弘和仁愛
HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3869

2017 Annual Report

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

Mr. Zhao John Huan (趙令歡) *(Chairman)*
Mr. Lin Sheng (林盛)
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) *(Chairman)*
Mr. Shi Luwen (史錄文)
Mr. Lin Sheng (林盛)

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne (鄺燕萍)

## AUTHORISED REPRESENTATIVES

Mr. Lin Sheng (林盛)
Ms. Kwong Yin Ping Yvonne (鄺燕萍)

## LISTING INFORMATION AND STOCK CODE

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

## HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited (the "**Company**" together with its subsidiaries, the "**Group**")
1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2701, One Exchange Square
Central
Hong Kong

## REGISTERED OFFICE

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

## COMPANY'S WEBSITE

www.hcclhealthcare.com

## AUDITOR

PricewaterhouseCoopers

## HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)

## COMPLIANCE ADVISOR

Halcyon Capital Limited

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

# FINANCIAL SUMMARY

## CONSOLIDATED RESULTS

| | The year ended December 31, 2017 RMB'000 | % | The year ended December 31, 2016 RMB'000 | % | The year ended December 31, 2015 RMB'000 | % | Period from February 21 to December 31, 2014 RMB'000 | % |
|---|---|---|---|---|---|---|---|---|
| Revenue | 149,158 | 100.0 | 130,882 | 100.0 | 142,524 | 100.0 | 23,653 | 100.0 |
| Cost of revenue | (61,320) | (41.1) | (49,343) | (37.7) | (41,395) | (29.0) | (7,763) | (32.8) |
| **Gross profit** | 87,838 | 58.9 | 81,539 | 62.3 | 101,129 | 71.0 | 15,890 | 67.2 |
| Selling expenses | — | — | — | — | (1) | 0.0 | — | — |
| Administrative expense | (53,706) | (36.0) | (26,373) | (20.2) | (13,203) | (9.3) | (7,947) | (33.6) |
| Other (losses)/gain - net | (120) | (0.1) | 1,125 | 0.9 | (342) | (0.2) | (47) | (0.2) |
| Other income | 3,742 | 2.5 | 2,982 | 2.3 | 2,477 | 1.7 | — | — |
| **Operating profit** | 37,754 | 25.3 | 59,273 | 45.3 | 90,060 | 63.2 | 7,896 | 33.4 |
| Finance (costs)/income - net | (18,526) | (12.4) | 677 | 0.5 | 53 | 0.0 | 584 | 2.5 |
| **Profit before income tax** | 19,228 | 12.9 | 59,950 | 45.8 | 90,113 | 63.2 | 8,480 | 35.9 |
| Income tax expense | (22,912) | (15.4) | (19,248) | (14.7) | (22,788) | (16.0) | (4,185) | (17.7) |
| **Profit for the period/year** | (3,684) | (2.5) | 40,702 | 31.1 | 67,325 | 47.2 | 4,295 | 18.2 |
| **Profit from discontinued operation** | 12,882 | 8.6 | 779 | 0.6 | — | — | — | — |
| **Profit for the year** | 9,198 | 6.2 | 41,481 | 31.7 | 67,325 | 47.2 | 4,295 | 18.2 |
| Other comprehensive income | — | — | — | — | — | — | — | — |
| **Total comprehensive income for the year** | 9,198 | 6.2 | 41,481 | 31.7 | 67,325 | 47.2 | 4,295 | 18.2 |

## CONSOLIDATED ASSETS AND LIABILITIES

| | As of December 31, 2017 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|---|
| Total assets | 1,965,516 | 1,287,577 | 1,302,029 | 1,282,058 |
| Total liabilities | 403,391 | 126,634 | 173,490 | 220,844 |
| Total equity | 1,562,125 | 1,160,943 | 1,128,539 | 1,061,214 |

Dear Shareholders,

2017 was a milestone year for the Group. The Company's shares (the "**Shares**") were listed on The Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**") (the "**Listing**"), which laid a solid foundation for the future development of the Company.

The full implementation of the "Heathy China Strategy (健康中國戰略)" brings biggest growth opportunities to the medical services industry. As a leader in hospital management and practitioner of medical investment innovation model, the Company focuses on the most-demanding medical markets of common diseases, frequently re-occurring diseases and chronic diseases. By establishing a management system that organically integrates modern enterprise systems and medical laws, the Group has achieved an overall increase in group value. The Group consolidates the core competitiveness of its hospitals, so that they can maintain long-term competitive advantages in terms of strategy, talent, management, technology, capital and brand, and achieve the goals of performance creation, employee growth and social responsibility. Meanwhile, through continuous investment in hospital mergers and acquisitions, the Group achieved rapid expansion of scale. Focusing on the economically developed and densely populated areas and through the integration and interoperability of medical resources in various regions, the Group created a leading standard of medical and health service network.

We believe that with the support from the shareholders of the Company (the "**Shareholders**") and combined efforts from our employees, the Company will pursue rapid business growth in all aspects and be committed to becoming a trustworthy, respected and outstanding hospital management group to create greater value to Shareholders.

## Acknowledgment

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

**Zhang Xiaogpeng**
*Executive Director and Chief Executive Officer*

Beijing, China
March 29, 2018

## BUSINESS OVERVIEW

Through management training, budget management, operations analysis, daily reporting management, professional monitoring and other measures, we have provided all-around and multi-angle guidance to hospitals we acquired to refine their management and operation capabilities and motivate the work enthusiasm of employees. By consolidating and enhancing the core competitiveness of these hospitals, we enhanced the influence of our hospital brands, created values and achieved a mutually beneficial environment for each member of our platform. In 2017, Shanghai Yangsi Hospital (上海楊思醫院) ("**Yangsi Hospital**") has initially formed a regional medical service center model combining various services including preventive healthcare, chronic disease management, hospital medical care, community medical care, family hospital beds and the combination of medical care and health care. It has invested in high-pressure oxygen, hemodialysis, new types of computed tomography, cardiac intervention and other new technologies, equipment and services, and established additional healthcare facilities of 2,000 square meters and further expanded the scope of our VIP services. The out-patients and inpatients visits of the hospitals continued to increase, and reached a record high and exceeded the annual goal.

As a hospital management group with merger and acquisition as its expansion model, we focus on the diagnosis and treatment of common diseases, frequently re-occurring diseases and chronic diseases, insist on investing in hospitals with Class II or Class III hospital-equivalent scale located in the regions with sizeable populations and attractive economic conditions. In 2017, we have strengthened our core investment capacity, expanded the sources of projects, and focused on potential projects in the economically developed southeast coastal areas. The Group has successfully completed the merger and acquisition of Jiande (as defined below), and announced the signing of a letter of intents for the merger and acquisition of a hospital management company located in Zhejiang province and a hospital located in Guangdong province respectively.

## INDUSTRY OVERVIEW

Chinese healthcare industry has integrated into the global industrial chain and has huge room for development. And Chinese healthcare industry has also become one of the largest and fastest growing markets in the world. Chinese medical service industry covers medical service institutions, healthcare and aged care institutions and health insurances. Hospitals are the main body of the entire medical service industry. Factors driving the rapid growth of the industry include the aging of the population, the improvement of residents' income and health awareness, the improvement of the security system and the medical network and the government's great investments.

The imbalance in the distribution of medical resources (the relative abundance of medical resources in economically developed areas and the lack of medical resources in rural areas) has further exacerbated the current situation of a supply shortage. Particularly, the lack of quality medical resources is a prominent issue in the mismatched supply and demand. The phenomenon of difficulties in finding vacant beds in scaled Class III hospitals has become very common. The Chinese government has introduced a series of policies in recent years to guide the healthy development of the medical service industry, including:

- the implementation of the "Healthy China Strategy (健康中國戰略)" proposed in the report of the 19th National Congress of the Communist Party of China, which drives opportunities for a systematic development in the Chinese medical industry;
- The polices of "Zero mark-ups on Drugs (藥品零加成)" and "Two-invoice system (兩票制)" have promoted changes in the fee structure of hospitals, reduced dependence on drugs and improved the transparency in pharmaceutical circulation;
- the "Comprehensive Reform of Separating Operations from Pharmacy (醫藥分開綜合改革)" implemented in certain provinces, it has realized the value of the technical work of medical personnel and compensated for part of the operating costs of medical institutions through the improving the fee standards of medical service;
- the "Hierarchical Diagnosis and Treatment System (分級診療)" has promoted the establishment of the basic primary diagnosis and two-way referral system, and the "Allocation of Medical Personnel and Medical Resources to Primary Care (雙下沉)" contributes to the efficient allocation of healthcare resources and promotes the service ability of primary level medical institutions; and
- the "Opinions of the State Council on Promoting the Development of the Healthcare Service Industry (國務院關於促進健康服務業發展的若干意見)", which has clearly stated the development direction of "providing guidance for non-public medical institutions in the process of developing to a high level and scale, and encouraging the development of professional hospital management groups".

## RECENT DEVELOPMENTS

| Time | Event |
|---|---|
| March 16, 2017 | The Shares were listed on the Main Board of The Stock Exchange. |
| August 23, 2017 | Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司) ("**Weikang Investment**"), a subsidiary owned indirectly as to 80% by the Company, entered into an equity transfer agreement with Shanghai Hongfa Enterprise (Group) Co., Ltd. (上海宏發企業(集團)有限公司) in relation to the disposal of the entire equity interest in Shanghai Fuhua Hospital Co., Ltd. (上海福華醫院有限公司) ("**Fuhua Hospital**") at a total consideration of RMB43 million. The completion of this disposal took place in August 2017. |
| October 27, 2017 | New Pride Holdings Limited (捷穎控股有限公司) ("**New Pride**"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement in relation to the acquisition of the entire equity interest in Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司) ("**Jiande**") at a total consideration of RMB483 million. The completion of this acquisition took place in January 2018. |
| December 22, 2017 | The Company entered into a legally binding letter of intent with, among others, an individual, being the vendor, in relation to the acquisition of 70% equity interest in a management company. |
| February 8, 2018 | New Pride entered into a sale and purchase agreement in relation to the acquisition of the entire equity interest in Cixi Hongai Medical Management Co., Ltd. (慈溪弘愛醫療管理有限公司) ("**Cixi**") at a total consideration of RMB336 million. The completion of this acquisition took place in March 2018. |
| March 2, 2018 | The issue of the convertible bonds (the "**Convertible Bonds**") of the Company in the aggregate principal amount of HK$468,000,000 has been duly approved at the extraordinary general meeting. |

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this annual report, there is no material subsequent event undertaken by the Company or by the Group between the end of reporting period (i.e. December 31, 2017) and up to the date of this annual report.

## REVIEW OF 2017 ANNUAL PERFORMANCE

Our revenue increased by 5.8% from RMB161.4 million in 2016 to RMB170.7 million in 2017. Our revenue from the hospital management services segment increased by 14.0% from RMB130.9 million in 2016 to RMB149.2 million in 2017. Our revenue from hospital services segment decreased by 29.5% from RMB30.5 million in 2016 to RMB21.5 million in 2017. Our gross profit increased by 6.2% from RMB83.6 million in 2016 to RMB88.8 million in 2017. Our gross profit margin increased from 51.8% in 2016 to 52.0% in 2017. Our cost of revenue increased by 5.2% from RMB77.8 million in 2016 to RMB81.8 million in 2017.

The Group's profit for the year would decrease by approximately RMB32.3 million from approximately RMB41.5 million for the corresponding period to approximately RMB9.2 million for the current period, which is mainly attributable to the share-based awards, the listing expense and accrued professional service fees for listing, exchange loss and the expenses and accrued professional service fees for acquisitions. The Company considers that such extraordinary items are not indicative of the operating performance of the Company's business in the reporting period.

### Results of Operations

*Revenue, Cost of Revenue and Gross Profit*

The following table sets forth the revenue and cost of revenue of the continuing and discontinued operations for the years indicated:

| | For the year ended December 31, | | Percentage |
|---|---|---|---|
| | 2017 | 2016 | of change |
| | RMB'000 | RMB'000 | |
| **Revenue** | | | |
| – Continuing operations | **149,158** | 130,882 | 14.0% |
| – Discontinued operations | **21,517** | 30,503 | (29.5%) |
| **Cost of revenue** | | | |
| – Continuing operations | **(61,320)** | (49,343) | 24.3% |
| – Discontinued operations | **(20,527)** | (28,423) | (27.8%) |
| **Gross profit** | | | |
| – Continuing operations | **87,838** | 81,539 | 7.7% |
| – Discontinued operations | **990** | 2,080 | (52.4%) |
| **Gross profit margin** | | | |
| – Continuing operations | **58.9%** | 62.3% | (3.4%) |
| – Discontinued operations | **4.6%** | 6.8% | (2.2%) |

The Group is principally engaged in two different segments, namely general hospital services representing the discontinued operations of Fuhua Hospital, hospital management services representing the management services provided to Yangsi Hospital, and unallocated representing headquarter expenses. Our revenue (including continuing and discontinued operations) for the year ended December 31, 2017 was RMB170.7 million, representing a 5.8% year-on-year increase. Such 5.8% increase was primarily attributable to the 14.0% growth in revenue in the continuing operations and offset by the 29.5% decrease in revenue from discontinued operations due to the disposal of Fuhua Hospital. The 14.0% increase in revenue from continuing operations was attributable to the increase of our management service fees income during the year under review (2016: RMB129.6 million, 2017: RMB147.6 million). The increase in management service fees income was due to the continued effort of the Company in improving the service quality and operating efficiency of Yangsi Hospital through a standardized and streamlined management system that covers the expansion of services scope, provision of training and incentive, and implementation of performance review mechanism.

Revenue from discontinued operations was derived from hospital services provided at Fuhua Hospital, which decreased by 29.5% from RMB30.5 million in 2016 to RMB21.5 million in 2017. Fuhua Hospital was disposed by the Group and ceased to be a subsidiary of the Company on August 29, 2017, hence the revenue derived from discontinued operations for the year under review represented the operating results of Fuhua Hospital from January 1, 2017 to August 29, 2017.

The cost of revenue (including continuing and discontinued operations) increased by 5.2% from RMB77.8 million in 2016 to RMB81.8 million in 2017. The cost of revenue (including continuing and discontinued operations) amounted to 48.2% and 48.0% of our revenue (including continuing and discontinued operations) for the years ended December 31, 2016 and 2017, respectively, which represents a stable proportion of the direct cost and financial health.

