers outpatient and inpatient hospital services to customers. The Group recognizes revenues when such services are provided to customers.

Such services are often provided with sales of pharmaceuticals. Revenue from sales of pharmaceutical is recognized when the pharmaceutical are delivered.

(b) Revenue from medical examination service

The Group offers medical examination and renders such services at the request of its customers. The Group recognizes revenues when the examination reports are issued and passed to the local couriers if hard copy reports are required by its customers, or when the examination reports are uploaded on line and can be viewed by the customers on line if hard copy reports are not required. The Group notifies its customers when their examination reports are delivered to the local couriers or ready to be viewed and downloaded online.

For most of individual customers, fees are collected upon the completion of the medical examination while corporate customers prepay a portion of service fees upon signing of the master contract, which is recognized as advance from customers by the Group. The Group records accounts receivables from its corporate customers when the examination reports of the employees of corporate customers have been delivered or uploaded on line but the Group has not received remaining payments from the corporate customers. All fees for services rendered are first charged against the advances from customers until the balances are entirely exhausted before the Group starts to invoice the corporate customers.

(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

3 Summary of significant accounting policies (continued)

3.27 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

3.28 Government grants

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

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

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

3.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group is engaged in the development, sale and management of properties solely in the PRC with almost all transactions denominated in RMB. In addition, the majority of the Group's assets and liabilities are denominated in RMB. Accordingly, the Group is not exposed to significant foreign currency risk, except for the bank deposits from the Company's initial public offering, which are denominated in Hong Kong Dollar ("HKD"), and the bank deposits denominated in USD.

The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At December 31, 2016, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax profit for the year would have been RMB17,199,000 (2015: RMB1,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of cash in bank.

At December 31, 2016, if RMB had weakened/strengthened by 5 % against USD with all other variables held constant, post-tax profit for the year would have been RMB12,883,000 (2015: RMB64,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of cash in bank.

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings from banks and other non-bank finance institutions.

Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 21.

As at December 31, 2015 and 2016 if interest rates had risen/fallen by 50 basis points with all other variables held constant, the Group's net profit for the year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Net profit increase/(decrease)		
— risen 50 basis points	**(1,448)**	(1,416)
— fallen 50 basis points	**1,448**	1,416

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, trade receivables and other receivables, amounts due from related parties and deposits for long-term leases included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

Cash and cash equivalents, were deposited in the major financial institutions, which the directors believe are of high credit quality.

The Group established policies in place to ensure that the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade receivables and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

The credit risk of hospital segment is from the recoverability of trade receivables and other receivables. The credit risk of medical examination segment is from the length of the overdue period of trade receivables and other receivables by corporate customers.

(c) Liquidity risk

Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions and issuing debt instruments and capital injection from shareholders, as necessary.

The table below analyzes the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
As at December 31, 2016					
Borrowings, including interest	**316,398**	**2,737**	**2,167**	**—**	**321,302**
Other long-term liabilities	**1,871**	**1,351**	**20,427**	**24,417**	**48,066**
Trade and other payables	**125,817**	**—**	**—**	**—**	**125,817**
	444,086	**4,088**	**22,594**	**24,417**	**495,185**
As at December 31, 2015					
Borrowings, including interest	260,787	29,610	4,966	—	295,363
Other long-term liabilities	1,418	2,213	9,356	16,938	29,925
Trade and other payables	123,642	—	—	—	123,642
Amounts due to related parties	131,824	—	—	—	131,824
	517,671	31,823	14,322	16,938	580,754

The interest on borrowings is calculated based on borrowings held as at December 31, 2015 and 2016, respectively. Floating-rate interests are estimated using the current interest rate as at December 31, 2015 and 2016, respectively.

4 Financial management (continued)

4.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2016 and 2015 are as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Total borrowings (Note 21)	**314,565**	284,122
Less: Cash and cash equivalents (Note 16)	**(881,028)**	(233,658)
Net debt	**(566,463)**	50,464
Total equity	**950,755**	207,849
Total capital	**384,292**	258,313
Gearing ratio (%)	**–147%**	20%

The decrease in gearing ratio during 2016 is resulted from the net proceeds from the Company's initial public offering.

5 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) Estimated useful lives and residual values of property and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property and equipment. This estimate is based on the historical experience of the actual useful lives of property and equipment of similar nature and functions. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

(b) Current and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

5 Critical accounting estimates and judgements (continued)

(b) Current and deferred income tax (continued)

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(c) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

(d) Provision for medical dispute

The Group may be subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical dispute claims brought by the patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each reporting period, and take into consideration the assessment and analysis of external lawyer and the total claim exposure. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Based on the assessment, the management believes that no material claims exposure or outstanding litigation on the medical dispute claim existed at the end of each reporting period and accordingly no additional provision was made. The situation is closely monitored by the management and provision will be made as appropriate. Where the actual claims are greater than expected, a material dispute claim expense may arise, which would be recognized in profit and loss for the period in which such a claim takes place.

6 Segment information

Management has determined the operating segments based on the information reviewed by the CODM for the purpose of allocating resources and assessing performance.

Management considers the business from a business perspective, and assesses the performance of the business segment based on segment profit without allocation of administrative expenses, interest income, interest expenses, other finance expense and income tax expense.

The amounts provided to management with respect to total assets and total liabilities are measured consistent with that of the financial statements. These assets are allocated based on the operations of segment. Investment in shares (classified as available-for-sale financial assets or financial assets at fair value through profit or loss) held by the Group are not considered to be segment assets but rather are managed by the treasury function. The measure of assets reviewed by the CODM does not include assets held for sale. The Group's interest-bearing liabilities are not considered to be segment liabilities but rather are managed by the treasury function.

6 Segment information (continued)

The Group manages its business by three operating segments based on their services, which is consistent with the way in which information is reported internally to the Group's CODM for the purpose of resources allocation and performance assessment:

(i) General hospital

The business of this segment is in Nantong, a city of Jiangsu Province. Revenue from this segment is derived from general hospital services provided by Nantong Rich Hospital.

(ii) Specialty hospital

The business of this segment is in Shanghai and Jiangsu Province. Revenue from this segment is derived from specialty hospital services.

(iii) Medical examination centers

The business of this segment is in Shanghai, Jiangsu Province and other provinces in China. Revenue from this segment is derived from medical examination services and clinic services.

6 Segment information (continued)

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

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
For the year ended December 31, 2016						
Revenue	313,035	—	651,098	—	(28,750)	935,383
Segment profit	89,541	—	188,240	—	—	277,781
Administrative expenses						(200,776)
Interest income						1,169
Interest expenses						(20,795)
Exchange gain						20,698
Other finance income						561
Total profit before income tax expense						90,982
Income tax expense						(36,593)
Profit for the year						54,389

6 Segment information (continued)

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

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
As at December 31, 2016						
Segment assets	472,340	112,720	1,055,937	754,479	(815,684)	1,579,792
Segment liabilities	188,572	17,247	679,780	62,069	(318,631)	629,037
Other information						
Addition to property and equipment, land use rights and intangible assets (Note 7, 8, 9)	36,575	1,245	58,124	–	–	95,944
Depreciation and amortization (Note 7, 8, 9)	14,585	–	67,032	–	–	81,617

6 Segment information (continued)

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

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
For the year ended December 31, 2015						
Revenue	297,695	—	525,435	—	(20,334)	802,796
Segment profit	86,896	—	125,534	—	—	212,430
Administrative expenses						(151,628)
Interest income						443
Interest expenses						(22,477)
Other finance income						288
Total profit before income tax expense						49,587
Income tax expense						(20,471)
Profit for the year						29,116

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
As at December 31, 2015						
Segment assets	429,048	—	783,294	208,378	(529,610)	891,110
Segment liabilities	183,306	—	638,396	176,169	(314,610)	683,261
Other information						
Addition to property and equipment, land use rights and intangible assets (Note 7, 8, 9)	24,547	—	90,802	—	—	115,349
Depreciation and amortization (Note 7, 8, 9)	10,867	—	57,995	—	—	68,862