*Administrative expenses*

The administrative expenses of continuing operations were RMB26.4 million and RMB53.7 million for the year ended December 31, 2016 and 2017, respectively, and amounted to 20.2% and 36.0% as a percentage of the revenue of the corresponding year. The increase was mainly attributable to the RMB3.4 million increase in employee benefits expenses (2016: RMB1.4 million, 2017: RMB4.8 million), RMB7.4 million increase in Listing expenses (2016: RMB18.2 million, 2017: 25.6 million) and RMB12.8 million of professional fees incurred mainly due to the potential acquisitions and acquisitions of hospitals and hospital management company (2016: nil, 2017: 12.8 million).

*Other income*

We recorded other income of RMB3.0 million and RMB3.7 million for the years ended December 31, 2016 and 2017, respectively, representing a 25.5% year-on-year increase. The increase was attributable to (i) the RMB0.8 million increase in government grants and subsidies granted by the People's Government of Sanlin town in Shanghai in 2017 (2016: RMB1.7 million, 2017: RMB2.5 million) for the tax contribution of Weikang Investment, and (ii) the RMB1.2 million of interest income on monetary funds and wealth management products (2016: nil), which were offset by the decrease in government grants of subsidies from Finance Bureau of Dazi Country in Tibet Autonomous Region for the tax contribution of Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司) ("**Honghe Ruixin**") (2016: RMB1.3 million, 2017: nil).

*Other (losses)/gains – net*

We recorded other gains of RMB1.1 million in 2016 and other losses of RMB0.1 million in 2017, representing a RMB1.2 million year-on-year decrease. It was due to the foreign exchange losses of RMB0.2 million in 2017 (2016: foreign exchange gain of RMB1.1 million) from (i) the settlement of transactions involving currency other than Renminbi and (ii) the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

*Finance income and finance costs*

Finance income and finance costs are mainly comprised of the foreign exchange gains and losses from the cash and cash equivalent and borrowings during the year. Our finance income increased from RMB0.7 million in 2016 to RMB2.7 million in 2017 mainly due to the RMB2.3 million increase in interest income from short-term bank deposits, short-term structure deposits and deposits at calls, as we deposited our unutilized proceeds from Listing and management fee received into these products during the year under review. We recorded net foreign exchange losses of RMB21.2 million (2016: nil) due to (i) the translation of RMB, our operating currencies, to U.S. dollars for the payment of professional fees and acquisition of subsidiary during the year, and (ii) the translation of the deposits denominated in US dollars or Hong Kong dollars into Renminbi, the deposit was primarily comprised of the unutilized proceeds from Listing and the exercise of the over-allotment option.

*Income tax expense*

Our income tax expense (including continuing and discontinued operations) was RMB18.6 million and RMB27.6 million for the years ended December 31, 2016 and 2017, respectively, amounted to 31.0% and 75.0% of the profit before income tax (including continuing and discontinued operations) in the respective year. The RMB9.0 million increase in income tax expenses was mainly attributable to the (i) RMB2.5 million increase in withholding tax and (ii) RMB15.0 million increase in expenses in our subsidiaries outside China and increase in share-based compensation expenses which are not tax deductible expenses, which were offset by the RMB9.1 million decreased in the tax effect on income tax expenses due to the RMB23.2 million year-on-year decrease in profit before income tax (including continuing and discontinued operations) in 2017.

*Profit for the year*

The following table sets forth the net profit and profit attributable to owners of the Company from our continuing and discontinued operations for the years indicated:

| | For the year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **(Loss)/Profit for the year** | | |
| – Continuing operations | **(3,684)** | 40,702 |
| – Discontinued operations | **12,882** | 779 |
| **Profit attributable to owners of the Company** | | |
| – Continuing operations | **(24,055)** | 23,445 |
| – Discontinued operations | **10,306** | 623 |

Our profit for the year (including continuing and discontinued operations) decreased by RMB32.3 million from RMB41.5 million for the year ended December 31, 2016 to RMB9.2 million for the year ended December 31, 2017. We recorded a net loss attributable to owners of the Company (including continuing and discontinued operations) of RMB13.7 million for the year under review, as compared to the net profit attributable to owners of the Company (including continuing and discontinued operations) of approximately RMB24.1 million in 2016. This decrease in profit for the year and a net loss attributable to owners of the Company are mainly attributable to the following extraordinary items incurred during the year under: (a) the cost of revenue of RMB38.0 million resulting from the share-based awards; (b) the accrued professional service fees and other expense relating to the Listing of RMB25.6 million; (c) an exchange loss of RMB21.4 million recorded as finance costs and other losses due to (i) the translation of RMB, our operating currencies, to U.S. dollars for the payment of professional fees and acquisition of subsidiary during the year, and (ii) the translation of the deposits denominated in U.S. dollars or Hong Kong dollars into Renminbi, the deposit was primarily comprised of the unutilized proceeds from Listing and the exercise of the over-allotment option; and (d) the expenses and accrued professional service fees of RMB11.2 million resulting from the acquisition of Jiande and the potential acquisitions of hospitals and hospital management companies. The Company considers that the above-mentioned extraordinary items are not indicative of the operating performance of the Company's business in the year under review. The Company also considers that the expenses related to the Listing and the share-based awards are non-recurring expenses, and anticipates that fluctuations in Renminbi exchange rate and expenses related to potential acquisitions of hospitals and hospital management companies may continue to have an impact on the financial results of the Group in the future.

## Discussion of certain items from the consolidated balance sheets

*Cash and cash equivalents*

We had cash and cash equivalents of RMB129.3 million and RMB260.8 million as of December 31, 2016 and 2017, respectively. The RMB131.5 million increase in 2017 was primarily attributable to the (i) consideration of RMB43.0 million received in respect of the disposal of Fuhua Hospital, (ii) proceeds from borrowings of RMB238.9 million, (iii) proceeds from the global offering of the Shares and the exercise of the over-allotment option of HK$465.6 million, and (iv) proceeds from disposal of available-for-sale financial assets of RMB159.8 million; which were offset by the (a) payment for acquisition of Jiande of RMB477.7 million, (b) payment for available-for-sale financial assets of RMB176.1 million, (c) payment as deposit for a proposed acquisition of RMB80.0 million, (d) payment of share issuance costs of RMB25.7 million and (e) payment of dividend and withholding tax of RMB17.5 million.

*Other receivables, deposits and prepayments*

Our other receivables, deposits and prepayments increased significantly by RMB555.1 million from RMB8.6 million as of December 31, 2016 to RMB563.7 million as of December 31, 2017, primarily due to a RMB483.0 million prepayments for acquisition of Jiande.

*Available-for-sale financial assets*

We maintained no available-for-sale financial assets as of December 31, 2016. Our available-for-sale financial assets as of December 31, 2017 comprised of RMB17.4 million of monetary funds with floating rates. The table below sets forth the changes of the monetary funds with floating rates for the year ended December 31, 2017.

| | Year ended December 31, 2017 RMB'000 |
|---|---|
| Opening balance | — |
| Addition | 176,100 |
| Settlements | (159,845) |
| Gains recognized in profit or loss | 1,141 |
| Closing balance | 17,396 |

We acquired our monetary funds from several financial institutions during the year under review, the details of which are set out below:

| Name of available-for-sale financial assets | Seller | Balance as at December 31, 2017 |
|---|---|---|
| Monetary fund | Harvest Express Monetary Market Fund (嘉實快線貨幣市場基金) | 416,000 |
| Monetary fund | Huaxia Cash Enhances Securities Investment Fund (華夏現金增利證券投資基金) | 4,403,000 |
| Monetary fund | China Merchants Cash Appreciation Securities Fund (招商現金增值證券基金) | 128,000 |
| Monetary fund | Fuguo Tianshi Monetary Market Fund (富國天時貨幣市場基金) | 12,449,000 |

Given all the applicable percentage ratios are below 5%, none of the acquisitions of the monetary funds as set out above constituted a notifiable transaction under the Listing Rules.

These financial assets that the Company invested in during the year ended December 31, 2017 are monetary funds with floating rates, of which carry a lower expected return and risk to the principal as compared to stocks or corporate debt issues. These monetary funds focus on short-term securities on the money market, and invest in vehicles such as certificates of deposit and short-term commercial paper with a maturity of not more than a year.

The fundamental objective of our financial management is safety, liquidity and profitability. In particular, we endeavor to maintain an appropriate risk level and liquidity while satisfying the capital need of the Group's operations and strategic developments, with the goal to enhance the efficiency and profitability on the use of capital. These monetary funds offer liquidity, stable returns and low cost and fees, which allow the Company to meet the redemption needs from time to time and matches the criteria of our financial management principles in managing the Company's idle funds.

Going forward, the directors of the Company (the "**Directors**" or each a "**Director**") consider that it is in the Company's best interest to continue to invest in monetary funds accordingly based on the business and operational needs. The Company may deposit the net proceeds from the Listing and full exercise of over-allotment option into short-term demand deposits and money market instruments as consistent with the intended use of proceeds as set out in the prospectus of the Company dated February 28, 2017 (the "**Prospectus**").

*Accruals and other payables*

Our accruals and other payables were RMB77.3 million and RMB117.0 as of December 31, 2016 and 2017, respectively. The accruals and other payables increased by RMB39.7 million were mainly attributable to the RMB33.3 million increase in payables relating the share-based payments in connection with the grant of share-based awards to our management.

## LIQUIDITY AND CAPITAL RESOURCES

Our total equity as of December 31, 2017 was RMB1,562.1 million (2016: RMB1,160.9 million). As of December 31, 2017, we had current assets of RMB404.2 million (2016: RMB182.6 million) and current liabilities of RMB149.8 million (2016: RMB70.7 million). The current ratio was 2.70 as of December 31, 2017 as compared to 2.58 as of December 31, 2016, representing an enhanced ability to cover short-term liabilities.

Our primary uses of cash in 2017 were for working capital, payment in respect of the acquisition of subsidiary and payment for available-for-sale financial asset. We financed our liquidity requirements mainly with cash flows generated from our financing activities and operating activities. In the year under review, we had net cash generating from operating activities of RMB47.1 million, consisting of RMB31.8 million in net cash inflows generated from our operations before changes in working capital, net cash inflows of RMB31.2 million relating to changes in working capital, cash outflow on income tax paid of RMB18.4 million and interests received of RMB2.4 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax (including continuing and discontinued operations) of RMB36.8 million, adjusted for non-cash and non-operating items, including primarily to add back share-based compensation expenses of RMB4.6 million, depreciation of property, plant and equipment of RMB2.9 million, amortization of intangible assets of RMB3.1 million, foreign exchange loss of RMB6.5 million and gain on sale of Fuhua Hospital of RMB18.2 million. Our net cash inflows relating to changes in working capital were primarily attributable to the increase in accruals and other payables of RMB34.8 million primarily contributed by the share-based payments liabilities of RMB52.8 million (2016: RMB19.4 million).

In the year under review, we had net cash outflow from investing activities of RMB539.3 million, primarily comprised of payment for acquisition of subsidiary of RMB477.7 million, payments for available-for-sale financial asset of RMB176.1 million, payment for deposit on acquisition of subsidiary of RMB80.0 million, offset by (i) proceeds from disposal of available-for-sale financial assets of RMB159.8 million and (ii) proceeds from sale of subsidiary of RMB39.2 million.

### Cash and Borrowings

We had cash and cash equivalents of RMB129.3 million and RMB260.8 million as of December 31, 2016 and 2017, respectively. Our borrowing was RMB238.5 million as of December 31, 2017, comprised of a bank loan obtained for the settlement of consideration paid for the acquisition of Jiande, which is denominated in Hong Kong dollars and bears a floating interest rate. The bank loan is pledged by the 100% equity interest of Jiande, which is held by New Pride since January 11, 2018, 100% equity interest of Jiande Heyue Enterprise Management Co., Ltd.* (建德和悦企業管理有限公司), which is held by Jiande, and 70% equity interest of each of the subsidiaries of Jiande and the operating hospital of Jiande. The Company had no borrowings as of December 31, 2016. The table below sets forth the maturity profile of our borrowings in the years indicated:

| | Bank borrowings | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **23,846** | — |
| Between 1 and 2 years | **47,693** | — |
| Between 2 and 5 years | **166,925** | — |
| Over 5 years | **—** | — |
| | **238,464** | — |

As of December 31, 2017, the net gearing ratio of the Company was 15.3%. Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds of the Listing, we have sufficient working capital for our requirements. As at December 31, 2017, the Group did not have any material contingent liabilities or guarantees.

## FUTURE PROSPECT

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

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

We intend to form a nationwide medical services network leveraging our highly replicable business model. We will focus our expansion in regions with sizeable populations and attractive economic conditions, including Yangtze River Delta, Bohai Rim and Pearl Delta regions, and select hospitals that have demonstrated advanced performance in specialist medical services, as we believe these criteria will ensure rapid growth and facilitate our establishment of a nationwide healthcare services network. We plan to acquire or invest in Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale located in the regions mentioned above. We target to acquire or invest in one or two hospitals that are comparable to Yangsi Hospital in terms of factors including profitability, medical skills, number of patients and growth potential in each year subsequent to the Listing.

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

## OPERATING LEASE COMMITMENTS

We lease premises for Fuhua Hospital during the period from January 2017 to August 2017, when the disposal of Fuhua Hospital was completed, and our offices during the year 2017. As of December 31, 2017, we had an amount of RMB2.8 million future aggregate minimum lease payments under non-cancellable operating leases.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as the disposal of Fuhua Hospital and the acquisition of Jiande as disclosed in “Recent Developments” above, the Group did not have any other material acquisition and disposal of subsidiaries and affiliated companies from the Listing Date until December 31, 2017.

## SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, as of December 31, 2017, the Group did not have any significant investment or future plans for material investments or capital assets.

## CAPITAL EXPENDITURES

We had capital expenditures of RMB1.5 million in 2017, relating primarily to upgrading and improvements of properties.

## HUMAN RESOURCES

As of December 31, 2017, we had a total of 32 employees (December 31, 2016: 112). The decrease was due to disposal of Fuhua Hospital. We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the year ended December 31, 2017, the total employee benefits expenses (including Directors' remuneration) were RMB61.0 million (2016: RMB45.1 million).

We set performance targets for our employees based on their position and department and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. Our employee-related insurance consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations.

We provide ongoing training for our employees. Our doctors and other medical professionals regularly receive technical training in their relevant fields. Our administrative and management staff also receive systematic training on management skills and business operations.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Segment analysis of the Company for the year ended December 31, 2017 is set out in Note 5 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/registered share capital, is set out in Note 12 to the consolidated financial statements.

A review of the business of the Group during the year and its future development, and an analysis of the Group's performance during the year using financial key performance indicators as required under Schedule 5 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) are set out in the "Management Discussion and Analysis" on pages 6 to 19 of this annual report which constitute part of this report of the Directors.

Except for the disposal of a subsidiary and two acquisitions disclosed on page 8 of this annual report, there is no significant subsequent event undertaken by the Company or by the Group from the Listing Date to the date of this report.

## FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of comprehensive income on page 66.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the period from February 21 to December 31, 2014 and the years ended December 31, 2015, 2016 and 2017, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements and the Prospectus.

## SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2017 are set out in Note 23 to the consolidated financial statements. As of the date of this annual report, the total share capital of the Company was HK$138,194 divided into 138,194,000 Shares of HK$0.001 each.

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2017.

## TAX RELIEF AND EXEMPTION

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

## RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2017 are set out in Note 25 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As of December 31, 2017, the Company's distributable reserves amounted to RMB30.8 million.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2017 are set out in Note 15 to the consolidated financial statements.

## USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Stock Exchange on the Listing Date. The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2017 is set out below:

| | Percentage to the total amount | Net Proceeds HK$ million | Utilized Amount HK$ million | Unutilized Amount HK$ million |
|---|---|---|---|---|
| Strategic acquisition of hospitals in China | 50% | 232.80 | 232.80 | — |
| Further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals) | | | | |
| – Purchase of medical and other equipment | 11% | 51.22 | — | 51.22 |
| – Upgrading and improvement of medical facilities | 7% | 32.59 | — | 32.59 |
| Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities | | | | |
| – Human resources expenses | 6% | 27.94 | 3.59 | 24.35 |
| – Employing medical professionals and experts in business management | 5% | 23.28 | — | 23.28 |
| – Conducting academic research activities and developing employee training programs with a focus on management training and professional training | 4% | 18.62 | — | 18.62 |
| Upgrading and improving our information technology system | 7% | 32.59 | 0.36 | 32.23 |
| Provide funding for our working capital, rental and property related expenses and other general corporate purposes | 10% | 46.56 | 46.00 | 0.56 |
| | 100% | 465.60 | 282.75 | 182.85 |

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

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS

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

### Executive Directors:

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

### Non-executive Directors:

Mr. Zhao John Huan *(Chairman)*
Mr. Lin Sheng
Ms. Liu Lu *(appointed on May 26, 2017)*
Ms. Wang Nan *(appointed on May 26, 2017)*
Mr. Yuan Bing *(retired on May 26, 2017)*
Mr. Lin Tun *(retired on May 26, 2017)*

### Independent non-executive Directors:

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

Biographical details of the Directors are set out in "Biographies of Directors and Senior Management" on pages 34 to 43 of this annual report.

Mr. Zhang Xiaopeng and Mr. Lu Wenzuo were re-elected as executive Directors in the annual general meeting of the Company (the "**2017 AGM**") held on May 26, 2017. Mr. Zhao John Huan was re-elected as a non-executive Director. Ms. Liu Lu and Ms. Wang Nan were appointed as non-executive Directors at the 2017 AGM.

Mr. Lin Sheng, Ms. Chen Xiaohong and Mr. Zhou Xiangliang shall retire at the forthcoming annual general meeting of the Company (the "**AGM**") pursuant to the articles of associations of the Company (the "**Articles**"). All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND COMPETING BUSINESS

Transactions, arrangements and contracts of significance (as defined in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) in relation to our business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, during the year ended December 31, 2017 and up to the date of this report.

As of December 31, 2017, none of the Directors is interested in any businesses apart from our business which competes or is likely to compete with our business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions were set out in Notes 34 to the consolidated financial statements. In the opinion of the Directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

## CONTRACT OF SIGNIFICANCE

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

## CONNECTED TRANSACTION

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

## DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As of the date of this report, the interests or short positions of our Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, under Section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (iii) which were required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

### Long positions in the Shares and underlying Shares of the Company

| Name of Director | Capacity/Nature of interest | Number of Shares or underlying Shares | Approximate percentage of shareholding interest(6) |
|---|---|---|---|
| Mr. Zhao John Huan | Interest in controlled corporation | 123,000,000(1) | 89.01% |
| | Deemed interest | 2,500,000(2) | 1.81% |
| Mr. Zhang Xiaopeng | Interest in controlled corporation | 2,860,000(3) | 2.07% |
| | Beneficial owner | 1,727,425(4) | 1.25% |
| Ms. Liu Lu | Interest in controlled corporation | 9,098,800(5) | 6.58% |

Notes:

(1) Including the interest in the Shares upon the exercise of the Convertible Bonds held by Vanguard Glory Limited.

(2) The Shares held by Midpoint Honour Limited and pledged in favor of Hony Capital 2008 Management Limited ("**Hony Management**").

(3) Including the Shares held by Midpoint Honour Limited and pledged in favor of Hony Management.

(4) The share awards granted by Vanguard Glory Limited to Mr. Zhang Xiaopeng.

(5) Ms. Liu Lu is a general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業 (有限合夥)), which holds 50% interests in Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司). Anhui Zhong'an Health Investment Management Co., Ltd. is the general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)), which is a limited partnership formed under the laws of the PRC as an investment vehicle and holds 6.58% interests in the Company.

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

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

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

| Name of Shareholder | Capacity/Name of interest | Number of Shares | Approximate percentage of interest in the Company[4] |
|---|---|---|---|
| Vanguard Glory Limited | Beneficial owner | 123,000,000 | 89.01% |
| Hony Capital Fund V, L.P. ("**Hony Fund V**")[2] | Interest in controlled corporation | 123,000,000 | 89.01% |
| Hony Capital Fund V GP, L.P. | Interest in controlled corporation | 123,000,000 | 89.01% |
| Hony Capital Fund V GP Limited | Interest in controlled corporation | 123,000,000 | 89.01% |
| Hony Group Management Limited[1] | Interest in controlled corporation; deemed interest | 125,500,000 | 90.81% |
| Hony Managing Partners Limited[1][2] | Interest in controlled corporation; deemed interest | 125,500,000 | 90.81% |
| Exponential Fortune Group Limited[1][2] | Interest in controlled corporation; deemed interest | 125,500,000 | 90.81% |
| Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥))[3] | Beneficial owner | 9,098,800 | 6.58% |
| Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司) ("**Anhui Zhong'an**")[3] | Interest in controlled corporation | 9,098,800 | 6.58% |
| Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業 (有限合夥))[3] | Interest in controlled corporation | 9,098,800 | 6.58% |
| Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司)[3] | Interest in controlled corporation | 9,098,800 | 6.58% |
| Mr. Niu Yang[3] | Interest in controlled corporation | 9,098,800 | 6.58% |

Notes:

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

(2) Hony Fund V is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Fund V is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan.

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

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

## SHARE-BASED PAYMENTS SCHEMES

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

### (a) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the "**Subscription Agreement**") with Mr. Zhang Xiaopeng, Ms. Xia Yuanqing, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (Mr. Zhang Xiaopeng, Ms. Xia Yuanqing, Mr. Zang Chuanbo, Ms. Ding Yue and Ms. Kan Ruihan collectively referred to as the "**Management Subscribers**"), the respective investment holding companies wholly owned by the Management Subscribers (collectively, the "**Management SPVs**"), Midpoint Honour which was collectively owned by the Management SPVs and Han Prestige Limited ("**Han Prestige**"), an investment holding company wholly owned by Ms. Xia Yuanqing, Hony Management, a management company established by Hony Capital and an affiliate of the Company, and Vanguard Glory, the direct Shareholder of our Company.

Pursuant to the Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the "**Subscription Shares**"), representing 3% of the Company's then issued ordinary shares upon completion of the Subscription Agreement, for a total consideration of RMB31,152,000.

The share-based compensation expense related to the Subscription Agreement of RMB4,445,000 was recognized as "cost of revenue" for year ended December 31, 2017 (2016: RMB3,334,000).

The Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017 respectively by the amendments to the Subscription Agreement (the "**Amendment Agreements**"). Pursuant to the Amendment Agreements, the Subscription Shares will be treated as treasury shares. The fair value of the 300 share options granted to the Management Subscribers will not change due to the modification. Moreover, the Subscription Consideration proceed from the Management Subscribers of approximately RMB31 million will be recognized as financial liability in the financial information of the Group subsequently, instead of previously deemed as a loan from Management Subscribers to Hony Management.

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

(b) **Pre-IPO Share Appreciation Rights Scheme**

At the end of June 2016, the key terms and conditions of a Pre-IPO Share Appreciation Rights Scheme (the "**Pre-IPO SARs Scheme**") were discussed with all employees' concerned. The employees concerned were also informed that the Pre-IPO SARs Scheme was subject to board approval, which was obtained in November 2016.

On November 28, 2016, the Board approved the Pre-IPO SARs Scheme which enables the Company to grant share appreciation rights to Mr. Zhang Xiaopeng, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (collectively referred to as the "**Pre-IPO SARs Grantees**").

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting at June 30, 2016.

Honghe Ruixin, the employer of the Pre-IPO SARs Grantees, receives the services provided by the Pre-IPO SARs Grantees.

Share-based compensation expense related to the Pre-IPO SARs Scheme of RMB2,808,000 was recognized as "cost of revenue" in 2017 (2016: RMB2,775,000).

Details of Pre-IPO SARs Scheme were set out in Note 24 to the consolidated financial statements.

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

At the end of June 2016, the key terms and conditions of a service contract were discussed with Mr. Lu Wenzuo. Mr. Lu Wenzuo was also informed that the service contract was subject to board approval, which was obtained in December 2016.

Pursuant to the Board of Directors' resolution dated December 13, 2016, New Pride, entered into a service contract with Mr. Lu Wenzuo (the "**Service Contract**"). Pursuant to the Service Contract, New Pride conditionally granted certain awards to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator till December 31, 2017 ("**Lu's Awards**").

Share-based compensation expenses related to Mr. Lu's share awards of RMB26,900,000 (2016: RMB13,900,000) and share-based compensation expenses related to Mr. Lu's share appreciation rights of RMB3,833,000 (2016: RMB2,867,000) were recognized as "cost of revenue" for the year ended December 31, 2017.

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

(d) **Share Incentive Scheme**

On October 24, 2017, Vanguard Glory, the immediate holding company of the Company, entered into a share incentive scheme (the "**Share Incentive Scheme**") with each of Mr. Zhang Xiaopeng, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Sun Congshan, Mr. Zou Ran and Ms. Kan Ruihan (collectively referred to as the "**Share Incentive Grantees**") respectively. Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe the Company's ordinary shares held by Vanguard Glory at the exercise price of HK$14.35 per share.

Details of the Share Incentive Scheme were set out in Note 24 to the consolidated financial statements.

(e) **Post-IPO Share Appreciation Rights Scheme**

We adopted the Post-IPO Share Appreciation Rights Scheme (the "**Post-IPO SARs Scheme**") on December 13, 2016 to enable the Company to grant the Post-IPO Share Appreciation Rights (the "**Post-IPO SARs**") to Post-IPO SARs Eligible Participants (as defined below) as rewards or returns for their contribution or potential contribution to the Company and/or any of the subsidiaries. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company. Under the scheme, directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of the subsidiaries (the "**Post-IPO SARs Eligible Participants**" or each a "**Post-IPO SARs Eligible Participant**") who, in the sole opinion of the Board, have contributed to the Company and/or any of the subsidiaries will be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period pursuant to the Post-IPO SARs Scheme. The Post-IPO SARs Grantee (as defined below) do not have any voting rights and rights to dividends entitled by the Shareholders.

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

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

## EQUITY-LINK AGREEMENTS

Save for the share-based payment schemes as set out above, no equity-linked agreement that would or might result in the Company issuing shares, or that requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year of 2017 or subsisted at the end of 2017.

## NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The controlling shareholders' compliance of the deed of non-competition entered into with the Company on December 13, 2017 is set out in the Corporate Governance Report.

## MINIMUM PUBLIC FLOAT

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

## PRE-EMPTIVE RIGHTS

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

## CORPORATE GOVERNANCE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considered that during the period from the date of the Listing up to the date of this annual report, the Company has complied with the applicable code provisions set out in the CG Code since the Listing Date. For details, please refer to the "Corporate Governance Report" on pages 44 to 52 of this annual report.

## EMOLUMENT POLICY AND SENIOR MANAGEMENT'S EMOLUMENTS

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

The five individuals whose remuneration was the highest in the Group in 2017 included two Directors and three members of the senior management. The annual remuneration of the members of the senior management (other than the Directors) by bands for the year ended December 31, 2017 is set out below:

| Remuneration bands | Number of individuals |
|---|---|
| HK$500,000 to HK$1,000,000 | Nil |
| HK$1,500,000 to HK$2,000,000 | 2 |
| HK$2,000,000 to HK$2,500,000 | 1 |
| Above HK$2,500,000 | Nil |

Details of the remuneration of each of the Directors for the year ended December 31, 2017 are set out in Note 37 to the consolidated financial statements.

None of the Directors has agreed to waive any emoluments for the year ended December 31, 2017.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or substantial part of the business of the company were entered into or existed during the year ended December 31, 2017.

## PERMITTED INDEMNITY PROVISION

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

## MAJOR CUSTOMERS AND SUPPLIERS

Yangsi Hospital was our largest customer in 2017, and the Group received management service fees from Yangsi Hospital by providing management and consultancy services to it. In 2017, Yangsi Hospital generated revenue of RMB740.7 million, and management service fees (net of value-added tax) from Yangsi Hospital (by Weikang Investment and Honghe Ruixin) were RMB147.6 million, which accounted for approximately 86.5% of our revenue in the years ended December 31, 2017. Our other customers are patients of Fuhua Hospital, from whom we derive revenue by providing general hospital services. The majority of these patients rely on public medical insurance programs to pay for their medical treatments.

In respect of the continuing operations of the Company, there were no five largest suppliers during the year of 2017.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## RISK MANAGEMENT

### Market Risk

We conduct our business in China, where we derive our revenue. The functional currency for all of our operating subsidiaries is RMB. In Hong Kong market, where the currency is HK$, we accept certain exchange rate risks to meet the needs of investment and financing businesses. We are not exposed to significant commodity price risk. The wealth management products we held in 2017 were classified as available-for-sale financial assets. In view of the short maturity and relative stable prices of those wealth management products, we assess its price risk to be low. Borrowings obtained at variable rates and would expose us to cash flow interest rate risk, which may be offset in part by cash and wealth management products held at variable rates and would expose us to fair value interest rate risk. As of December 31, 2017, we borrowed RMB238.5 million. Our loan interest rate is linked to HIBOR. In order to meet the daily business capital requirements, we accept the interest rate risk within HIBOR's volatility.