7 Property and equipment

	Buildings RMB'000	Medical equipment RMB'000	General equipment RMB'000	Leasehold improvements RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2015							
Cost	223,740	204,806	29,700	127,277	5,905	26,715	618,143
Accumulated depreciation	(41,680)	(121,785)	(21,316)	(57,706)	(3,784)	—	(246,271)
Net book amount	182,060	83,021	8,384	69,571	2,121	26,715	371,872
Year ended December 31, 2015							
Opening net book amount	182,060	83,021	8,384	69,571	2,121	26,715	371,872
Additions	33	17,900	11,600	3,227	—	77,373	110,133
Transfer	—	40,519	—	57,918	—	(98,437)	—
Disposals (Note 27)	—	(318)	(312)	—	—	—	(630)
Depreciation (Note 28)	(5,178)	(27,300)	(3,474)	(31,198)	(767)	—	(67,917)
Deemed distribution to owners of the Company (Note 2)	(28,561)	—	(11)	(400)	—	—	(28,972)
Closing net book amount	148,354	113,822	16,187	99,118	1,354	5,651	384,486
At December 31, 2015							
Cost	191,375	250,405	40,220	186,718	5,905	5,651	680,274
Accumulated depreciation	(43,021)	(136,583)	(24,033)	(87,600)	(4,551)	—	(295,788)
Net book amount	148,354	113,822	16,187	99,118	1,354	5,651	384,486
Year ended December 31, 2016							
Opening net book amount	**148,354**	**113,822**	**16,187**	**99,118**	**1,354**	**5,651**	**384,486**
Additions	**—**	**16,157**	**7,417**	**—**	**34**	**67,528**	**91,136**
Transfer	**22,860**	**16,516**	**51**	**25,246**	**—**	**(64,673)**	**—**
Disposals (Note 27)	**—**	**(2,090)**	**(262)**	**—**	**—**	**—**	**(2,352)**
Depreciation (Note 28)	**(4,948)**	**(32,900)**	**(4,511)**	**(37,150)**	**(538)**	**—**	**(80,047)**
Closing net book amount	**166,266**	**111,505**	**18,882**	**87,214**	**850**	**8,506**	**393,223**
At December 31, 2016							
Cost	**214,235**	**276,302**	**46,318**	**211,964**	**5,914**	**8,506**	**763,239**
Accumulated depreciation	**(47,969)**	**(164,797)**	**(27,436)**	**(124,750)**	**(5,064)**	**—**	**(370,016)**
Net book amount	**166,266**	**111,505**	**18,882**	**87,214**	**850**	**8,506**	**393,223**

7 Property and equipment (continued)

(a) Depreciation of property and equipment has been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Cost of sales	**71,961**	56,574
Administrative expenses	**8,086**	11,343
	80,047	67,917

(b) As at December 31, 2016, buildings with a total carrying amount of RMB43,103,000 (2015: RMB44,698,000) were pledged for the Group's borrowings (Note 21).

8 Land use rights

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Cost	**4,698**	4,698
Accumulated amortization	**(1,200)**	(1,100)
Net book amount	**3,498**	3,598

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Opening net book value	**3,598**	3,698
Amortization charges (Note 28)	**(100)**	(100)
Closing net book value	**3,498**	3,598

(a) Amortization of the land use rights have been charged to administrative expenses in the consolidated income statement.

(b) As at December 31, 2016, land use rights with a total carrying amount of RMB3,498,000 (2015: RMB3,598,000) were pledged for the Group's borrowings (Note 21).

9 Intangible assets

	Computer software RMB'000
At January 1, 2015	
Cost	1,261
Accumulated amortization	(582)
Net book amount	679
Year ended December 31, 2015	
Opening net book amount	679
Additions	5,216
Amortization (Note 28)	(845)
Closing net book amount	5,050
At December 31, 2015	
Cost	6,477
Accumulated amortization	(1,427)
Net book amount	5,050
Year ended December 31, 2016	
Opening net book amount	**5,050**
Additions	**4,808**
Amortization (Note 28)	**(1,470)**
Closing net book amount	**8,388**
At December 31, 2016	
Cost	**11,285**
Accumulated amortization	**(2,897)**
Net book amount	**8,388**

Amortization of intangible assets have been charged to administrative expenses in the consolidated income statement.

10 Investment in a joint venture

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Opening balance	**1,985**	3,937
Investment in Shanghai Rich Meidi Management Consulting Co.,Ltd. (上海瑞慈美邸管理諮詢有限公司) ("Shanghai Meidi")	**3,000**	—
Share of results	**(1,026)**	(1,952)
Ending balance	**3,959**	1,985

The particulars of the joint venture of the Group during the years, which is unlisted, are set out as follows:

Company name	Country/date of incorporation	Paid-in capital	Equity interests held As at December 31, 2016	2015	Principal activities
Shanghai Meidi	October 29, 2013, Shanghai, the PRC	RMB15,000,000	**60%**	60%	Investment holding

Note: On October 29, 2013, the Group and Medical Care Service Company Inc., a company incorporated in Japan and a third party, jointly established Shanghai Meidi with a total paid-in capital of RMB10,000,000.

On August 19, 2014, Nantong Rich Meidi Nursing Home, Co., Ltd. (南通瑞慈美邸護理院有限公司) ("Nantong Meidi") was incorporated by Shanghai Meidi as its wholly-owned subsidiary, which is principally engaged in providing general hospital services.

The registered capital of Shanghai Meidi was increased from RMB10,000,000 to RMB15,000,000 upon approval by the board of directors and the local government in December 2015. The additional paid-in capital of RMB5,000,000 was subsequently injected to Shanghai Meidi by the Group and Medical Care Service Company Inc. in January 2016 in proportion to their respective equity interests.

11 Deposits for long-term leases

The Group paid deposits for operating leases of certain medical examination centers, which are due over 1 year from balance sheet date and are recoverable at the end of the lease term. The fair values of deposits for long-term operating lease are approximately RMB13,270,000 and RMB9,320,000 as at December 31, 2016 and 2015, respectively, which are determined using the expected future refunds discounted at market interest rates at each year end. The fair values are at level 2.

12 Deferred income tax

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered within 12 months	**9,773**	8,985
— to be recovered after more than 12 months	**37,304**	26,308
	47,077	35,293

The gross movement on the deferred income tax account is as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At January 1,	**35,293**	25,783
Credited to the income statements	**11,784**	9,510
At December 31,	**47,077**	35,293

12 Deferred income tax (continued)

Movement in deferred income tax assets for both years ended December 31, 2016 and 2015, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses carried forward RMB'000	Assets impairment RMB'000	Accruals and deferred income RMB'000	Pre-IPO share option scheme RMB'000	Other long-term liabilities RMB'000	Total RMB'000
At January 1, 2015	12,203	2,762	6,390	–	4,428	25,783
Credited/(charged) to the income statements	10,216	1,728	(4,381)	–	1,947	9,510
At December 31, 2015	22,419	4,490	2,009	–	6,375	35,293
Credited/(charged) to the income statements	6,641	(700)	2,158	760	2,925	11,784
At December 31, 2016	**29,060**	**3,790**	**4,167**	**760**	**9,300**	**47,077**

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB9,420,000 (2015:RMB2,962,000) in respect of tax losses amounting to RMB37,681,000 (2015:RMB11,849,000) as at December 31, 2016. All these tax losses will expire within five years.

13 Inventories

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Pharmaceuticals	**12,311**	14,210
Medical and other consumables	**6,820**	5,476
	19,131	19,686
Less: Write-down to net realizable value	**—**	—
	19,131	19,686

The cost of inventories recognized as expense and included in "cost of sales" amounted to RMB158,451,000 for the year ended December 31, 2016 (2015:RMB149,824,000).

14 Trade receivables

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**139,840**	138,514
Less: Provision for impairment of trade receivables	**(8,884)**	(17,260)
	130,956	121,254

As at December 31, 2016 and 2015, the fair value of trade receivables of the Group approximated their carrying amounts.

14 Trade receivables (continued)

The aging analysis of trade receivables are as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables		
— Up to 3 months	**79,652**	101,467
— 3 to 6 months	**33,975**	19,483
— 6 months to 1 year	**19,087**	6,580
— 1 to 2 years	**5,666**	3,978
— 2 to 3 years	**981**	4,304
— 3 to 4 years	**316**	1,208
— 4 to 5 years	**81**	1,273
— Over 5 years	**82**	221
	139,840	138,514

As of December 31, 2016, trade receivables of RMB16,797,000 (2015:RMB16,718,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables		
— 3 to 6 months	**11,324**	16,490
— 6 months to 1 year	**5,473**	228
	16,797	16,718

14 Trade receivables (continued)

As of December 31, 2016, trade receivables of RMB8,884,000 (2015:RMB17,260,000) were impaired. The aging of these receivables is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables		
— Up to 3 months	**622**	898
— 3 to 6 months	**59**	191
— 6 months to 1 year	**1,077**	5,187
— 1 to 2 years	**5,666**	3,978
— 2 to 3 years	**981**	4,304
— 3 to 4 years	**316**	1,208
— 4 to 5 years	**81**	1,273
— Over 5 years	**82**	221
	8,884	17,260

Movements of impairment of trade receivables are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**17,260**	10,263
(Reversal)/provision for receivables impairment	**(856)**	6,997
Receivables written off as uncollectible	**(7,520)**	—
At the end of the year	**8,884**	17,260

The carrying amounts of the Group's trade receivables are all denominated in RMB.