### Credit Risk

We are exposed to credit risk mainly in relation to our short-term deposits; bank balance; amounts due from Yangsi Hospital, a related party; and trade and other receivables. Our maximum exposure to credit risk is represented by the carrying amounts of our financial assets in our consolidated balance sheets. The credit risk of short-term deposits and bank balances is limited because the counterparties are state-owned or reputable commercial banks, which are high-credit financial institutions in China. We provide hospital management services to Yangsi Hospital, and Yangsi Hospital was our largest customer in 2017. Management service fees from Yangsi Hospital accounted for approximately 80.3% and 86.5% of our revenue in the years ended December 31, 2016 and 2017, respectively. The settlement of management fees from Yangsi Hospital may take three to six months. We make periodic collective and individual assessments on the recoverability of trade and other receivables, including management fees, based on our historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of trade and other receivables. We make individual assessments on the recoverability of amounts due from related parties based on our historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of amounts due from related parties.

### Liquidity Risk

We are exposed to liquidity risk. We aim to maintain sufficient cash and cash equivalents to meet our operating capital requirements.

### Capital Risk

Our primary objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns to the shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. We actively and regularly review and manage our capital structure to maintain a balance between the higher equity shareholders' returns that might be possible with higher levels of borrowings and the advantage and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. We monitor our capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. Our liability-to-asset ratio was approximately 10% as of December 31, 2016 and 21% as of December 31, 2017. There were no changes in our approach to capital management in 2017. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental friendly environment. The Group has implemented internal policies and procedures with respect to environmental protection at our hospitals and has engaged qualified service providers to dispose of our hospitals' medical waste. The Group has established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections. For the year ended December 31, 2017, the Group incurred RMB13,814 (2016: RMB49,313) in environmental compliance costs. The Group integrates international standards, national regulations and industry standards into its medical service, procurement and business management activities. The specific tasks are performed by the Group's subsidiaries and medical institutions. The Group's functional departments are connected to ensure that daily operations are in line with the environmental, social and governance regulations. During the year ended December 31, 2017 and up to the date of this report, none of our management received reports concerning environmental claims, lawsuits, penalties or administrative sanctions.

## COMPLIANCE WITH LAWS AND REGULATIONS

Our operations are mainly carried out by the Company's subsidiaries in China while the Company's shares are listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China, Hong Kong and Cayman Islands. During the year ended December 31, 2017 and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in China, Hong Kong and Cayman Islands in all material respects.

## AUDITOR

The consolidated financial statements for the year ended December 31, 2017 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the AGM and offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the AGM.

On behalf of the Board

**Zhang Xiaopeng**
*Executive and Chief Executive Officer*

Hong Kong
March 29, 2018

## DIRECTORS

### Zhang Xiaopeng (張曉鵬)

*Executive Director and chief executive officer*

Mr. Zhang Xiaopeng (張曉鵬), aged 56, is the executive Director and chief executive officer of our Company. He was appointed as a Director on February 21, 2014. Mr. Zhang is primarily responsible for overall business operation and strategic planning of our Group and is also responsible for overseeing investment, supervising public affairs management, resources development and logistics management of our Group from November 2013. Mr. Zhang served as the vice hospital administrator, the chief physician and professor at Beijing Cancer Hospital (北京大學腫瘤醫院), a Class IIIA special hospital located in Beijing, from August 2000 to October 2013. Prior to the work at Beijing Cancer Hospital, Mr. Zhang worked at the First Hospital of China Medical University (中國醫科大學附屬第一醫院), a Class IIIA general hospital providing comprehensive medical services located in Shenyang, Liaoning Province, from July 1987 to July 2000, and served as the chief physician and professor from September 1999 to July 2000. Mr. Zhang is the first chairman of committee of the Chinese Society to Oncoradiology of the Chinese Anti-cancer Association (中國抗癌協會腫瘤影像專業委員會) from November 2004 to September 2014, and was a member of the standing committee of Chinese Society of Radiology (中華醫學會放射學分會) from October 2008 to October 2014, vice chairman of committee of Beijing Society of Radiology (北京醫學會放射學分會) from April 2010 to April 2013, and chairman of committee of Beijing Society to Oncoradiology of the Chinese Anti-cancer Association (北京抗癌協會腫瘤影像專業委員會) from January 2010 to January 2013. Mr. Zhang obtained a Doctoral degree in Surgery in July 1996, a Master's degree in Medicine in July 1987 and a Bachelor's degree in Medicine in December 1982 from China Medical University (中國醫科大學) in China.

**Lu Wenzuo (陸文佐)**

*Executive Director*

Mr. Lu Wenzuo (陸文佐), aged 72, is an executive Director of our Company. He was appointed as a Director on December 16, 2015. Mr. Lu is responsible for overall hospital operation and management of Yangsi Hospital. He joined our Group in December 2003. He currently serves as a director of Weikang Investment and also held the position as the hospital administrator of Yangsi Hospital upon its establishment. As the hospital administrator of Yangsi Hospital, Mr. Lu is primarily responsible for overall management and operations of Yangsi Hospital. Mr. Lu has significant decision-making authority in administrative matters in Yangsi Hospital, including the decision-making authority in daily operations, hiring and promotion of personnel and remuneration. Mr. Lu is also responsible for the implementation of plans and financial auditing of Yangsi Hospital. Furthermore, Mr. Lu is also responsible for overseeing and executing the tasks formulated by the Chinese government and the Group. Mr. Lu has more than 33 years of experience in hospital management. Prior to joining our Group, he worked as the deputy hospital administrator for the First People's Hospital of Nantong (南通市第一人民醫院), a Class IIIA general hospital located in Nantong, Jiangsu Province, from July 1983 to March 1987. He joined Shanghai Punan Hospital (上海浦南醫院), a Class II general hospital located in Shanghai, in April 1987 and served as the deputy hospital administrator from January 1992 to December 2003. Mr. Lu graduated from Shanghai Medical College (復旦大學上海醫學院) (previously known as Shanghai First Medical College (上海第一醫學院)) in China in August 1969 and majored in Medicine. Mr. Lu received the qualification of chief physician (主任醫師) from the Medical Technical Worker Advanced Qualifications Review Committee of Shanghai (上海衛生技術人員高級職稱評審委員會) in December 1996. He was awarded as one of the Top Ten Outstanding Administrators in Shanghai by Shanghai Association for Non-government Medical Institutions (上海市社會醫療機構協會) in November 2013.

**Zhao John Huan (趙令歡)**

*Chairman and non-executive Director*

Mr. Zhao John Huan (趙令歡), aged 55, is the Chairman and non-executive Director of our Company. He was appointed as a Director on February 21, 2014. Mr. Zhao is responsible for overseeing the corporate development and strategic planning of our Group. He is currently the chairman and chief executive officer of Hony Capital. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and PRC. Prior to joining our Group, he was the advisor to the chief executive officer of Lenovo Group Limited from 2002 to 2003. From January 2003 to December 2009, Mr. Zhao served as a vice president, and from January 2010 to May 2010, a senior vice president of Legend Holdings Limited (聯想控股有限公司). From May 2010 to December 2011, he served as a director and a senior vice president of Legend Holdings Limited, and from January 2012 to present, a director and an executive vice president of Legend Holdings Limited (now known as Legend Holdings Corporation). Mr. Zhao is currently a non-executive director of Lenovo Group Limited (Stock Code: 0992), the chairman of the board of China Glass Holdings Limited (Stock Code: 3300), a director and an executive vice president of Legend Holdings Corporation (Stock Code: 3396), a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (Stock Code: 1157) and an executive director, the chairman of the board and the chief executive officer of Best Food Holding Company Limited (Stock Code: 1488), which are listed on the Stock Exchange, and a deputy chairman of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) (Stock Code: 600649), a company listed on the Shanghai Stock Exchange, and a director of Shanghai Jin Jiang International Hotels Development Co., Ltd. (上海錦江國際酒店發展股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600754 (A shares) and 900934 (B shares)). He once served as a director of Wumart Stores, Inc., a company listed on the Main Board of Stock Exchange (Stock Code: 1025) prior to December 2015 (listed on the GEM Board of the Stock Exchange prior to May 2011 (Stock Code: 8277)) from November 2009 to June 2014, a director of Fiat Industrial S.p.A., a company listed on MTA Italian Stock Exchange from January 2011 to September 2013, a non-executive director of New China Life Insurance Company Ltd., a company listed on the Stock Exchange (Stock Code: 1336) from November 2012 to March 2015, a non-executive director of Chinasoft International Limited, a company listed on the Stock Exchange (Stock Code: 0354) from July 2011 to April 2015, an executive director of CSPC Pharmaceutical Group Limited, a company listed on the Stock Exchange (Stock Code: 1093), from December 2008 to May 2015, and a director of Jiangsu Phoenix Publishing & Media Corporation Limited (江蘇鳳凰出版傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601928), from June 2009 to June 2012. Mr. Zhao obtained his Bachelor's degree in Science from Nanjing University (南京大學) in China in July 1984 and dual Master's degrees of Science from Northern Illinois University in the United States in May 1990 and a Master of Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in June 1996.

**Lin Sheng (林盛)**

*Non-executive Director*

Mr. Lin Sheng (林 盛), aged 43, is a non-executive Director of our Company. He was appointed as a Director on February 21, 2014. Mr. Lin is responsible for overseeing the corporate development and strategic planning of our Group and supervising overall business and operations of our Group. He joined Hony Capital in April 2003 and was mainly responsible for pharmaceutical services and medical devices, medical services, media, telecommunications and technology industry research and investment. Mr. Lin has extensive experience in business operation, product marketing and management and has extensive expertise in information technology. From July 29, 2011 to April 27, 2015, Mr. Lin had been a non-executive director of Chinasoft International Limited, a company listed on the Stock Exchange (Stock Code: 0354). Mr. Lin obtained a Master's degree in Technical Economy and Management in July 1999, and a dual Bachelor's degree in Engineering Physics and Business Administration from Tsinghua University (清華大學) in China in July 1997.

**Liu Lu (劉路)**

*Non-executive Director*

Ms. Liu Lu (劉 路), aged 44, is a non-executive Director of our Company. She was appointed as a Director on May 26, 2017. Ms. Liu is primarily responsible for overseeing the corporate development and strategic planning of our Group. From November 2008 to March 2015, Ms. Liu served as an assistant to the general manager and subsequently a deputy general manager at Anhui Venture Capital Investment Co., Ltd. (安徽省創業投資有限公司). From March 2015 to February 2016, Ms. Liu had been a deputy general manager at Anhui Hi-Tech Industry Investment Co., Ltd. (安徽省高新技術產業投資公司). Since December 2015, Ms. Liu has been the general manager of Anhui Zhong'an. She currently serves as a director in multiple companies, including Anhui Fengshou Investment Co., Ltd. (安徽豐收投資有限公司) and Anhui Sunhere Pharmaceutical Excipients Co., Ltd. (安徽山河藥用輔料股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 300452). Ms. Liu is also the chairwoman of the board of directors at Anhui Puren Medical Rehabilitation Management Co., Ltd. (安徽普仁醫療康復管理有限公司). Ms. Liu obtained her Bachelor's degree and Master's degree in Biology from Hebei University (河北大學) in China in June 1994 and from Nankai University (南開大學) in China in June 1997, respectively.

### Wang Nan (王楠)

*Non-executive Director*

Ms. Wang Nan (王楠), aged 41, is a non-executive Director of our Company. She was appointed as a Director on May 26, 2017. Ms. Wang is primarily responsible for overseeing the corporate development and strategic planning of our Group. Since August 1995, Ms. Wang has been serving in Neusoft Corporation (東軟集團股份有限公司) (a company listed in the Shanghai Stock Exchange with stock code 600718), where she held various positions, including the manager of the Java application department in the Neusoft software centre, a deputy general manager of the middleware technology branch, the head of the mobile internet division, a deputy director of the advanced automotive electronic technology research center and the general manager of the strategic alliance and international business development division. Ms. Wong has been serving as a senior vice president and the secretary to the board of directors at Neusoft Corporation since May 2011. Ms. Wang obtained her PhD in Computer Applications from Northeastern University (東北大學) in China in July 2009.

### Chen Xiaohong (陳曉紅)

*Independent non-executive Director*

Ms. Chen Xiaohong (陳曉紅), aged 66, was appointed as an independent non-executive Director of our Company on December 13, 2016 with effect from the Listing Date. Ms. Chen served as the vice hospital administrator of Chinese People's Liberation Army General Hospital (中國人民解放軍總醫院) from December 2003 to December 2009. She was accredited with the title of chief physician by the Department of Cadres of the Chinese People's Liberation Army General Hospital's Political Division in September 1999.

Ms. Chen currently holds positions in the following organizations:

| Name of organization/project | Position | Time of commencement |
|---|---|---|
| Branch of Chinese Hospital Association Maternity Hospital Management (中國醫院協會婦產醫院管理分會) | Honorary chairwoman | November 2015 |
| Guangdong Medical Safety Association (廣東省醫療安全協會) | Consultant | September 2015 |
| Construction of modern hospital management system - enhancement project of maternity hospital management quality (現代醫院管理制度建設—婦產醫院管理質量提升項目) | Project specialist | October 2014 |
| Nursing Management Professional Commission of Chinese Hospital Association (中國醫院協會護理管理專業委員會) | Honorary chairwoman | April 2011 |
| Out-patient Emergency Management Professional Commission of Chinese Hospital Association (中國醫院協會門急診管理專業委員會) | Honorary chairwoman | 2012 |

Ms. Chen graduated from the People's Liberation Army Second Military Medical University in China (中國人民解放軍第二軍醫大學) majoring in Military Health Management through distance learning with correspondence courses, received her college diploma through the self-taught higher education examination (高等教育自學考試) and obtained a graduation certificate in Psychology from the Peking University in China in December 2000. She served as the chief physician of the Health Department of People's Liberation Army General Logistics Department in May 1999.

**Shi Luwen (史錄文)**

*Independent non-executive Director*

Mr. Shi Luwen (史錄文), aged 54, was appointed as an independent non-executive Director of our Company on December 13, 2016 with effect from the Listing Date. Mr. Shi has served as the dean of the Department of Pharmacy Administration and Clinical Pharmacy of Peking University School of Pharmaceutical Sciences (北京大學藥學院) since 2000 and as the director of the International Research Center for Medical Administration of Peking University (北京大學醫藥管理國際研究中心) since 2002.

Mr. Shi currently holds positions in various organizations, including those set out below:

| Name of organization/project | Position | Time of commencement |
|---|---|---|
| China Pharmaceutical Innovation and Research Development Association Medicine Policy Professional Committee (中國醫藥創新促進會醫藥政策專業委員會) | Chairman | 2015 |
| Chinese Hospital Association Expert Committee of Clinical Pharmacists Practice (中國醫院協會臨床藥師工作專家委員會) | Committee member | 2014 |
| China Nonprescription Medicines Association Expert Committee (中國非處方藥物協會專家委員會) | Committee member | 2014 |
| Pharmacy Administration Professional Commission of Beijing Association of Chinese Medicine (北京中醫藥協會藥事管理專業委員會) | Vice chairman | 2012 |

In addition, Mr. Shi had held positions in various organizations, including those set out below:

| Name of organization/project | Position | Time of commencement |
|---|---|---|
| Medical and Health System Reform Intensifying Expert Advisory Panel of the Ministry of Health of the PRC (中國衛生部深化醫藥衛生體制改革專家諮詢組) | Expert | 2010-2012 |
| Basic Medical Insurance System for Urban Resident Joint Conference of the State Council (國務院城鎮居民基本醫療保險部聯席會議) | Pilot evaluation expert | 2007-2010 |

Mr. Shi has been an independent non-executive director of China Meheco Co., Ltd. (中國醫藥健康產業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600056), since December 2015. Mr. Shi was awarded the Scientific Chinese Person (2011) (科學中國人(2011)年度人物) by Scientific Chinese Magazine in 2012, the Hospital Science and Technology Innovation Award (醫院科技創新獎) by the Chinese Hospital Association in 2011 and the Xue Muqiao Price Research Award (薛暮橋價格研究獎) by the Price Association of China (中國價格協會) in 2010. He was awarded the Beijing Science and Technology Award (北京市科學技術獎) by the People's Government of Beijing Municipality in 2002. Mr. Shi obtained his Bachelor's degree in Science from Peking University Health Science Center (北京大學醫學部) (formerly known as Peking Medical University in China (中國北京醫科大學)) in July 1987 and his Master's degree in Health Professions Education from the University of Illinois in the United States in July 1992.

**Zhou Xiangliang (周向亮)**

*Independent non-executive Director*

Mr. Zhou Xiangliang (周向亮), aged 37, was appointed as an independent non-executive Director of our Company on December 13, 2016 with effect from the Listing Date. Mr. Zhou has served in Beijing Science Technology Co., Ltd. (北京中環信科科技股份有限公司) as the chief financial officer since July 2010 and has also held the position of board secretary since August 2011. Prior to working in Beijing Science Technology Co., Ltd., Mr. Zhou worked as a consultant in KPMG Huazhen LLP. Mr. Zhou obtained his Bachelor's degree in Management from the Central University of Finance and Economics (中央財經大學) in China in June 2003. He was qualified as a Chinese Certified Public Accountant (中國註冊會計師) by Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in July 2007 and as a board secretary by the Shenzhen Stock Exchange in November 2012.

## SENIOR MANAGEMENT

**Yang Wen (楊文)**

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

Mr. Yang Wen (楊文), aged 54, was appointed as a deputy general manager and chief medical service officer of Weikang Investment in September 2014 and August 2016, respectively. He is primarily responsible for overseeing medical education and training activities of the hospitals of the Company, the upgrading and maintenance of medical facilities and infrastructure of the hospitals and overseeing quality control of medical services of the hospitals. He joined our Group in May 2005 and has worked for over 11 years in Weikang Investment. He served as the head of the department of respiratory medicine from 2005 to 2014 and has served as the head of the department of internal medicine since 2010 and has been in charge of overseeing the organization of educational activities of the Group since March 2010. Apart from his position in Weikang Investment, Mr. Yang, in the capacity of the deputy hospital administrator of Yangsi Hospital, is also responsible for business and infrastructure work, medical dispute resolutions and regular inspection of service performance of Yangsi Hospital.

Mr. Yang obtained a Bachelor's degree in Medicine from Wannan Medical College in China in July 1986. He was accredited with the title of chief physician (主任醫師) by the Medical Technical Worker Advanced Qualifications Review Committee of Anhui Province (安徽省衛生技術高級職務評審委員會) in December 2005.

**Le Meifen (樂美芬)**

*Deputy general manager of Weikang Investment*

Ms. Le Meifen (樂美芬), aged 57, was appointed as a deputy general manager of Weikang Investment in April 2008. She is primarily responsible for supervising general administrative affairs and human resources and nursing services of the hospitals of the Company. She joined our Group in August 2003 and has worked for 12 years in Weikang Investment where she served as the director of the human resources and administration department. Apart from her position in Weikang Investment, Ms. Le, in the capacity of the deputy hospital administrator of Yangsi Hospital, is also responsible for assisting hospital administrator in general administrative work and internal coordination of Yangsi Hospital.

Ms. Le received her graduation certificate through the self-taught higher education examination from the School of Nursing of Fudan University (復旦大學護理學院), majoring in Nursing, in China in December 2004. She was accredited with the title of associate chief nurse by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組) in December 2004.

**Yuchi Min (尉遲敏)**

*Deputy general manager of Weikang Investment*

Ms. Yuchi Min (尉 遲 敏), aged 64, was appointed as a deputy general manager of Weikang Investment in April 2008. She is primarily responsible for supervising research and development of the hospitals of the Company and overseeing the clinical education of the hospitals. She joined our Group in March 2004 and has worked for 12 years in Weikang Investment where she currently serves as the head of the departments of gastroenterology and endoscope. Apart from her position in Weikang Investment, Ms. Yuchi, in the capacity of the deputy hospital administrator of Yangsi Hospital, is responsible for design of devising scientific research plans and clinical research.

Ms. Yuchi obtained a Bachelor's degree in Medicine from Wannan Medical College in China in August 1982. She was accredited with the title of chief physician by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組) in November 1999.

**Zang Chuanbo (臧傳波)**

*Deputy general manager of the Company*

Mr. Zang Chuanbo (臧傳波), aged 46, was appointed as a deputy general manager of our Company in February 2016. He is primarily responsible for overseeing medical management of our Group and assisting the chief executive officer. Mr. Zang has more than 22 years of experience in the medical industry. He joined our Group in March 2014 and has served as the chief medical officer since then. Prior to joining our Group, Mr. Zang served as the deputy chief of medical division from August 2007, deputy chief of cadres division from July 2008, and chief of postgraduate and training division from July 2010 at the Chinese People's Liberation Army General Hospital in Beijing, a Class IIIA general hospital and as the deputy director of the medical department of the Chinese People's Liberation Army General Hospital Hainan Branch from July 2011. Mr. Zang also worked as a doctor in the department of general surgery of the Chinese People's Liberation Army General Hospital, from July 1994 to August 2007.

Mr. Zang obtained an EMBA degree in June 2013 from Nankai University (南開大學) in China, a Master's degree in General Surgery in July 2000 from the Military Medical School of People's Liberation Army of China (中國人民解放軍軍醫進修學院) in China and a Bachelor's degree in Clinical Medicine in July 1994 from Xi'an Jiaotong University Health Science Centre (西安交通大學醫學部) (previously known as Xi'an Medical University (西安醫科大學)) in China.

**Zou Ran (鄒然)**

*Chief Financial Officer*

Mr. Zou Ran (鄒然), aged 31, was appointed as the chief financial officer of the Company when he joined our Group in July 2017. He is primarily responsible for overseeing the financial aspects and operations of the Company. Mr. Zou served as Vice President in Hony Capital since August 2010. From September 2008 to July 2010, he worked at KPMG Huazhen LLP as the Associate.

Mr. Zou obtained his Bachelor's degree in Management in June 2008 from the University of International Business and Economics in China.

**Pang Jiayi (龐家漪)**

*Financial director of Weikang Investment*

Ms. Pang Jiayi (龐家漪), aged 64, was appointed as the financial director of Weikang Investment when she joined our Group in January 2004. She is primarily responsible for supervising corporate financing of the hospitals of the Company. Ms. Pang is also the chief financial officer of Yangsi Hospital responsible for business development and financial budgeting and cost control. From January 1982 to December 2003, she worked for Shanghai Punan Hospital, a Class II hospital in Shanghai, and had served as the deputy chief of the financial department from April 1988, the chief of the financial department from July 1992 and the deputy director of the economic management department from April 2001.

Ms. Pang received a college diploma in Financial Accounting from Shanghai Jingan District College (上海市靜安區業餘大學) in China in January 1990. She was accredited with the title of accountant in July 1992 by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組).

**Ding Yue (丁玥)**

*Chief nursing officer of the Company*

Ms. Ding Yue (丁玥), aged 45, was appointed as the chief nursing officer (護理總監) of our Company in March 2014. She is primarily responsible for supervising the healthcare quality management of our Company. She joined our Group in March 2014. Prior to joining our Group, Ms. Ding served as nursing supervisor (護理主管) of the hospital management office in Peking University Health Science Center (北京大學醫學部醫院管理處) from July 2012 to February 2014. From August 1996 to June 2012, Ms. Ding worked at Beijing Cancer Hospital as the head of the nursing department and the deputy head of the nursing department.

Ms. Ding obtained her Bachelor’s degree in Medicine in July 1996 from the School of Nursing of Peking University in China.

## CORPORATE GOVERNANCE REPORT

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the best interest of the Company and its Shareholders. The Company had adopted the applicable code provisions and, where appropriate, adopted the recommended best practices as set out in the CG Code contained in Appendix 14 to the Listing Rules since the Listing Date. The Board considered that the Company has complied with all applicable code provisions set out in the CG Code since the Listing Date until December 31, 2017.

### COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) on terms no less stringent than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code.

### BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

**Executive Directors:**

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

**Non-executive Directors:**

Mr. Zhao John Huan *(Chairman)*
Mr. Lin Sheng
Ms. Liu Lu
Ms. Wang Nan

**Independent non-executive Directors:**

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

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" on pages 34 to 43 of this annual report.

### Insurance for Directors

Code provision A.1.8 of the CG Code stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

### Chairman and chief executive officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and chief executive officer should be separate and performed by the different individuals.

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

### Independent Non-executive Directors

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

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

### Directors' Re-election

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

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

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

### Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

### Continuous Professional Development of Directors

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

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

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

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

During the year, Ms. Liu Lu and Ms. Wang Nan have been given the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest.

During the year, relevant reading materials including legal and regulatory updates have been provided to the Directors appointed during the year for their reference and studying.

## BOARD COMMITTEES

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

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

### Audit Committee

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

The Audit Committee held 2 meetings during the year. The Audit Committee members, Mr. Zhou Xiangliang and Mr. Shi Luwen, attended the meeting in person and the following matters have been discussed and considered:

(a) reviewed the annual report of the Company for the year ended December 31, 2016 and the interim report of the Company for the six months ended June 30, 2017;

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

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

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

### Remuneration Committee

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

The Remuneration Committee held 1 meeting during the year and considered and recommended to the Board the remuneration and other benefits paid by the Company to the Directors and senior management. All members of the Remuneration Committee attended the meeting(s) in person.

### Nomination Committee

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

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

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

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

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

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

The Nomination Committee held 1 meeting during the year and determined and adopted the Board Diversity Policy, reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors and made recommendation to the Board on the appointment or re-appointment of Directors. All members of the Nomination Committee attended the meeting(s) in person.

### Corporate Governance Functions

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

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

## ATTENDANCE RECORD OF BOARD MEETINGS AND GENERAL MEETING

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximately quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The attendance records of each Director at the Board meetings and the general meeting of the Company held during the year ended December 31, 2017 is set out in the table below:

| Directors | Attended/Eligible to attend the Board meeting(s) | Attended/Eligible to attend the general meeting(s) |
|---|---|---|
| Mr. Zhang Xiaopeng | 4/4 | 1/1 |
| Mr. Lu Wenzuo | 4/4 | 1/1 |
| Mr. Zhao John Huan | 4/4 | 1/1 |
| Mr. Yuan Bing* | 1/4 | 1/1 |
| Mr. Lin Sheng | 4/4 | 1/1 |
| Mr. Lin Tun* | 1/4 | 1/1 |
| Mr. Liu Lu | 3/4 | 1/1 |
| Mr. Wang Nan | 2/4 | 1/1 |
| Ms. Chen Xiaohong | 3/4 | 1/1 |
| Mr. Shi Luwen | 3/4 | 1/1 |
| Mr. Zhou Xiangliang | 4/4 | 1/1 |

* retired on May 26, 2017

## DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2017.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 58 to 65 of this annual report.

## AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended December 31, 2017 is set out below:

| Service Category | Fees Paid/ Payable RMB'000 |
|---|---|
| Audit Services | 2,928 |
| Non-audit Services | 1,041 |
| Total | 3,969 |

## RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

A series of risk management and internal control policies and procedures are adopted both in the Group and the hospitals the Company manages, which includes risk management, internal control system and internal audit function. The risk management system contains identifying and categorizing current and emerging risks in our business operations, assessing and prioritizing risks, mitigating risks, and measuring our risk management. The internal control system includes employee code of conduct, internal audit, management report and internal control system in the hospitals the Company owns or manages. The internal audit function accesses and monitors key risks, controls and procedures to assure our management and the Directors that the internal control system is functioning as intended and is sound and effective. The Audit Committee is responsible for supervising our internal audit function and supported by the legal and risk control department of the Company. In addition, a standardized internal control system has been adopted by the hospitals the Company owns or manages to improve their internal policies and procedures. Yangsi Hospital has improved their internal policies and procedures based on this standardized systems.

During the reporting period, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management, internal control system and internal audit function of the Company and considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Company confirms that the above risk management, internal control system and internal audit function are adequate and effective.

## COMPANY SECRETARY

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

## SHAREHOLDERS' RIGHTS

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

### Convening an Extraordinary General Meeting by Shareholders

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

### Putting Forward Proposals at General Meetings

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

### Putting Forward Enquiries to the Board

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

### Contact Details

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

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

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

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

### Constitutional Documents

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

## NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Vanguard Glory Limited, Hony Fund V, Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited are the controlling shareholders (has the meaning ascribed thereto in the Listing Rules) of the Company (collectively, the "**Controlling Shareholders**"). To ensure that direct and indirect competition does not develop between us and the Controlling Shareholders' other activities, our Controlling Shareholders have entered into a deed of non-competition (the "**Deed of Non-Competition**") as set out in section headed "Relationship with Our Controlling Shareholders Non-Competition Undertaking" in the Prospectus. The Controlling Shareholders confirmed its compliance of all the undertakings provided under the Deed of Non-Competition. There are no matters which required to be deliberated by the independent non-executive Directors in relation to the compliance and enforcement of the Deed of Non-Competition and it is considered that the terms of the Deed of Non-Competition have been complied by the Controlling Shareholders.