15 Other receivables

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Staff advance	**3,204**	2,654
Deposits	**5,495**	2,471
Deferred initial public offering fees (a)	**—**	2,750
Receivables for capital injection (b)	**—**	35,608
Others	**2,412**	284
	11,111	43,767
Less: Provision for impairment of other receivables	**—**	(944)
	11,111	42,823

As at December 31, 2016 and 2015, the fair value of other receivables of the Group approximated their carrying amounts.

(a) Deferred initial public offering fees represent legal and other professional fees relating to the IPO of the Company's shares, which was deducted from equity upon completion of the IPO.

(b) The balances as at December 31, 2015 represented the receivable for capital injection due from shareholder Victory Ovation Pte Ltd. ("Victory").

On December 25, 2015, Victory subscribed 10,627 ordinary shares of the Company and became a shareholder of the Company (Note 18 (iv)). As at December 31, 2015, Victory did not yet pay its subscribed capital amounting to USD5,483,532 (equivalent to RMB35,608,000) to the Company, which was recorded as an other receivable as at December 31, 2015 and has been settled in January 2016.

15 Other receivables (continued)

The carrying amounts of the Group's other receivables are denominated in the following currencies:

	As at December 31, 2016 RMB'000	2015 RMB'000
RMB	**10,883**	5,723
USD	**—**	37,100
HKD	**228**	—
	11,111	42,823

16 Cash and cash equivalents

	As at December 31, 2016 RMB'000	2015 RMB'000
Cash at bank and on hand		
— Denominated in RMB	**279,384**	232,357
— Denominated in USD	**257,663**	1,290
— Denominated in HKD	**343,981**	11
	881,028	233,658

17 Prepayments

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Prepayment for equipment	**37,260**	15,365
Prepayment for buildings	**12,000**	—
Prepayment for lease contract (a)	**3,240**	4,320
	52,500	19,685

(a) The balance represents the prepayment for lease contract relating to Guangzhou Rich Guojin Clinic Co., Ltd. acquired by the Group on the acquisition date in 2014. The costs incurred to acquire such prepayments are amortized over the estimated useful lives of 52 months. Amortization amounting to RMB1,080,000 for the year ended December 31, 2016 (2015:RMB1,080,000) have been charged to cost of sales in the consolidated income statement.

18 Share capital

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital
		RMB'000
As at July 11, 2014 (date of incorporation) (i)	1	—
As at December 31, 2014	1	—
Issuance of ordinary shares (ii)	99	—
Subdivision of ordinary shares (iii)	999,900	—
Issuance of ordinary shares pursuant to the subscription rights (iv)	60,225	—
As at December 31, 2015	1,060,225	—
Issuance of ordinary shares in connection with the Listing (v)	318,080,000	213
Capitalization issue (vi)	1,271,209,775	852
Issuance of ordinary shares in connection with the exercise of over-allotment option (v)	1,729,000	1
As at December 31, 2016	1,592,079,000	1,066

18 Share capital (continued)

(i) The Company was incorporated in the Cayman Islands on July 11, 2014 with an initial authorized share capital of USD1,000,000 divided into 1,000,000 ordinary shares of par value of USD1 each. On the same date of incorporation, one ordinary share was allotted and issued as fully paid at par to Dr. Mei and was transferred to Chelsea Grace subsequently.

(ii) On December 14, 2015, the Company allotted and issued 99 ordinary shares to Chelsea Grace of par value of USD1 each, which was issued and fully paid.

(iii) On December 14, 2015, the authorized share capital of the Company was subdivided from 1,000,000 shares of USD1 each to 10,000,000,000 shares of USD0.0001 each and the issued share capital of the Company was subdivided from 100 shares of USD1 each to 1,000,000 shares of USD0.0001 each pursuant to the shareholder's resolution dated December 14, 2015.

(iv) Pursuant to the directors' resolution dated December 25, 2015, Baring Investor, Fengyuan (International) Investment Holding Limited ("Fengyuan") and Victory exercised their subscription rights to subscribe 16,464, 33,134 and 10,627 ordinary shares of the Company, respectively (Note 20 (c)).

(v) On October 6, 2016, the Company issued 318,080,000 new ordinary shares of USD0.0001 each at HKD2.56 per share in connection with its global offering and commencement of the listing of its shares on the Stock Exchange on the same date and raised gross proceeds of approximately HKD814,285,000 (equivalent to RMB703,298,000). The excess over the par value of RMB213,000 for the 318,080,000 shares net of the transaction costs was credited to share premium account with an amount of RMB674,692,000.

On October 28, 2016, the Company issued 1,729,000 new ordinary shares of USD0.0001 each at HKD2.56 per share in connection with the exercise of over-allotment option and raised gross proceeds of approximately HKD4,426,000 (equivalent to RMB3,873,000). The excess over the par value of RMB1,000 for the 1,729,000 shares net of the transaction costs was credited to share premium account with an amount of RMB3,167,000.

(vi) Pursuant to a shareholders' resolution dated June 23, 2016, the Company capitalized an amount of USD127,121 (approximately RMB852,000) on October 6, 2016, standing to the credit of its share premium account and to appropriate such amount as capital to pay up 1,271,209,775 shares in full at par to the then shareholders of the Company in proportion to their then respective shareholdings in the Company (the "Capitalization Issue").

All issued shares during the year rank pari passu with the then existing shares.

19 Share-based payments

(a) Pre-IPO Share Option Scheme

The Group approved and launched the Pre-IPO share option scheme on September 19, 2016. Pursuant to the Pre-IPO share option scheme, two directors and one employee were granted the Pre-IPO share options to subscribe for up to 47,710,500 shares of the Company. The Pre-IPO share options will vest in four tranches at the third, the fourth, the fifth and the sixth anniversaries of the offer date and will only become exercisable from the respective vesting dates up to the tenth anniversary of the offer date. The subscription price payable upon the exercise of any Pre-IPO share option is fixed at HKD1.60.

19 Share-based payments (continued)

(a) Pre-IPO Share Option Scheme (continued)

As at December 31, 2016, 47,710,500 outstanding options were not exercisable as they have not yet been vested. These options with an exercise price of HKD1.60 per share upon vesting will be expired on September 19, 2026.

The fair value of the options granted determined using the binomial tree model for option value was HKD65,573,946, which was subject to a number of assumptions and with regard to the limitation of the model. The options have been divided into four tranches according to different vesting periods.

The significant input to the model are summarized as below:

Spot price (HKD)	2.56
Strike price(HKD)	1.60
Volatility	37.82%
Dividend yield	1.04%
Expected option life (years)	10.0
Annual risk-free interest rate	1.40%
Post-vesting forfeiture rate	5.00%
Options exercise multiple	2.8

The volatility is determined based on the volatility of the comparable companies as of September 19, 2016. See Note 28 for the total expense recognized in the consolidated income statement for share options granted to the selected directors and employee.

(b) Share Option Scheme

A share option scheme was conditionally approved and adopted pursuant to a resolution of the shareholders of the Company passed on September 19, 2016. On and subject to the terms of the share option scheme, the board shall be entitled at any time within ten years after September 19, 2016 to offer to grant to any non-executive director or independent non-executive director of the Company or any eligible employees of the Company as the board may in its absolute discretion select, and subject to such conditions as the board may think fit, an option to subscribe for such number of shares as the board may determine at the subscription price.

No option has been granted under the share option scheme as at December 31, 2016.

20 Reserves

	Share premium RMB'000	Merger and capital reserves RMB'000	Statutory reserves and other reserves RMB'000	Pre-IPO share option scheme RMB'000	Retained earnings/ (Accumulated losses) RMB'000 (a)	Total RMB'000
At January 1, 2015	278,000	109,874	155,815	—	13,629	557,318
Profit for the year	—	—	—	—	28,982	28,982
Appropriation to statutory reserves (b)	—	—	5,983	—	(5,983)	—
Capital contribution by owners of the Company (c)	343,103	—	—	—	—	343,103
Disposal of interests in subsidiaries without loss of control (Note 37)	—	2,190	—	—	—	2,190
Transactions with non-controlling interests (Note 37)	—	10,260	—	—	—	10,260
Deemed distribution to owners of the Company (d)	—	(75,770)	(479)	—	(77,341)	(153,590)
Dividends (e)	(581,103)	—	—	—	—	(581,103)
At December 31, 2015	40,000	46,554	161,319	—	(40,713)	207,160
At January 1, 2016	**40,000**	**46,554**	**161,319**	**—**	**(40,713)**	**207,160**
Profit for the year	**—**	**—**	**—**	**—**	**58,924**	**58,924**
Appropriation to statutory reserves (b)	**—**	**—**	**7,736**	**—**	**(7,736)**	**—**
Issuance of ordinary shares in connection with the Listing (Note 18 (v))	**674,692**	**—**	**—**	**—**	**—**	**674,692**
Capitalization issue (Note 18 (vi))	**(852)**	**—**	**—**	**—**	**—**	**(852)**
Issuance of ordinary shares in connection with the exercise of over-allotment option (Note 18 (v))	**3,167**	**—**	**—**	**—**	**—**	**3,167**
Pre-IPO share option scheme (Note 19)	**—**	**—**	**—**	**3,144**	**—**	**3,144**
At December 31, 2016	**717,007**	**46,554**	**169,055**	**3,144**	**10,475**	**946,235**

20 Reserves (continued)

(a) The retained earnings of Nantong Rich Hospital as at June 30, 2014 when Nantong Rich Hospital ceased to be a "not-for-profit medical organization" amounted to RMB138,950,000. It is non-distributable and shall be used for the hospital's future development according to the requirements of local authorities.