## A. ENVIRONMENT

### Emissions

We are a hospital operation and management group, our operating activities do not generate any emissions or wastes that would severely pollute the environment. We are committed to achieving environmental sustainability and incorporating it in daily operations, of which we are subject to various Chinese laws, rules and regulations with respect to environmental matters, including the Regulations on the Management of Medical Waste (《醫療廢物管理條例》), the Implementation Measures of the Management of Medical Waste (《醫療衛生機構醫療廢物管理辦法》) and other Chinese laws, rules and regulations with respect to the disposal of medical waste and the discharge of wastewater, pollutants and radioactive substances. Yangsi Hospital has implemented internal policies and procedures with respect to environmental protection and have engaged qualified service providers to dispose of their medical wastes.

There were no non-compliance cases noted in relation to environmental laws and regulations for the year ended December 31, 2017.

### Use of Resources

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

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

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

The table below sets forth the key performance indicators of the consumption of energy, water and office paper for the Group (excluding Fuhua Hospital) and Yangsi Hospital for the year ended December 31, 2017.

| | The Group (excluding Fuhua Hospital) | Yangsi Hospital |
|---|---|---|
| **Energy Consumption** | | |
| – Gas ($m^3$) | N/A | 57,130 |
| – Electricity (kilowatt/hour) | 28,980 | 4,379,240 |
| **Water Consumption ($m^3$)** | 112 | 83,944 |
| **Office Paper Consumption (pack)(500 sheets/pack)** | 35 | 2,998 |
| **Packaging Material used for Finished Products** | N/A | N/A |

### Environment and Natural Resources

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

## B. SOCIAL

### Employment and Labour Practices

*Employment*

Employees are regarded as our valuable assets and key stakeholders. We reward and recognize performing employees with competitive remuneration packages mainly consisting of base salary, welfare and bonus. We also sets performance targets for the employees based on their position and department and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. We provide employee-related insurance to its employees, which consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations. In 2017, we did not experience any significant staff turnover or any disruption to our business operations due to labor disputes. We do not tolerate sexual harassment, discrimination or abuse in the workplace in any form, and we work to ensure an equal and fair working environment.

*Health and Safety*

We are committed to complying with the relevant regulatory requirements and relevant laws and regulations, preventing and reducing various hazards and risks associated with our operation, and ensuring the health and safety of our employees. We have implemented internal policies and systems designed with a view to ensuring compliance with such requirements, which primarily include the following measures:

(a) *Written guidelines:* Our hospital and the hospital we manage have written procedures and guidelines in place for health and safety, including in relation to handling medical equipment, needle, sharp objects and medical waste. These written procedures and guidelines are handed out to the doctors and other medical professionals;

(b) *Training programs:* We provide trainings to our doctors and other medical professionals so that they are familiar with the relevant medical procedures and technology at the hospital and the health and safety related policies; and

(c) *Assessment system:* We evaluate the health and safety measures in our hospitals periodically against current and new health and safety regulations to identify areas which may need improvement. Further, our hospitals are subject to periodic licensing renewal requirements and inspections by various government agencies and departments.

We had been in compliance with the relevant regulatory requirements and laws and regulations in 2017, and our employees did not experience any material health or safety accidents, work injury or work-related fatalities in the course of our business operations.

*Development and Training*

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

*Labour Standards*

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

**Operating Practices**

*Supply Chain Management*

The supplies required in the our operations primarily include pharmaceuticals and medical consumables purchased by our hospitals. As required by Chinese regulations, our hospitals procure pharmaceuticals and medical consumables through public tendering conducted using the centralized online pharmaceutical platforms organized by the competent government authorities. Our hospitals purchase pharmaceuticals and medical consumables from the suppliers through Sunshine Medical Website.

We typically do not enter into supply contracts with the suppliers as purchases are conducted through Sunshine Medical Website. Instead, we entered into quality assurance agreements with the suppliers. Under these agreements, the suppliers undertake to ensure the quality of the supplies, and we may return the supplies if they are defective, have expired or do not meet the standards of the hospital guidelines upon inspection after delivery.

We have close oversight over our procurement process. We have implemented comprehensive policies and guidelines governing our procurement process, such as the procurement management guidelines, supplier management guidelines and code of conduct for our procurement personnel. These policies and guidelines set forth detailed rules and procedures for the procurement of pharmaceuticals, medical consumables, medical devices and other supplies, and are designed to, among others, prevent bribery and corruption with respect to the procurement process and ensure its supply chain management is socially responsible.

*Product Responsibility*

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

We emphasize the quality and safety of the medical services we provide. We have established comprehensive risk management systems and internal control procedures in our hospitals to minimize medical risks arising from the hospital. The skills, competence and attitude of the medical professionals and other staff are essential for medical services in determining the quality of care that patients receive. Our hospitals' employees receive regular training on relevant safety policies, standards, protocols and procedures and are required to strictly comply with them in all aspects of our operations. Further, We have established a group level medical management department to oversee the risk management in the hospital owned by us and to ensure the risk management team in the hospital has followed our policies and procedures to achieve effective and efficient governance, risk and control processes. Our risk management team assigns responsibilities to different medical professionals and employees, implements rules and regulations, sets out training plans, and supervises the execution of these functions. In addition to periodic inspections we conduct, hospitals are subject to regular and unscheduled inspections by relevant government authorities, including the Shanghai Municipal Commission of Health and Family Planning, which reviews medical service management systems and medical services provided by the hospitals to determine the compliance status and areas that can be further improved. In 2017, our hospitals did not receive any written notice or punishment for noncompliance or violation of medical quality and safety laws or regulations resulting in material consequences, nor did it receive any recommendation for improvement with respect to medical quality and safety from any government authority.

*Anti-corruption*

In 2017, We did not encountered any corruption or bribery incidents. We have taken a number of measures to prevent improper activities including bribery and kickbacks by the employees and Yangsi Hospital in connection with, among others, the provision of healthcare services and the procurement of pharmaceuticals, medical consumables and medical devices. These measures include internal training programs, internal policies and guidelines governing the our employees and employees of Yangsi Hospital and review and discussion of any suspicious incidents by the Board. In addition, we have adopted a comprehensive anti-bribery policy and code of conduct for its employees and employees of Yangsi Hospital to further institutionalize our anti-bribery practice. In accordance with the internal policy, both the our employees and Yangsi Hospital's employees are prohibited from receiving, giving or offering bribes or otherwise engaging in activities that would violate the applicable anti-corruption laws.

## COMMUNITY

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

In 2017, our Group offered complimentary or discounted healthcare and consulting services as part of our community activities, including:

- engaged Yangsi Hospital in providing complimentary healthcare services that covers patients suffering from high blood pressure, diabetes, maternal and child health care, infectious diseases, cancer, etc.;
- provided 11,805 complementary vaccinations services;
- participated in the “family bed program”, we provide 24 hours home visit services to family in need in the Sanlin area;
- arranged a medical practitioner to work in a nursing home to provide services to elderlies staying in nursing homes; and
- provided healthcare education and free medical treatments in the community.

# INDEPENDENT AUDITOR'S REPORT

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

## OPINION

What we have audited

The consolidated financial statements of Hospital Corporation of China Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 158, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

## INDEPENDENCE

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

## KEY AUDIT MATTERS

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

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

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
| --- | --- |
| **Impairment assessment of goodwill** | |
| Refer to note 2.7(a), 4(a) and 16 to the consolidated financial statements<br><br>Goodwill of RMB958,864,000 was resulted from acquisitions of subsidiaries in 2014, among which RMB950,916,000 was allocated to hospital management services segment and the rest RMB7,948,000 was allocated to general hospital services segment. Management reviews the business performance and monitors goodwill on operating segment level.<br><br>In 2017, the Company disposed the 80% equity interest in Shanghai Fuhua Hospital Co., Ltd. Following the completion of the disposal, the goodwill allocated to general hospital services segment was derecognised. | We understood and evaluated the internal controls over goodwill impairment assessment, and we tested the relevant controls.<br><br>We assessed the independence, competence, capabilities and objectivity of the industry consultant who was involved in management's impairment assessment.<br><br>We further assessed the relevant key assumptions used in determining the recoverable amounts of the hospital management services segment as follows:<br><br>• compound growth rate of revenue by reference to the industry report from the industry consultant;<br><br>• cost and operating expense percentage to revenue by reference to the historical financial performance of the segment; |

## KEY AUDIT MATTERS – *continued*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment assessment of goodwill** | |
| Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The recoverable amounts of hospital management services segment was determined based on value-in-use calculations. These calculations required the use of estimates and judgements. Management involved an industry consultant in determining key assumptions in the calculation. The key assumptions used in the value-in-use calculations were: compound growth rate of revenue, cost and operating expense percentage to revenue, long-term growth rate and pre-tax discount rate. Based on the management's assessment, no impairment was provided as at 31 December 2017.<br><br>We focused on this area due to the relevant key assumptions applied in goodwill impairment assessment involving significant estimates and judgements. | • long-term growth rate by reference to the long term inflation rate of China;<br><br>• pre-tax discount rate by reference to the cost of equity of comparable companies.<br><br>We also checked the mathematical accuracy of the calculations within value-in-use model used by management.<br><br>We assessed the sensitivity analyses performed by management on the above key assumptions to consider the extent to which adverse changes, either individually or in aggregate, would result in the goodwill being impaired.<br><br>In light of the above work conducted, we found the significant estimates and judgements made by management in relation to relevant key assumptions applied in goodwill impairment assessment were supported by the evidences we gathered. |

## KEY AUDIT MATTERS – *continued*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Valuation of share-based compensation schemes**<br><br>Refer to note 2.22, 4(d) and 24 to the consolidated financial statements<br><br>The Group has several share-based compensation schemes, among which three of them, with fair value of RMB11,160,000, RMB10,369,000 and RMB47,500,000, respectively, have significant impact on the consolidated financial statements for the year ended December 31, 2017.<br><br>The fair value of these share-based compensation schemes were determined by a professional valuer, using valuation techniques. Judgements and estimates were applied in determining valuation method and assumptions.<br><br>The key assumptions included volatility, dividend yield, expected option life, annual risk-free interest rate and discount for lack of marketability.<br><br>We focused on this area because of the significant impact of share-based compensation schemes to the consolidated financial statements and the relevant key assumptions applied in valuation involving significant judgements and estimates. | We assessed the independence, competence, capabilities and objectivity of the professional valuer.<br><br>We assessed the valuation methods applied and the relevant key assumptions as follows:<br><br>• volatility by reference to the daily share price volatility of comparable companies for an observation period;<br><br>• dividend yield by reference to the dividend policy of the Group;<br><br>• expected option life by reference to the terms in the adopted share-based compensation schemes;<br><br>• annual risk-free interest rate by reference to the market yield of government bond with similar issuing date and maturity date as of the valuation date;<br><br>• discount for lack of marketability by reference to relevant ratios for public and private companies for the past ten years.<br><br>We also checked the mathematical accuracy of the calculation of fair value of the share-based compensation schemes with the assistance from the valuation expert.<br><br>In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered. |

## KEY AUDIT MATTERS – *continued*

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

## OTHER INFORMATION

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

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

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

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

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 29 March, 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | **149,158** | 130,882 |
| Cost of revenue | 9 | **(61,320)** | (49,343) |
| **Gross profit** | | **87,838** | 81,539 |
| Administrative expenses | 9 | **(53,706)** | (26,373) |
| Other income | 7 | **3,742** | 2,982 |
| Other (losses)/gains – net | 8 | **(120)** | 1,125 |
| **Operating profit** | | **37,754** | 59,273 |
| Finance income | 11 | **2,701** | 677 |
| Finance costs | 11 | **(21,227)** | — |
| Finance (costs)/income – net | | **(18,526)** | 677 |
| **Profit before income tax** | | **19,228** | 59,950 |
| Income tax expense | 13 | **(22,912)** | (19,248) |
| **(Loss) /Profit from continuing operations** | | **(3,684)** | 40,702 |
| Profit from discontinued operation | 22 | **12,882** | 779 |
| **Profit for the year** | | **9,198** | 41,481 |
| Other comprehensive income | | **—** | — |
| **Total comprehensive income for the year** | | **9,198** | 41,481 |

| | Notes | Year ended December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Attributable to: | | | |
| Owners of the Company | | (13,749) | 24,068 |
| Non-controlling interests | 12 | 22,947 | 17,413 |
| **Total comprehensive income for the year** | | 9,198 | 41,481 |
| Total comprehensive income for the year attributable to owners of the Company arises from: | | | |
| Continuing operations | | (24,055) | 23,445 |
| Discontinued operations | | 10,306 | 623 |
| | | (13,749) | 24,068 |
| **(Losses) /Earnings per share for profit from continuing operations attributable to owners of the Company:** | | | |
| – Basic and diluted (losses)/earnings per share (in RMB) | 14 | (0.189) | 0.237 |
| **(Losses) /Earnings per share for profit attributable to owners of the Company:** | | | |
| – Basic and diluted (losses)/earnings per share (in RMB) | 14 | (0.108) | 0.243 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## CONSOLIDATED BALANCE SHEET

| | Notes | As at December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **18,383** | 22,630 |
| Intangible assets | 16 | **1,059,402** | 1,082,071 |
| Deferred tax assets | 29 | **—** | 276 |
| Other receivables, deposits and prepayments | 19 | **483,506** | — |
| **Total non-current assets** | | **1,561,291** | 1,104,977 |
| **Current assets** | | | |
| Available-for-sale financial assets | 18 | **17,396** | — |
| Inventories | | **—** | 1,847 |
| Trade receivables | | **—** | 4,575 |
| Other receivables, deposits and prepayments | 19 | **80,202** | 8,570 |
| Amounts due from related parties | 20 | **45,840** | 38,276 |
| Cash and cash equivalents | 21 | **260,787** | 129,332 |
| **Total current assets** | | **404,225** | 182,600 |
| **Total assets** | | **1,965,516** | 1,287,577 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 23 | **123** | 65 |
| Share premium | 23 | **404,021** | — |
| Treasury shares | 23 | **(3)** | (2) |
| Reserves | 25 | **1,070,628** | 1,058,416 |
| Retained earnings | 26 | **39,344** | 60,597 |
| | | **1,514,113** | 1,119,076 |
| **Non-controlling interests** | 12 | **48,012** | 41,867 |
| **Total equity** | | **1,562,125** | 1,160,943 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

| | Notes | As at December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowing | 27 | **214,618** | — |
| Deferred income tax liabilities | 29 | **35,633** | 36,465 |
| Accruals and other payables | 28 | **3,311** | 19,442 |
| **Total non-current liabilities** | | **253,562** | 55,907 |
| **Current liabilities** | | | |
| Borrowings | 27 | **23,846** | — |
| Trade payables | | **—** | 4,631 |
| Accruals and other payables | 28 | **113,662** | 57,838 |
| Amounts due to related parties | 20(a) | **3,186** | 3,855 |
| Current income tax liabilities | | **9,135** | 4,403 |
| **Total current liabilities** | | **149,829** | 70,727 |
| **Total liabilities** | | **403,391** | 126,634 |
| **Total equity and liabilities** | | **1,965,516** | 1,287,577 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 66 to 158 were approved by the Board of Directors on March 29, 2018 and were signed on its behalf.

Zhang Xiaopeng

Lin Sheng

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RMB'000 | Treasury share RMB'000 | Share premium RMB'000 | Reserves RMB'000 | Retained earnings RMB'000 | Sub-total RMB'000 | Attributable to non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at January 1, 2016** | | — | — | — | 1,044,847 | 45,200 | 1,090,047 | 38,492 | 1,128,539 |
| Comprehensive income - Profit for the year | | — | — | — | — | 24,068 | 24,068 | 17,413 | 41,481 |
| Transfer of reserves | | — | — | — | 8,671 | (8,671) | — | — | — |
| Proceeds from share issued | | 65 | — | 31,150 | — | — | 31,215 | — | 31,215 |
| Modification of share-based payments scheme | | — | (2) | (31,150) | — | — | (31,152) | — | (31,152) |
| Dividend | | — | — | — | — | — | — | (14,038) | (14,038) |
| Capital contribution by shareholders | | — | — | — | 1,464 | — | 1,464 | — | 1,464 |
| Share-based payments | | — | — | — | 3,434 | — | 3,434 | — | 3,434 |
| **Balance at December 31, 2016** | | 65 | (2) | — | 1,058,416 | 60,597 | 1,119,076 | 41,867 | 1,160,943 |
| **Balance at January 1, 2017** | | 65 | (2) | — | 1,058,416 | 60,597 | 1,119,076 | 41,867 | 1,160,943 |
| Comprehensive income - (Loss)/ Profit for the year | | — | — | — | — | (13,749) | (13,749) | 22,947 | 9,198 |
| Repurchase and cancellation of ordinary shares | 23(a) | (65) | 2 | — | 63 | — | — | — | — |
| Issurance of ordinary shares to the then shareholders | 23(a) | —* | —* | — | — | — | —* | — | —* |
| Capitalization issue | 23(b) | 89 | (3) | (86) | — | — | — | — | — |
| Issuance of new ordinary shares upon global offering and exercise of over-allotment option | 23(c) | 34 | — | 434,827 | — | — | 434,861 | — | 434,861 |
| Share issuance cost | 23(c) | — | — | (30,720) | — | — | (30,720) | — | (30,720) |
| Transfer of reserves | 25 | — | — | — | 7,504 | (7,504) | — | — | — |
| Dividend | 30 | — | — | — | — | — | — | (16,802) | (16,802) |
| Share-based payments | 24 | — | — | — | 4,645 | — | 4,645 | — | 4,645 |
| **Balance at December 31, 2017** | | 123 | (3) | 404,021 | 1,070,628 | 39,344 | 1,514,113 | 48,012 | 1,562,125 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

* The balance stated above was less than RMB 1,000.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | 63,085 | 194,354 |
| Income tax paid | | (18,408) | (30,738) |
| Interests received | | 2,394 | 423 |
| **Net cash inflow from operating activities** | | 47,071 | 164,039 |
| **Cash flows from investing activities** | | | |
| Entrusted loan to related party | 20 | (3,000) | — |
| Payment for acquisition of subsidiaries | 19 & 28 | (477,739) | — |
| Payments for property, plant and equipment | | (1,452) | (11,252) |
| Payments for intangible assets | | (35) | — |
| Payments for available-for-sale financial asset | 3.3(a) | (176,100) | — |
| Payment for deposit on acquisition of subsidiaries | 19 | (80,000) | — |
| Loans to related parties | | (435) | — |
| Proceeds from disposal of available-for-sale financial assets | 3.3(a) | 159,845 | — |
| Proceeds from sale of a subsidiary | 22 | 39,214 | — |
| Interest received on structured deposits | | 312 | — |
| Interest received on financial assets at fair value through profit and loss | 3.3(b) | 90 | — |
| **Net cash outflow from investing activities** | | (539,300) | (11,252) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 238,874 | — |
| Proceeds from issuance of new ordinary shares | 23 & 24 | 434,861 | 31,215 |
| Loans from related parties | | 47 | — |
| Payment for share issuance costs | | (25,681) | (3,808) |
| Dividend and withholding tax paid | 30 | (17,495) | (64,231) |
| **Net cash inflow/(outflow) from financing activities** | | 630,606 | (36,824) |
| **Net increase in cash and cash equivalents** | | 138,377 | 115,963 |
| Cash and cash equivalents at beginning of the year | | 129,332 | 13,104 |
| Effects of exchange rate changes on cash and cash equivalents | | (6,922) | 265 |
| **Cash and cash equivalents at end of the year** | | 260,787 | 129,332 |
| Cash flow of discontinued operation | 22 | | |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## 1 GENERAL INFORMATION

Hospital Corporation of China Limited ('the Company') was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company, together with its subsidiaries (collectively referred to as 'the Group'), are principally engaged in (i) operation and management of its privately owned hospital, Shanghai Fuhua Hospital Co., Ltd. ('Fuhua Hospital') and (ii) provision of management and consultation services to a not-for-profit hospital, Shanghai Yangsi Hospital ('Yangsi Hospital') in the People's Republic of China (the 'PRC').

The Company is controlled by Vanguard Glory Limited ('Vanguard Glory'), a subsidiary of Hony Capital Fund V, L.P., which is considered as the ultimate holding company of the Company.

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

The financial position and performance of the Group was particularly affected by the sale of Fuahua Hospital in August 2017 (Note 22).

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Basis of preparation

*(i) Compliance with IFRS and Hong Kong Companies Ordinance*

The consolidated financial statements of Hospital Corporation of China Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and requirements of the Hong Kong Companies Ordinance Cap. 622.

*(ii) Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and financial assets measured at fair value.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and
- Disclosure initiative – amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current year.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 31(b).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

#### *(iv) New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

| | | |
|---|---|---|
| IFRS 9 | Financial Instruments | January 1, 2018 |
| IFRS 15 | Revenue from Contracts with Customers | January 1, 2018 |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions | January 1, 2018 |
| Amendments to IFRS 4 | Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 or when the entity first applies IFRS 9 |
| Amendment to IFRS 1 | First time adoption of IFRS | January 1, 2018 |
| Amendment to IAS 28 | Investments in associates and joint ventures | January 1, 2018 |
| Amendments to IAS 40 | Transfers of investment property | January 1, 2018 |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | January 1, 2018 |
| IFRS 16 | Leases | January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time |
| IFRIC 23 | Uncertainty over Income Tax Treatments | January 1, 2019 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

*(iv) New standards and interpretations not yet adopted* – *continued*

(a) IFRS 9 Financial Instruments

*Nature of change*

IFRS 9 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.

*Impact*

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018:

The majority of the Group's debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the 2017 financial year, RMB1,141,000 of such gains were recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

*(iv) New standards and interpretations not yet adopted – continued*

(a) IFRS 9 Financial Instruments – *continued*

*Impact – continued*

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. However, at this stage the Group does not expect to identify any new hedge relationships. Currently, the Group has no existing hedge relationships. Accordingly, the Group does not expect a significant impact on the accounting for hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

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.

*Date of adoption by Group*

Must be applied for financial years commencing on or after January 1, 2018. The Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

*(iv) New standards and interpretations not yet adopted – continued*

(b) IFRS 15 Revenue from Contracts with Customers

*Nature of change*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised 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.

*Impact*

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

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

*Date of adoption by Group*

Mandatory for financial years commencing on or after January 1, 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

*(iv) New standards and interpretations not yet adopted – continued*

(c) IFRS 16 Leases

*Nature of change*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

*Impact*

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,786,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

*Mandatory application date/Date of adoption by Group*

Mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.1 Basis of preparation – *continued*

*(iv) New standards and interpretations not yet adopted* – *continued*

(d) Amendment to IFRS 10 and IAS 28

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

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operation. According to the assessment made by the directors of the Company, except as described above, the directors of the Company do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Group.

### 2.2 Principles of consolidation

*(i) Subsidiaries*

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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.2 Principles of consolidation – *continued*

#### *(i) Subsidiaries – continued*

(a) Disposal of subsidiary

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

### 2.3 Separate financial statements

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

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

### 2.4 Segment reporting

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.5 Foreign currency translation

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

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

### 2.6 Property, plant and equipment

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.6 Property, plant and equipment – *continued*

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

| | | |
|---|---|---|
| – | Buildings | 20 years |
| – | Medical equipment | 5 years |
| – | Vehicles | 5 years |
| – | Leasehold improvements | Shorter of remaining lease term or estimated useful lives |
| – | Office equipment and furniture | 3-10 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

Construction-in-progress (the 'CIP') represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

### 2.7 Intangible assetsx

*(a) Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.7 Intangible assetsx – *continued*

#### *(a) Goodwill – continued*

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

#### *(b) Medical licences*

Medical licences acquired in a business combination are recognised at fair value at the acquisition date. These medical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

#### *(c) Contractual rights to provide management services*

Contractual rights to provide management services are the rights to provide management services to a hospital. These contractual rights acquired in a business combination are recognised at fair value at the acquisition date. These contractual rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their estimated useful lives.

#### *(d) Computer software*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.9 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

### 2.10 Investments and other financial assets

*(i) Classification*

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See Note 17 for details about each type of financial asset.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.10 Investments and other financial assets – *continued*

#### *(i) Classification – continued*

(a) Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of other receivables, deposits and prepayments and cash and cash equivalents.

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

#### *(ii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.10 Investments and other financial assets – *continued*

*(iii) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss'– in profit or loss within other income or other expenses;
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

### 2.11 Offsetting financial instruments

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.12 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.

*Assets carried at amortised cost*

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

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

*Assets classified as available-for-sale*

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on a weighted-average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### 2.14 Trade and other receivables

Trade receivables are amounts due from patients and governments' social insurance schemes rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows and consolidated balance sheets, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.16 Share capital

Ordinary shares are classified as equity.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### 2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised 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 recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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.

### 2.19 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 capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

*Current income tax*

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

*Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.21 Employee benefits

*Pension obligations*

The Group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payables to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

### 2.22 Share-based payments

*(a) Equity-settled share-based payment transactions*

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.22 Share-based payments – *continued*

*(b) Cash-settled share-based payment transactions*

The Group operates a number of cash-settled share-based compensation plans, under which the entity receives services from employees by incurring liabilities for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity (the share appreciation rights). The employee services received and the liability incurred is measured at the fair value of the liability.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At the end of each reporting period and at the date of settlement, the Group re-measures the fair value of the liability, with any changes in fair value recognized in profit or loss for the period.

*(c) Share-based payment transactions with cash alternatives*

The Group operates a share-based compensation plan, under which the entity receives services from employees and the terms of the arrangement provide the employees with a choice of whether the entity settles the transaction in cash or by issuing equity instruments.

For this kind of share-based payment transactions, the Group is considered to have issued a compound financial instrument, which includes a debt component (the employees' right to demand payment in cash) and an equity component (the employees' right to demand settlement in equity instruments rather than in cash).

The Group measures the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted. To apply this, the Group first measures the fair value of the debt component, and then measures the fair value of the equity component, taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.22 Share-based payments – *continued*

*(c) Share-based payment transactions with cash alternatives – continued*

The Group accounts separately for the services received in respect of each component of the compound financial instrument. For the debt component, the Group recognizes the services received and a liability to pay for those services in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component, the Group recognizes the services received and an increase in equity in accordance with the requirements applying to equity-settled share-based payment transactions.

At the date of settlement, the Group re-measure the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued. If the Group pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognized shall remain within equity.

*(d) Share-based payment transactions among group entities*

The Company settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in the Company's own equity instruments. Otherwise, the transaction shall be recognized as a cash settled share-based payment transaction. In its separate financial statements, the Company records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by the Company.

*(e) Modification and cancellation*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.23 Revenue recognition

The Group's revenue is primarily derived from rendering hospital management services to a hospital, general hospital services and sales of pharmaceutical.

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

*(a) Hospital management services*

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

*(b) General hospital services*

Revenues from general Hospital services are recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured. Transactions are settled by payment of social security card or cash.

*(c) Pharmaceutical sales*

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

### 2.24 Interest income

Interest income is recognised using the effective interest method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 2.25 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

### 2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 2.27 Dividends distribution

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

### 2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Note 7 provides further information on how the Group accounts for government grants.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk including foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the executive directors.

*(a) Market risk*

(i) Foreign exchange risk

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

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

As at December 31 2017, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollars (USD) and HK dollars (HKD).

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

The amounts denominated on the currency other than the functional currency of the Group were as follows:

| | **Year ended December 31, 2017** | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| | **USD** | **HKD** | USD | HKD |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| Amounts due from related parties | **1** | **41** | 23 | 43 |
| Cash and cash equivalents | **111,213** | **4,721** | 2,545 | 5,843 |
| Borrowings | **—** | **(238,464)** | — | — |
| Accruals and other payables | **(7,681)** | **(386)** | (6,024) | (2) |

As at December 31, 2017, if RBM had weakened/strengthend by 5% against USD and HKD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB6,528,000 lower/higher (2016: RMB121,000 higher/lower).

## 3 FINANCIAL RISK MANAGEMENT – *continued*

### 3.1 Financial risk factors – *continued*

#### *(a) Market risk – continued*

(ii) Cash flow interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk.

The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

| | **Year ended December 31, 2017** | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| | **RMB'000** | **% of total loans** | RMB'000 | % of total loans |
| Variable rate borrowings – repricing dates | | | | |
| 3 months | **238,464** | **100%** | — | — |
| | **238,464** | **100%** | — | — |

An analysis by maturities is provided in Note 3.1(c). The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

At December 31, 2017, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the financial impact on post-tax profit for the year is minimal because of the short term duration from the effective day to December 31, 2017.

## 3 FINANCIAL RISK MANAGEMENT – *continued*

### 3.1 Financial risk factors – *continued*

#### *(b) Credit risk*

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

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

The Group mainly engages in providing management services to hospital and its largest customer is Yangsi Hospital which comprised 86.5% of total revenue during the year ended December 31, 2017 (2016: 80.3%). The settlement of management fee from Yangsi Hospital may take three to six months. Management makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables, including management fee, based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of trade and other receivables.

Management of the Group makes individual assessment on the recoverability of amounts due from related parties based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of amounts due from related parties.