(b) In accordance with the Company Law of the PRC and the articles of association of the PRC subsidiaries, these subsidiaries registered in the PRC shall appropriate 10% of its annual statutory profit (after offsetting any prior years' losses) to the statutory surplus reserve ("SSR") account. When the balance of SSR reaches 50% of the registered capital/share capital of these subsidiaries, any further appropriation is optional. The SSR can be utilized to offset prior years' losses or to increase paid-in capital.

The SSR are non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations.

(c) Chelsea Grace, the Company's parent company, issued exchangeable bonds with a consideration amount of RMB420,000,000 on December 31, 2014 to Baring Investor. After that, Chelsea Grace injected cash of RMB278,000,000 on December 31, 2014 and RMB142,000,000 on January 5, 2015 into the Company respectively as capital contribution.

On December 25, 2015, Baring Investor, Fengyuan and Victory exercised all their respective subscription rights with total consideration of USD31,076,100 (equivalent to RMB201,103,000) to subscribe 60,225 ordinary shares of the Company, among which, USD6 (equivalent to RMB38) was recorded as share capital for 60,225 ordinary shares and USD31,076,094 (equivalent to RMB201,102,962) was recorded as share premium (Note 18 (iv)).

(d) Upon completion of the Reorganization, the assets and liabilities of Shanghai Rich Medical Exam were excluded from the consolidated financial statements of the Group and were deemed to be distributed to owners of the Company (Note 2).

(e) Pursuant to the directors' resolution dated June 24, 2015, the Company declared an interim dividend of RMB380,000,000 from the amounts standing at the share premium account of the Company to Chelsea Grace. The Company has paid dividend of RMB293,427,000 as at December 31, 2015 and signed an agreement to net off the dividend of RMB6,590,000 with the receivables due from Chelsea Grace. The remaining dividend of RMB79,983,000 was recorded as the amounts due to related parties as at December 31, 2015, which has been subsequently paid in June 2016.

Pursuant to the directors' resolution dated December 25, 2015, the Company declared an interim dividend of USD31,076,100 (equivalent to RMB201,103,000) from the amounts standing at the share premium account of the Company to its shareholders on a pro rata basis, of which USD29,310,977, USD481,680, USD972,682 and USD310,761 shall be payable in cash to Chelsea Grace, Baring Investor, Fengyuan and Victory, respectively. According to certain agreements dated on December 25, 2015 and December 26, 2015, Chelsea Grace assigned dividend of USD8,014,526 to Baring Investor and USD669,793 to Fengyuan, respectively.

As at December 31, 2015, USD14,171,226 (equivalent to RMB91,706,000) was paid to Chelsea Grace, USD8,495,424 (equivalent to RMB54,977,000) was paid to Baring Investor and the remaining total amount of USD8,409,450 (equivalent to RMB54,420,000) was not yet paid, among which, USD6,455,432 (equivalent to RMB41,919,000) due to Chelsea Grace was recorded as the amounts due to related parties (Note 38), which have been paid in 2016, USD1,642,475 (equivalent to RMB10,629,000) due to Fengyuan was netting off with the receivable due from Fengyuan for the capital injection (Note 18 (iv)), and USD310,761 (equivalent to RMB2,018,000) due to Victory was recorded as dividend payable which has been paid in January 2016 (Note 24).

21 Borrowings

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Non-current:		
— Bank borrowings — secured and/or guaranteed (i)	**31,190**	57,747
— Other borrowings (ii)	**1,875**	14,375
Less: Current portion of non-current borrowings	**(28,432)**	(39,057)
	4,633	33,065
Current:		
— Bank borrowings — secured and/or guaranteed (i)	**281,500**	201,000
— Short-term borrowings from a micro-credit company (iii)	**—**	11,000
Add: Current portion of non-current borrowings	**28,432**	39,057
	309,932	251,057
Total borrowings	**314,565**	284,122

(i) The Group's bank borrowings are secured by property and equipment (Note 7), land use right (Note 8) and guaranteed by subsidiaries of the Company for each other or by related parties (Note 38).

(ii) The balance represents the loan borrowed with a principal amount of RMB37,500,000 from Yuan Dong International Leasing Co., Ltd. in 2014, which was secured by Nantong Rich Real Estate Development Co., Ltd. and Shanghai Rich Medical Exam and is bearing a floating interest rate stipulated by the People's Bank of China plus 0.45% per annum. Such security was released upon Listing.

The Group paid a deposit of RMB7,500,000 to Yuan Dong International Leasing Co., Ltd. in 2014, which will be used to net off the last two instalments of principal repayment in accordance with the loan agreement. As at December 31, 2016, the carrying amount of the loan was RMB1,875,000 (2015:RMB14,375,000).

(iii) The balance represents the loan borrowed from Zhangjiang Microcredit Co., Ltd., a micro-credit company, which was guaranteed by Dr. Fang and Dr. Mei. As at December 31, 2015, the balance was RMB11,000,000 with an annual interest rate of 11.00%, which was matured and repaid in May 2016.

21 Borrowings (continued)

(a) The borrowings are all denominated in RMB.

(b) The maturity of borrowings is as follows:

	As at December 31, 2016 RMB'000	As at December 31, 2015 RMB'000
Within 1 year	**309,932**	251,057
Between 1 and 2 years	**2,557**	28,432
Between 2 and 5 years	**2,076**	4,633
Over 5 years	**—**	—
	314,565	284,122

(c) The weighted average effective interest rates as at December 31, 2016 and 2015 were as follows:

	As at December 31, 2016 RMB'000	As at December 31, 2015 RMB'000
Bank borrowings	**5.37%**	6.84%
Other borrowings	**5.20%**	5.35%
Short-term borrowings from a micro-credit company	**11.00%**	11.00%

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less RMB'000	6–12 months RMB'000	1–5 years RMB'000	Total RMB'000
Borrowings:				
As at December 31, 2015	246,375	6,557	31,190	284,122
As at December 31, 2016	267,779	45,786	1,000	314,565

21 Borrowings (continued)

(e) The fair value of borrowings approximates their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.41% as at December 31, 2016 (2015: 6.91%) are within level 2 of the fair value hierarchy.

22 Deferred income

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Prepayment from sales of medical examination cards (a)	**34,849**	21,532
Government grants (b)	**5,844**	6,161
	40,693	27,693

(a) It represents the prepayment received from sales of medical examination cards, which will be recognized in profit or loss when medical examination services are rendered to the customers.

(b) Government grants:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**6,161**	6,434
Additions	**—**	138
Transfer to income statements	**(317)**	(411)
At the end of the year	**5,844**	6,161

23 Other long-term liabilities

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Accrued rental expenses	**48,066**	29,925
Less: Current portion	**(1,871)**	(1,418)
	46,195	28,507

The operating rental expenses of the Group are amortized on a straight-line basis over the entire lease period, including the grace period granted by the lessors, if any. Differences between the operating rental expenses and cash payments are included in other long-term liabilities.

24 Trade and other payables

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade payables due to third parties	**89,064**	91,622
Advances from customers	**58,832**	54,031
Staff salaries and welfare payables	**22,357**	14,909
Payables for purchase of property and equipment	**10,391**	5,721
Loan from non-controlling interests of a subsidiary (a)	**4,500**	4,500
Accrued professional service fees	**3,500**	—
Accrued taxes other than income tax	**1,803**	743
Interest payables	**428**	469
Accrued initial public offering fees	**317**	3,572
Payable to staff canteen service provider	**—**	4,477
Dividend payable to a shareholder (Note 20(e))	**—**	2,018
Others	**17,617**	11,263
	208,809	193,325

24 Trade and other payables (continued)

(a) The balance represent a shareholder's loan due to the non-controlling interests of a subsidiary, which is unsecured and non-interest bearing.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
RMB	**208,708**	188,258
USD	**—**	5,067
HKD	**101**	—
	208,809	193,325

The aging analysis of the trade payables based on invoice date is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
— Up to 3 months	**73,755**	59,263
— 3 to 6 months	**3,826**	18,885
— 6 months to 1 year	**1,664**	6,185
— 1 to 2 years	**4,638**	993
— 2 to 3 years	**759**	1,409
— Over 3 years	**4,422**	4,887
	89,064	91,622

The normal credit term of the Group is 30 days to 90 days. As at December 31, 2016 and 2015, all trade and other payables of the Group were non-interest bearing, and their fair value approximated to their carrying amounts due to their short maturities.

25 Revenue

Revenue of the Group consists of the following:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Hospital		
Outpatient pharmaceutical income	**34,836**	35,480
Outpatient service income	**39,328**	34,280
Inpatient pharmaceutical income	**119,482**	121,362
Inpatient service income	**91,538**	86,843
Medical Examination		
Examination service	**642,708**	521,100
Management service fee and others	**7,491**	3,731
	935,383	802,796

26 Other income

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Government grants (a)	**9,690**	7,113
Rental income	**771**	788
Income of a promotion event (b)	**—**	3,932
Others	**3,768**	1,461
	14,229	13,294

26 Other income (continued)

(a) The government grants mainly represent (1) allowance from Nantong Economic and Technological Development Zone Management Committee of RMB5 million during the year ended December 31, 2016 (2015: RMB5 million), as an encouragement for companies to expand and develop private hospital and healthcare institutes in Nantong. Pursuant to the approval by Nantong Economic and Technological Development Zone Management Committee, the Company was entitled to such government grants of RMB4 million each year for 3 years from 2012 to 2014 and RMB5 million each year for 5 years from 2015 to 2019; (2) allowance from Jiangsu Provincial Commission of Health and Family Planning of RMB1.5 million during the year ended December 31, 2016 (2015: Nil), as the establishment of key specialty and medical laboratories, training of medical personnel and purchase of medical equipment, and (3) the other government grants totally RMB3.2 million for the year ended December 31, 2016 (2015: RMB2.1 million) from local government.

(b) The amount represents the income received from Jiangsu Tayoi Biological Technology Co., Ltd., China Merchants Bank Shanghai Branch, Shanghai Rich Cosmetics Co., Ltd., Chacha Food Co., Ltd. and Hangzhou Renshengguan Biotechnology Co., Ltd. amounting to RMB2,913,000, RMB485,000, RMB291,000, RMB194,000 and RMB49,000, respectively, which co-sponsored a promotion event in December 2015. The Group incurred total expenses of RMB5,949,000 in connection with this promotional event, which have been charged to distribution costs and selling expenses for the year ended December 31, 2015.

27 Other losses

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Losses on disposal of property and equipment	**616**	486
Others	**243**	325
	859	811

28 Expenses by nature

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Employee benefits expense	**295,356**	276,827
Operating lease rental expenses	**110,796**	76,616
Pharmaceutical costs	**88,237**	87,688
Depreciation and amortization	**81,617**	68,862
Medical consumables costs	**70,214**	62,136
Outsourced testing expenses	**44,836**	33,998
Initial public offering fees	**37,966**	8,905
Utility expenses	**30,830**	28,887
Office expenses	**20,772**	18,874
Advertising expenses	**20,246**	25,040
Entertainment expenses	**17,992**	11,969
Maintenance expenses	**7,327**	9,072
Travel expenses	**6,094**	4,781
Auditor's remuneration		
— Audit services	**2,900**	953
— Non-audit services	**600**	—
Stamp duty and other taxes	**2,780**	1,898
Washing charge	**1,773**	1,731
Working meal	**1,743**	1,752
Other medical disputes expenses	**1,616**	729
Professional service charge	**1,579**	1,299
Security costs	**774**	712
Medical risk insurance	**740**	680
(Reversal)/provision for receivables impairment	**(1,800)**	8,213
Other expenses	**13,390**	10,372
	858,378	741,994

29 Employee benefits expense (including directors and senior management's emoluments)

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Salaries, wages and bonuses	**235,597**	227,499
Pension	**25,564**	24,898
Other welfare benefit expenses	**31,051**	24,430
Pre-IPO share option expenses (Note 19)	**3,144**	—
	295,356	276,827

(a) Directors' and chief executive's emoluments

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

Name of director	Fees RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Other social welfares RMB'000	Pre-IPO share option scheme RMB'000	Total RMB'000
Year ended December 31, 2015:							
Dr. Fang (iii)	—	300	—	50	12	—	362
Dr. Mei (iii)	—	150	—	15	12	—	177
Mr. Lu (i)	—	552	—	40	9	—	601
Ms. Jiao Yan (ii)	—	—	—	—	—	—	—
	—	1,002	—	105	33	—	1,140
Year ended December 31, 2016:							
Dr. Fang (iii)	**—**	**300**	**—**	**50**	**12**	**1,048**	**1,410**
Dr. Mei (iii)	**—**	**150**	**—**	**15**	**12**	**1,048**	**1,225**
Mr. Lu (i)	**—**	**600**	**—**	**48**	**11**	**—**	**659**
Ms. Jiao Yan (ii)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Dr. Wang Yong (ii)	**150**	**—**	**—**	**—**	**—**	**—**	**150**
Dr. Wang Weiping (ii)	**150**	**—**	**—**	**—**	**—**	**—**	**150**
Ms. Wong Sze Wing (ii)	**150**	**—**	**—**	**—**	**—**	**—**	**150**
	450	**1,050**	**—**	**113**	**35**	**2,096**	**3,744**

29 Employee benefits expense (including directors and senior management's emoluments) (continued)

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

(i) The chief executive officer of the Company is Mr.Lu, who joined in the Group in November 2013 and was appointed as the chief executive officer and executive director of the Company in February 2016.

(ii) Dr. Wang Yong, Dr. Wang Weiping and Ms. Wong Sze Wing were appointed as independent non-executive directors of the Company in June 2016. Ms. Jiao Yan joined the Group in February 2015 and was redesignated as a non-executive director of the Company in March 2016.

(iii) Dr. Fang was appointed as the chairman and executive director of the Company in February 2016. Dr. Mei was redesignated as the executive director of the Company in March 2016.

(b) Five highest paid individuals

During the year ended December 31, 2016, the five individuals whose emoluments were the highest in the Group include three (2015: one) directors for the year ended December 31, 2016 whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2015: four) individuals are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,787**	1,730
Pension	**118**	222
Bonuses	**—**	—
	1,905	1,952

The emoluments fell within the following bands:

	Year ended December 31,	
	2016	2015
Emoluments bands (in HKD)		
1,000,000 and below	**1**	4
1,000,001 to 2,000,000	**1**	—

29 Employee benefits expense (including directors and senior management's emoluments) (continued)

(c) During the years, no director or any of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

(d) No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

30 Finance income/(expenses) – net

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Interest on borrowings	**(20,795)**	(22,477)
Interest income	**1,169**	443
Exchange gains — net	**20,698**	—
Others	**561**	288
	22,428	731
Finance income/(expenses) — net	**1,633**	(21,746)

31 Income tax expenses

The amounts of income tax expense charged to the consolidated income statement represent:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Current income tax		
— Current year	**46,104**	29,981
— Underprovision for prior years	**2,273**	—
Deferred income tax (Note 12)	**(11,784)**	(9,510)
Income tax expense	**36,593**	20,471

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Profit before tax	**90,982**	49,587
Tax calculated at the applicable income tax rate (25%)	**22,746**	12,397
Tax effect of:		
Expenses not deductible for tax purpose	**4,913**	2,717
Utilization of prior year tax losses and temporary differences not recognized as deferred tax assets	**(471)**	—
Temporary differences not recognized as deferred tax assets	**101**	261
Tax losses not recognized as deferred tax assets	**7,031**	3,837
Tax losses of Shanghai Rich Medical Exam not recognized as deferred tax assets	**—**	1,259
Underprovision for prior years	**2,273**	—
Income tax expense	**36,593**	20,471

31 Income tax expenses (continued)

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") which became effective on January 1, 2008. Under the CIT Law, the CIT rate applicable to the Group's subsidiaries located in mainland China from January 1, 2008 is 25%.

The Company is registered in the Cayman Islands, and hence is not subject to enterprise income tax. Two subsidiaries in the Group registered in the British Virgin Islands are not subject to enterprise income tax.

No provision for Hong Kong profits tax has been made as the Group does not have assessable profits subject to Hong Kong profits tax during the years.

The CIT Law and its implementation rules impose a withholding tax at 10% for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning January 1, 2008 and undistributed earnings generated prior to January 1, 2008 are exempted from such withholding tax. A lower 5% withholding tax rate may be applied when the immediate holding companies are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. The directors of the Company had confirmed that retained earnings of the Group's PRC subsidiaries as at December 31, 2016 will not be distributed in the foreseeable future.

32 Dividends

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Dividends (a)	**–**	581,103
Proposed final dividend (b)	**–**	—
	–	581,103

(a) The Company has declared dividends of RMB581,103,000 during the year ended December 31, 2015 and paid dividends of RMB440,109,000 to its shareholders during the year ended December 31, 2015 (Note 20(e)), with remaining balance of RMB2,018,000 due to Victory was recorded as dividend payable(Note 24), balance of RMB10,629,000 due to Fengyuan was netting off with the other receivables due from Fengyuan by the same amount as at December 31, 2015(Note 18(iv)), balance of RMB6,590,000 due to Chelsea Grace was netting off with the amount due from Chelsea Grace of RMB6,590,000, and balance of RMB121,902,000 due to Chelsea Grace was recorded as amounts due to related parties as at December 31, 2015 (Note 38).

During the year ended December 31, 2016, the Company paid dividends of RMB2,018,000 and RMB121,902,000 to Victory and Chelsea Grace, respectively.

(b) At a board meeting held on March 31, 2017, the board of the directors did not recommend any payment of dividend for the year ended December 31, 2016.

33 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to the owners of Company by the weighted average number of ordinary shares in issue during 2016 and 2015, respectively. In determining the weighted average number of shares in issue for the year ended December 31, 2016 and 2015, the 1,000,000 shares upon the sub-division made in December 2015 and the 1,271,209,775 shares issued and allotted through capitalization of the share premium account of the Company upon Listing on October 6, 2016 were deemed to have been in issue since January 1, 2015.

	Year ended December 31,	
	2016	2015
Net profit attributable to owners of the Company (RMB'000)	**58,924**	28,982
Weighted average number of ordinary shares in issue	**1,347,312,448**	1,272,210,765
Basic earnings per share (RMB)	**0.04**	0.02

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme assuming they were exercised.

	Year ended December 31,	
	2016	2015
Net profit attributable to owners of the Company (RMB'000)	**58,924**	28,982
Weighted average number of ordinary shares in issue	**1,347,312,448**	1,271,266,875
Adjustment for share options granted under the Pre-IPO share option scheme	**13,426,725**	—
Weighted average number of ordinary shares for diluted earnings per share	**1,360,739,173**	1,271,266,875
Diluted earnings per share (RMB)	**0.04**	0.02

34 Notes to the consolidated cash flow statement

(a) Net cash generated from operations:

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Profit for the year before income tax	**90,982**	49,587
Adjustments for:		
— Depreciation of property and equipment (Note 7)	**80,047**	67,917
— Amortization of land use rights (Note 8)	**100**	100
— Amortization of intangible assets (Note 9)	**1,470**	845
— Amortization of prepayment for lease contract(Note 17)	**1,080**	1,080
— Losses on disposal of property and equipment (Note 27)	**616**	486
— (Reversal)/provision for impairment of receivables (Note 14 and Note 15)	**(1,800)**	8,213
— Share of results of a joint venture (Note 10)	**1,026**	1,952
— Interest income (Note 30)	**(1,169)**	(443)
— Interest expenses (Note 30)	**20,795**	22,477
— Foreign exchange gains (Note 30)	**(20,698)**	—
— Pre-IPO share option scheme (Note 19)	**3,144**	—
— Initial public offering fees	**37,966**	—
Changes in working capital:		
— Decrease in inventories	**555**	1,555
— Increase in trade receivables, other receivables and prepayments	**(15,763)**	(23,663)
— Decrease/(increase) in amounts due from related parties	**1,702**	(1,709)
— Increase in deferred income	**13,000**	18,366
— Increase in trade and other payables	**18,128**	46,695
— Decrease in amounts due to related parties	**(1,242)**	(24)
— (Increase)/decrease in deposits for long-term leases	**(6,116)**	524
— Increase in other long-term liabilities	**18,141**	11,319
Cash generated from operations	**241,964**	205,277

34 Notes to the consolidated cash flow statement (continued)

(b) Proceeds from disposal of property and equipment:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Net book amount of property and equipment (Note 7)	**2,352**	630
Losses on disposal of property and equipment (Note 27)	**(616)**	(486)
Proceeds from disposal of property and equipment	**1,736**	144

35 Medical disputes

Up to the date of this report, the Group had fifteen ongoing medical disputes arising from the operation of Nantong Rich Hospital which have not been settled. The Group has assessed the individual cases and taken into account of the expenses incurred and recorded, the Group believes the financial exposure in relation to our ongoing medical disputes shall not material and thus no additional provision was made in this respect.

36 Commitments

(a) Capital commitments

Capital expenditure contracted for but not yet incurred at each balance sheet date, is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Authorized and contracted for:		
Leasehold improvements	**26,368**	9,187

36 Commitments (continued)

(b) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Minimum lease payments under operation leases		
Within 1 year	**119,553**	75,713
1 to 5 years	**420,305**	249,603
Over 5 years	**582,334**	207,776
	1,122,192	533,092

37 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests

(a) In June 2015, Dr. Mei acquired 9.2510% equity interests in Shanghai Rich Medical Exam with a carrying amount of RMB10,260,000 from 28 individual shareholders at a total consideration of RMB28,447,500. The Group recognized a decrease in non-controlling interests of RMB10,260,000 and an increase in equity attributable to owners of the Company of RMB10,260,000.

	As at December 31, 2015 RMB'000
Carrying amount of non-controlling interests acquired	10,260
Consideration paid to non-controlling interests by the Group	—
	10,260

The above difference between the carrying amount of the non-controlling interests and the consideration paid by the Group was recognized in reserves.

37 Changes in ownership interests in subsidiaries without change of control (continued)

Disposal of interests in subsidiaries without loss of control

(b) In June 2015, Nantong Rich Investment Co., Ltd. ("Nantong Investment") acquired 30% equity interests in Shanghai Rich Ruixin Clinic Co., Ltd. from Shanghai Rich Medical Exam for a consideration of RMB300,000, and the Group still controls Shanghai Rich Ruixin Clinic Co., Ltd. after the transaction. The Group recognized a decrease in non-controlling interests of RMB413,000 and an increase in equity attributable to owners of the Company of RMB713,000.

In June 2015, Nantong Investment acquired 30% equity interests in Shanghai Rich Ruijin Clinic Co., Ltd. from Shanghai Rich Medical Exam for a consideration of RMB300,000, and the Group still controls Shanghai Rich Ruijin Clinic Co., Ltd. after the transaction. The Group recognized a decrease in non-controlling interests of RMB1,246,000 and an increase in equity attributable to owners of the Company of RMB1,546,000.

In June 2015, Nantong Investment acquired 30% equity interests in Nanjing Rich Ruixing Clinic Co., Ltd. from Nantong Rich Medical Management Group Co., Ltd. for a consideration of RMB1, and the Group still controls Nanjing Rich Ruixing Clinic Co., Ltd. after the transaction. The Group recognized an increase in non-controlling interests of RMB498,000 and a decrease in equity attributable to owners of the Company of RMB498,000.

In June 2015, two third party individuals acquired 20% and 10% equity interests respectively in Beijing Rich Ruitai Clinic Co., Ltd. from Shanghai Rich Medical Exam for a consideration of RMB1, respectively, and the Group still controls Beijing Rich Ruitai Clinic Co., Ltd. after the transaction. The Group recognized a decrease in non-controlling interests of RMB429,000 and an increase in equity attributable to owners of the Company of RMB429,000.

38 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, has joint control over the party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The ultimate controlling shareholders of the Group are Dr. Fang and Dr. Mei.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended December 31, 2016 and 2015 and balances arising from related party transactions as at December 31, 2016 and 2015.

38 Related party transactions (continued)

(a) Name and relationship with related parties

Name of related party	Relationship with the Group
Dr. Fang (方宜新)	Controlling shareholder
Dr. Mei (梅紅)	Controlling shareholder
Mr. Fang Haoze (方浩澤)	Close family member of Dr. Fang and Dr. Mei
Mr. Mei Bing (梅冰)	Close family member of Dr. Fang and Dr. Mei
Chelsea Grace	Parent company
Shanghai Rich Medical Exam (上海瑞慈健康體檢管理股份有限公司) (Note 2)	Controlled by Dr. Fang
Nantong Rich Real Estate Development Co., Ltd. (南通瑞慈房地產開發有限公司)	Controlled by Dr. Fang
Jiangsu Tayoi Cosmetics Limited by Share Ltd. (江蘇東洋之花化妝品股份有限公司) (renamed as Jiangsu Tayoi Biological Technology Co., Ltd. (江苏東洋之花生物科技股份有限公司) on March 26, 2013)	Controlled by Dr. Fang
Shanghai Rich Cosmetics Co., Ltd. (上海瑞慈化妝品有限公司)	Controlled by Dr. Fang
Shanghai Rii Web Technology Co., Ltd. (上海瑞一互聯網科技有限公司) ("Shanghai Rii Web")	(i)
Shanghai Meidi (上海瑞慈美邸管理諮詢有限公司)	Joint venture
Nantong Meidi (南通瑞慈美邸護理院有限公司)	Subsidiary of the joint venture
Nantong Kaide Trading Co.,Ltd. (南通凱德貿易有限公司)	Controlled by close family member of Dr. Fang and Dr. Mei
Nantong Beiting Medical Management Co., Ltd. (南通北婷醫療管理有限公司)("Nantong Beiting")	Controlled by close family member of Dr. Fang and Dr. Mei

(i) **Shanghai RiiWeb was controlled by Dr. Fang since its establishment. Pursuant to the share transfer agreements dated June 26, 2015, Shanghai Rii Web was acquired by a third party from Dr. Fang, and since then it was no longer a related party of the Group.**

38 Related party transactions (continued)

(b) Saved as elsewhere disclosed in this financial statement, the following transactions were carried out with related parties:

(i) **Temporary funding provided to related parties**

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Mr. Fang Haoze	**87**	1,438
Dr. Fang	**–**	187,317
Nantong Kaide Trading Co.,Ltd.	**–**	173,692
Shanghai Rich Cosmetics Co., Ltd.	**–**	80,000
Jiangsu Tayoi Biological Technology Co., Ltd.	**–**	58,500
Nantong Rich Real Estate Development Co., Ltd.	**–**	32,610
Shanghai Rii Web	**–**	3,700
Dr. Mei	**–**	3,075
Mr. Mei Bing	**–**	2,601
Nantong Meidi	**–**	1,000
	87	543,933

(ii) **Temporary funding received from related parties**

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Shanghai Rich Medical Exam	**–**	13,800

38 Related party transactions (continued)

(b) Saved as elsewhere disclosed in this financial statement, the following transactions were carried out with related parties: (continued)

(iii) Expenses paid on behalf of the Group by related parties

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Shanghai Rich Medical Exam	**944**	—
Nantong Rich Real Estate development Co., Ltd.	**405**	—
Shanghai Meidi	**—**	60
	1,349	60

(iv) Expenses paid on behalf of related parties by the Group

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Shanghai Meidi	**700**	781
Nantong Rich Real Estate Development Co., Ltd.	**511**	731
Nantong Meidi	**311**	—
Dr. Mei	**—**	78
Shanghai Rich Medical Exam	**—**	35
Shanghai Rii Web	**—**	16
Dr. Fang	**—**	3
	1,522	1,644

38 Related party transactions(continued)

(b) Saved as elsewhere disclosed in this financial statement, the following transactions were carried out with related parties: (continued)

(v) Purchase of goods

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Shanghai Rich Cosmetics Co., Ltd.	**2,260**	234
Nantong Kaide Trading Co.,Ltd.	**3**	2,552
	2,263	2,786

(vi) Guarantee provided by related parties for borrowings of the Group

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Dr. Fang and Dr. Mei	–	76,000
Dr. Fang and Shanghai Rich Medical Exam	–	56,000
Dr. Fang, Dr. Mei, Nantong Beiting and Jiangsu Tayoi Biological Technology Co., Ltd.	–	51,000
Dr. Fang, Dr. Mei, Shanghai Rich Medical Exam and Nantong Rich Real Estate Development Co., Ltd.	–	14,375
Dr. Fang, Dr. Mei and Shanghai Rich Medical Exam	–	10,000
	–	207,375

38 Related party transactions (continued)

(b) Saved as elsewhere disclosed in this financial statement, the following transactions were carried out with related parties: (continued)

(vii) Services provided to related parties

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Shanghai Rich Cosmetics Co., Ltd.	**392**	129
Jiangsu Tayoi Biological Technology Co., Ltd.	**–**	143
Nantong Meidi	**–**	8
	392	280

(viii) Income of a co-sponsoring promotion event

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Jiangsu Tayoi Biological Technology Co., Ltd.	**–**	2,913
Shanghai Rich Cosmetics Co., Ltd.	**–**	291
	–	3,204

38 Related party transactions (continued)

(c) Key management compensation

Key management includes directors (executive and non-executive), chief financial officer and secretary of the board of directors. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Pre-IPO share option scheme	**2,096**	—
Salaries and other short-term employee benefits	**1,954**	1,188
Pension	**181**	201
	4,231	1,389

(d) Balances with related parties

Amounts due from related parties

	As at December 31, 2016 RMB'000	2015 RMB'000
Nantong Meidi	**1,000**	1,029
Shanghai Meidi	**—**	1,781
Nantong Rich Real Estate Development Co., Ltd.	**—**	114
Shanghai Rich Medical Exam	**—**	40
Dr. Mei	**—**	38
	1,000	3,002

The amounts due from related parties are mainly temporary funding to related parties, or for expenses paid on behalf of related parties or service provided by the Group, which were unsecured and non-interest bearing.

38 Related party transactions (continued)

(d) Balances with related parties (continued)

Amounts due to related parties

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Chelsea Grace(Note 32(a))	–	121,902
Dr. Mei(i)	–	8,679
Shanghai Rich Medical Exam(ii)	–	1,243
	–	131,824

(i) The amount due to Dr. Mei as at December 31, 2015 amounting to RMB8,679,000 was paid in January 2016.

(ii) The amount due to Shanghai Rich Medical Exam was mainly temporary funding received from Shanghai Rich Medical Exam, which was unsecured and non-interest bearing.

39 Subsidiaries

Particulars of the subsidiaries of the Group as at December 31, 2016 and 2015 are set out below:

(a) Direct holding subsidiaries

Subsidiary incorporated in the BVI

Company name	Date of incorporation	Registered capital	Effective interests held by the Group December 31, 2016	December 31, 2015	Principal activities
Rici Healthcare Holdings Limited	July 11, 2014	USD1	**100%**	100%	Investment holding
Regent Healthcare Holdings Limited	June 6, 2014	USD1	**100%**	100%	Investment holding

39 Subsidiaries (continued)

(b) Indirect holding subsidiaries

Subsidiaries incorporated in Hong Kong

Company name	Date of incorporation	Registered capital	Effective interests held by the Group December 31, 2016	2015	Principal activities
Hong Kong Rici Healthcare Holdings Limited	July 14, 2014	HKD1	**100%**	100%	Investment holding
Cathay Grace Healthcare Holdings Limited	June 17, 2014	HKD1	**100%**	100%	Investment holding

Subsidiaries established in the PRC

Company name	Date of incorporation	Registered capital RMB'000	Effective interests held by the Group December 31, 2016	2015	Principal activities
Nantong Rich Hospital Co.,Ltd. (南通瑞慈醫院有限公司) ("Nantong Rich Hospital")	August 14, 2000	65,000	**100%**	100%	General hospital service
Shanghai Rich Clinic Co.,Ltd. (上海瑞慈門診部有限公司)	February 14, 2007	5,000	**100%**	100%	Examination service
Nanjing Rich Clinic Co.,Ltd. (南京瑞慈門診部有限責任公司)	December 01, 2008	5,000	**100%**	100%	Examination service
Shanghai Rich Ruining Clinic Co.,Ltd. (上海瑞慈瑞寧門診部有限公司)	February 12, 2009	5,000	**100%**	100%	Examination service
Shanghai Rich Ruibo Clinic Co.,Ltd. (上海瑞慈瑞鉑門診部有限公司)	April 10, 2009	5,000	**100%**	100%	Examination service
Suzhou Rich Clinic Co.,Ltd. (蘇州瑞慈門診部有限公司)	August 22, 2009	5,000	**100%**	100%	Examination service
Nantong Rich Clinic Co.,Ltd. (南通瑞慈門診部有限公司)	March 17, 2010	5,000	**100%**	100%	Examination service

39 Subsidiaries (continued)

(b) Indirect holding subsidiaries (continued)

Subsidiaries established in the PRC (continued)

Company name	Date of incorporation	Registered capital RMB'000	Effective interests held by the Group December 31, 2016	2015	Principal activities
Shenzhen Rich Medical Examination Management Co.,Ltd. (深圳瑞慈健康體檢管理有限公司)	September 17, 2010	2,000	**100%**	100%	Investment holding
Nantong Rich Binjiang Clinic Co.,Ltd. (南通瑞慈濱江門診部有限公司)	October 21, 2010	5,000	**100%**	100%	Examination service
Shanghai Rich Ruitai Clinic Co.,Ltd. (上海瑞慈瑞泰門診部有限公司)	January 17, 2011	5,000	**100%**	100%	Examination service
Shanghai Rich Ruijie Clinic Co.,Ltd. (上海瑞慈瑞傑門診部有限公司)	July 12, 2012	5,000	**100%**	100%	Examination service
Shanghai Rich Ruizhao Clinic Co.,Ltd. (上海瑞慈瑞兆門診部有限公司)	March 19, 2013	5,000	**100%**	100%	Examination service
Chengdu Jinjiang Rich Clinic Co.,Ltd. (成都錦江瑞慈門診部有限公司)	November 06, 2013	5,000	**100%**	100%	Examination service
Shanghai Rich Ruize Clinic Co.,Ltd. (上海瑞慈瑞澤門診部有限公司)	November 25, 2013	5,000	**100%**	100%	Examination service
Shenzhen Rich Clinic Co.,Ltd. (深圳瑞慈門診部有限責任公司)	February 28, 2014	10,000	**100%**	100%	Examination service
Guangzhou Rich Guojin Clinic Co.,Ltd. (廣州瑞慈國金門診部有限公司)	February 28, 2014	15,000	**90%**	90%	Examination service
Jiangsu Rich Medical Management Co.,Ltd.(江蘇瑞慈醫療管理有限公司)	July 14, 2014	300,000	**100%**	100%	Investment holding
Nantong Rich Medical Management Group Co.,Ltd. (南通瑞慈醫療管理集團有限公司)	July 14, 2014	177,000	**100%**	100%	Investment holding
Shanghai Rich Medical Investment Group Co.,Ltd. (上海瑞慈醫療投資集團有限公司)	August 25, 2014	150,000	**100%**	100%	Investment holding

39 Subsidiaries (continued)

(b) Indirect holding subsidiaries (continued)

Subsidiaries established in the PRC (continued)

Company name	Date of incorporation	Registered capital RMB'000	Effective interests held by the Group December 31, 2016	2015	Principal activities
Guangzhou Rich Investment Co.,Ltd. (廣州瑞慈投資有限公司)	September 01, 2014	20,000	**100%**	100%	Investment holding
Changzhou Rich Clinic Co.,Ltd. (常州瑞慈門診部有限公司)	September 16, 2014	5,000	**100%**	100%	Examination service
Wuhan Rich Medical Investment Management Co.,Ltd. (武漢瑞慈醫療投資管理有限公司)	November 10, 2014	10,000	**100%**	100%	Investment holding
Nantong Haoze Medical Management Co.,Ltd. (南通浩澤醫療管理有限公司)	November 13, 2014	1,000	**100%**	100%	Investment holding
Nanjing Rich Ruixing Clinic Co.,Ltd. (南京瑞慈瑞星門診部有限公司)	December 05, 2014	5,000	**70%**	70%	Examination service
Wuhan Rich Clinic Co.,Ltd. (武漢瑞慈門診部有限公司)	January 29, 2015	5,000	**100%**	100%	Examination service
Guangzhou Rich Zhongxin Clinic Co.,Ltd. (廣州瑞慈中信門診部有限公司)	January 27, 2015	15,000	**100%**	100%	Examination service
Hefei Haoze Health Management Co., Ltd.(合肥浩澤健康管理有限公司)	February 16, 2015	5,000	**70%**	70%	Investment holding
Shanghai Rich Ruixin Clinic Co., Ltd. (上海瑞慈瑞鑫門診部有限公司)	March 19, 2015	5,000	**70%**	70%	Examination service
Shanghai Fanjin Investment Management Co., Ltd. (上海返錦投資管理有限公司)	April 1, 2015	100,000	**100%**	100%	Investment holding
Beijing Rich Ruitai Clinic Co., Ltd. (北京瑞慈瑞泰綜合門診部有限公司)	May 20, 2015	10,000	**70%**	70%	Examination service
Shanghai Rich Ruijin Clinic Co., Ltd. (上海瑞慈瑞錦門診部有限公司)	May 28, 2015	5,000	**70%**	70%	Examination service
Hefei Shushan Rich Clinic Co., Ltd. (合肥蜀山瑞慈健康體檢門診部有限公司)	June 29, 2015	18,000	**70%**	70%	Examination service

39 Subsidiaries (continued)

(b) Indirect holding subsidiaries (continued)

Subsidiaries established in the PRC (continued)

Company name	Date of incorporation	Registered capital RMB'000	Effective interests held by the Group December 31, 2016	2015	Principal activities
Changzhou Rich Obstetrics & Gynecology Hospital Co., Ltd. (常州瑞慈婦產醫院有限公司)	July 12, 2016	50,000	**51%**	–	Specialty hospital service
Suzhou Rich Ruihe Clinic Co., Ltd. (蘇州瑞慈瑞禾門診部有限公司)	August 25, 2016	5,000	**100%**	–	Examination service
Shanghai Shuixian Obstetrics & Gynecology Hospital Co., Ltd. (上海瑞慈水仙婦產醫院有限公司)	October 17, 2016	50,000	**60%**	–	Specialty hospital service
Yangzhou Rich Ruiyang Integrated Chinese and Western Medicines Clinic Co., Ltd.(揚州瑞慈瑞揚中西醫結合門診部有限公司)	October 9, 2016	5,000	**70%**	–	Examination service
Nanjing Rich Ruixiang Clinic Co., Ltd. (南京瑞慈瑞祥門診部有限公司)	December 7, 2016	5,000	**100%**	–	Examination service
Chengdu High-tech Rich Ruigao Clinic Co., Ltd.(成都高新瑞慈瑞高門診部有限公司)	December 14, 2016	5,000	**55%**	–	Examination service
Chengdu Wenjiang Rich Ruiwen Clinic Co., Ltd.(成都溫江瑞慈瑞文門診部有限公司)	December 20, 2016	5,000	**55%**	–	Examination service
Wuxi Rich Ruixi Clinic Co., Ltd. (無錫瑞慈瑞錫門診部有限公司)	December 21, 2016	5,000	**70%**	–	Examination service
Wuxi Rich Women and Children's Hospital Co., Ltd. (無錫瑞慈婦兒醫院有限公司)	December 28, 2016	50,000	**51%**	–	Specialty hospital service

The English names of the PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available. The PRC companies listed above are all limited liability companies.

40 Balance sheet and reserve movement of the Company

Balance Sheet of the Company

	As at December 31, 2016 RMB'000	2015 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**161,077**	158,037
	161,077	158,037
Current assets		
Cash and cash equivalents	**455,920**	21
Other receivables	**228**	38,392
Amounts due from related parties	**218,502**	74,481
	674,650	112,894
Total assets	**835,727**	270,931
Equity attributable to owners of the Company		
Share capital	**1,066**	—
Reserves (a)	**785,589**	125,599
	786,655	125,599
Total equity	**786,655**	125,599
LIABILITIES		
Current liabilities		
Trade and other payables	**2,044**	5,590
Amounts due to related parties	**47,028**	139,742
	49,072	145,332
Total liabilities	**49,072**	145,332
Total equity and liabilities	**835,727**	270,931

The balance sheet of the Company was approved by the Board of Directors on March 31, 2017 and was signed on its behalf by:

Fang Yixin	**Lu Zhenyu**
Director	Director

40 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Contributed surplus RMB'000	Share premium RMB'000	Pre-IPO share option scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
At December 31, 2014	—	278,000	—	(212)	277,788
Capital contribution from owners of the Company (Note 20(c))	—	343,103	—	—	343,103
Contributed surplus (i)	93,464	—	—	—	93,464
Loss for the year				(7,653)	(7,653)
Dividends (Note 20(e))	—	(581,103)	—	—	(581,103)
At December 31, 2015	93,464	40,000	—	(7,865)	125,599
At January 1, 2016	**93,464**	**40,000**	**—**	**(7,865)**	**125,599**
Issuance of ordinary shares in connection with the Listing(Note 18 (v))	**—**	**674,692**	**—**	**—**	**674,692**
Capitalization issue (Note 18 (vi))	**—**	**(852)**	**—**	**—**	**(852)**
Issuance of ordinary shares in connection with the exercise of over-allotment option (Note 18 (v))	**—**	**3,167**	**—**	**—**	**3,167**
Loss for the year				**(20,161)**	**(20,161)**
Pre-IPO share option scheme (Note 19)	**—**	**—**	**3,144**	**—**	**3,144**
At December 31, 2016	**93,464**	**717,007**	**3,144**	**(28,026)**	**785,589**

(i) Contributed surplus of the Company represents the difference between the consideration paid to acquire the subsidiaries by the Company for the purpose of completion of the Reorganization and the aggregate net book value of the subsidiaries at the date of acquisition.

41 Events after the balance sheet date

(a) On March 28, 2017, the Group entered into a cooperation agreement with South New City to establish a joint venture company with a total registered capital of RMB100 million, for the purpose of operating a healthcare industry park in Nanjing, PRC, including the establishment and operation of a premium obstetrics and gynecology hospital. Pursuant to the cooperating agreement, the Group and South New City hold 65% and 35% equity interests in the joint venture, respectively.

42 Authorization for issue of the financial statements

The consolidated financial statements were approved and authorized for issue by the board of directors of the Company on March 31, 2017.