#### *(c) Liquidity risk*

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

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

## 3 FINANCIAL RISK MANAGEMENT – *continued*

### 3.1 Financial risk factors – *continued*

*(c) Liquidity risk – continued*

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At December 31, 2017** | | | | | |
| Borrowing and interests | 35,299 | 57,677 | 179,552 | — | 272,528 |
| Accruals and other payables (excluding accrued employee benefits, share-based payments and other taxes) | 43,972 | — | — | — | 43,972 |
| Amounts due to related parties | 3,186 | — | — | — | 3,186 |
| | 82,457 | 57,677 | 179,552 | — | 319,686 |
| At December 31, 2016 | | | | | |
| Trade payables | 4,631 | — | — | — | 4,631 |
| Accruals and other payables (excluding accrued employee benefits, share-based payments, other taxes and advance from third parties) | 38,450 | — | — | — | 38,450 |
| Amounts due to related parties | 3,855 | — | — | — | 3,855 |
| | 46,936 | — | — | — | 46,936 |

## 3 FINANCIAL RISK MANAGEMENT – *continued*

### 3.2 Capital Risk Management

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

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

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

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2017 was 21% (2016: 10%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2017 and 2016.

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at December 31, 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

## 3 FINANCIAL RISK MANAGEMENT – *continued*

### 3.3 Fair value estimation – *continued*

The following table presents the Group's financial assets that are measured at fair value at December 31, 2017.

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Available-for-sale financial assets** | | | | |
| – Monetary funds with floating rates | — | 17,396 | — | 17,396 |
| Total assets | — | 17,396 | — | 17,396 |

There were no transfers between levels 1, 2 and 3 during the period.

At December 31, 2016, there is no financial instruments of the Group is required to be measured at fair value.

*(a) Financial instruments in level 2*

The following table presents the changes in level 2 instruments for the year ended December 31, 2017 and 2016, respectively.

| | **Monetary funds with floating rates** | |
|---|---|---|
| | **Year ended December 31, 2017 RMB'000** | Year ended December 31, 2016 RMB'000 |
| Opening balance | — | — |
| Additions | **176,100** | — |
| Settlements | **(159,845)** | — |
| Gains recognised in profit or loss | **1,141** | — |
| Closing balance | **17,396** | — |
| Total gains for the year included in profit or loss under 'Other income' | **1,141** | — |
| Changes in unrealised gains or losses for the period included in profit or loss at the end of the year | — | — |

## 3 FINANCIAL RISK MANAGEMENT – *continued*

### 3.3 Fair value estimation – *continued*

*(a) Financial instruments in level 2 – continued*

Financial instruments in level 2 were monetary funds with floating rates treated as available-for-sale financial assets held by the Group which were effective on June 12, 2017, July 27, 2017, August 3, 2017 and September 6, 2017, respectively and part of them were redeemed during the year ended December 31, 2017. The book value of the available-for-sale financial assets amounting to RMB4,403,000 was determined based on the fair value of the financial assets on December 29, 2017 which is very close to the year end, the fair value on December 31, 2017 is approximate to the book value and no fair value gain/loss was recognised in other comprehensive income for the year ended December 31, 2017.

*(b) Financial instruments in level 3*

| | Wealth management contract with floating rates | |
|---|---|---|
| | **Year ended December 31, 2017 RMB'000** | Year ended December 31, 2016 RMB'000 |
| Opening balance | — | — |
| Additions | **113,600** | — |
| Settlements | **(113,690)** | — |
| Gains recognised in profit or loss | **90** | — |
| Closing balance | — | — |
| Total gains for the year included in profit or loss under 'Other income' | **90** | — |
| Changes in unrealised gains or losses for the period included in profit or loss at the end of the year | — | — |

Financial instruments in level 3 were wealth management contract with floating rates treated as financial assets at fair value through profit or loss held by the Group, which were effective on May 12, 2017 and May 15, 2017, respectively, and all of them were redeemed on May 15, 2017 and June 8, 2017, respectively. On December 31, 2017, there was no financial assets at fair value through profit or loss held by the Group.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections of hospital management services segment based on financial budgets approved by management covering a eight-year period.When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Cash flows beyond the eight-year forecast period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

*(i) Revenue (% compound growth rates)*

The revenue compound growth rates for the eight-year projection period is based on the Company's forecast of its average revenue growth rate from 2018 to 2025. The Company's management has estimated that the compound growth rate of its hospital management services segment revenue will be 8.01%. The Company considers the business transition strategy and other market forecasts in estimating this growth rate.

*(ii) Cost and operation expenses (% of revenue)*

The cost and operation expenses (% of revenue) for its hospital management services segment for the eight-year forecast period are determined on the basis of management's past experience.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

### (a) Estimation of goodwill impairment – *continued*

*(iii) Long-term growth rate*

The 3% long-term growth rate after the eight-year forecast period is estimated on the basis of the inflation rate of China. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

*(iv) Discount rates*

The discount rates for the eight-year forecast period and after that period are determined by reference to discount rates provided by an independent valuer. Discount rates were estimated based on the weighted average cost of capital ('WACCs') with reference to the industry risk premium and the debt to equity ratio of some guideline companies in China healthcare sector.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 16.

No impairment was charged during the years ended December 31, 2017 and 2016.

### (b) Estimation of current and deferred income tax

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

The Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgements and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

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

Not-for-profit hospital founded by Weikang Investment

Yangsi Hospital, a not-for-profit hospital, was founded by Shanghai Weikang Investment Management Co., Ltd. ('Weikang Investment'), a subsidiary acquired by the Company in September 2014. Despite the fact that Weikang Investment founded the hospital, Weikang Investment is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Weikang Investment and its affiliate have entered into agreements with the hospital in which the Group obtains contractual rights to provide management services of the not-for-profit hospital for certain periods and is entitled to receive performance-based management fees for the years ended December 31, 2017 and 2016.

The Group has exercised significant judgements in determining whether the Group has control over hospital. In exercising such judgement, the Group considers the purpose and design of the hospital, what the relevant activities are and how decisions about those activities are made, whether the rights of the Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether the Group is exposed, or has rights, to variable returns from its involvement with the hospital, and whether the Group has the ability to use its power over the hospital to affect the amount of the Group's returns.

After assessment, the management has concluded that the Group does not have the decision making power over internal governance body to direct the relevant activities of the not-for-profit hospital, so the Group does not control and thus does not consolidate the not-for-profit hospital. Instead, agreements are considered as management contracts to generate management service income.

### (d) Share-based payments

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

## 5 SEGMENT INFORMATION

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

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in two different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are as follows:

### (a) General hospital services

Revenue from this segment is derived from hospital services provided at Fuhua Hospital. Fuhua Hospital was disposed and ceased to be a subsidiary of the Group on and after August 29, 2017. The segment information for the year ended December 31, 2017 represented the operating results of Fuhua Hospital for the period from January 1, 2017 to August 29, 2017.

### (b) Hospital management services

The Group provides comprehensive management services to Yangsi Hospital under hospital management agreements and receives management service fee.

### (c) Unallocated

The 'Unallocated' category represents the headquarter expenses.

The CODM assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('EBITDA').

## 5 SEGMENT INFORMATION – *continued*

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

| | General hospital services RMB'000 | Hospital management services RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For the year ended December 31, 2017** | | | | |
| Revenue from external customers | 21,517 | 149,158 | — | 170,675 |
| EBITDA | 18,831 | 85,058 | — | 103,889 |
| Depreciation | (450) | (2,053) | (389) | (2,892) |
| Amortization | (767) | (2,306) | (39) | (3,112) |
| Finance income on deposit | 5 | 743 | 1,958 | 2,706 |
| Unallocated expenses excluding depreciation and amortization | | | (63,744) | (63,744) |
| Profit before tax | 17,619 | 81,442 | (62,214) | 36,847 |
| **As at December 31, 2017** | | | | |
| Segment assets | — | 326,404 | 688,196 | 1,014,600 |
| Goodwill | — | 950,916 | — | 950,916 |
| Total assets | — | 1,277,320 | 688,196 | 1,965,516 |
| Total liabilities | — | 113,824 | 289,567 | 403,391 |
| **Other Segment information for the year ended December 31, 2017** | | | | |
| Depreciation, amortization and impairment | (1,179) | (4,359) | (428) | (5,966) |
| Additions of non-current assets excluding goodwill and deferred income tax assets | 517 | 765 | 483,035 | 484,317 |

## 5 SEGMENT INFORMATION – *continued*

| | General hospital services RMB'000 | Hospital management services RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended December 31, 2016** | | | | |
| Revenue from external customers | 30,503 | 130,882 | — | 161,385 |
| EBITDA | 1,909 | 83,607 | — | 85,516 |
| Depreciation | (634) | (1,864) | (1,188) | (3,686) |
| Amortization | (1,151) | (2,306) | (3) | (3,460) |
| Finance income on deposit | 13 | 410 | — | 423 |
| Unallocated expenses excluding depreciation and amortization | | | (18,706) | (18,706) |
| Profit before tax | 137 | 79,847 | (19,897) | 60,087 |
| **As at December 31, 2016** | | | | |
| Segment assets | 25,814 | 267,690 | 35,209 | 328,713 |
| Goodwill | 7,948 | 950,916 | — | 958,864 |
| Total assets | 33,762 | 1,218,606 | 35,209 | 1,287,577 |
| Total liabilities | 9,005 | 73,580 | 44,049 | 126,634 |
| **Other Segment information for the year ended December 31, 2016** | | | | |
| Depreciation, amortization and impairment | (1,895) | (4,170) | (1,191) | (7,256) |
| Additions of non-current assets excluding goodwill and deferred income tax assets | 661 | 2,030 | 180 | 2,871 |

## 6 REVENUE

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Hospital management services | | |
| – Management services fee (a) | **147,574** | 129,563 |
| – Other services fee | **1,584** | 1,319 |
| | **149,158** | 130,882 |

All revenue are generated in the PRC. There is a single client, Yangsi Hospital, contributed to 86.5% and 80.3% of the Group's revenue for the periods ended December 31, 2017 and 2016.

### (a) Management services fee

On January 1, 2013, Weikang Investment Management Co., Ltd. ('Weikang Investment') entered into a hospital management framework agreement ('HMFA') with Yangsi Hospital. Pursuant to the HMFA, Weikang Investment provides management and consultancy services to Yangsi Hospital with a period of 6 years from 2013 to 2018 and the detailed service content and pricing are concluded and effective in separate hospital management agreement ('HMA') on an annually basis.

On September 23, 2014, the executive committee of Yangsi Hospital passed a resolution to extend the HMFA period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment pursuant to the resolution.

On January 1, 2016, Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin') further entered into a long-term hospital management agreement ('LTHMA') with Yangsi Hospital. Pursuant to the LTHMA, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 10 years from 2016 to 2025.

On January 1, 2016 and 2017, Weikang Investment and Honghe Ruixin signed the annual HMA with Yangsi Hospital respectively and derives management fee based on pre-set formulas set out in the annual HMA respectively.

## 7 OTHER INCOME

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Government grants and subsidies (a) | 2,511 | 2,982 |
| Interest income on monetary funds and wealth management products | 1,231 | — |
| | 3,742 | 2,982 |

(a) The Government grants and subsidies of RMB2,511,000 (2016: RMB1,720,000) is granted by the People's Government of Sanlin Town in Shanghai for the year ended December 31, 2017 in consideration of the taxation contribution of Weikang Investment.

No government grants and subsidies were received from the Finance Bureau of Dazi County in Tibet Autonomous Region for the year ended December 31, 2017 (2016: RMB1,262,000).

## 8 OTHER (LOSSES)/GAINS - NET

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Foreign exchange (losses)/gains | (183) | 1,125 |
| Others | 63 | — |
| | (120) | 1,125 |

## 9 EXPENSES BY NATURE

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Amortisation and depreciation | 4,787 | 5,361 |
| Business tax and other transaction taxes | 1,379 | 1,871 |
| Employee benefits expenses (Note 10) | 60,971 | 45,124 |
| Operating lease rental expenses | 2,050 | 1,793 |
| Utilities and office expenses | 855 | 1,083 |
| Travelling and entertainment expenses | 1,235 | 915 |
| Expenses in relation to the listing | 25,631 | 18,204 |
| Professional fees | 12,775 | — |
| Auditor's remuneration | 3,969 | — |
| Other expenses | 1,374 | 1,365 |
| | 115,026 | 75,716 |

## 10 EMPLOYEE BENEFIT EXPENSES

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Wages, salaries and bonuses | 20,662 | 20,224 |
| Share-based compensation expenses | 37,986 | 22,876 |
| Contribution to pension plans and other expenses | 2,323 | 2,024 |
| Total employee benefit expense | 60,971 | 45,124 |

The employees of the Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

## 10 EMPLOYEE BENEFIT EXPENSES – *continued*

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2016: two) directors whose emoluments are reflected in the analysis shown in Note 10. The emoluments payables to the remaining three (2016: three) individuals during the year are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Basic salaries, housing allowances, other allowances and benefits in kind | **1,977** | 1,485 |
| Bonuses | **1,187** | 1,358 |
| Share-based compensation expenses | **1,527** | 1,413 |
| | **4,691** | 4,256 |

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

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Emolument band** | | |
| HKD500,000 - HKD1,000,000 | **—** | 1 |
| HKD1,500,000 - HKD2,000,000 | **2** | 1 |
| HKD2,000,000 - HKD2,500,000 | **1** | 1 |
| | **3** | 3 |

For the years ended December 31, 2017 and 2016, no emoluments have been paid to the five highest individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11 FINANCE INCOME AND COSTS

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| **Finance income** | | |
| Interest income on short-term bank deposits | 2,220 | 410 |
| Interest income on short-term structured deposits | 312 | — |
| Interest income on deposits held at call with financial institutions | 169 | — |
| Foreign exchange gains - net | — | 267 |
| **Finance income** | 2,701 | 677 |
| **Finance costs** | | |
| Foreign exchange losses - net | (21,227) | — |
| **Finance costs expensed** | (21,227) | — |
| **Net finance (costs)/income** | (18,526) | 677 |

## 12 SUBSIDIARIES

The Group's principal subsidiaries at December 31, 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

| Name of entity | Country/place and date of incorporation/ establishment | Principal activities/ place of operation | Registered/ Issued and paid-up capital | Ownership interest held by the Group | | Ownership interest held by non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | | | 2017 % | 2016 % | 2017 % | 2016 % |
| **Directly owned:** | | | | | | | |
| Acute Sky Holdings Limited (天鋭控股有限公司) ('Acute Sky') | The BVI, on January 2, 2014 | Investment holding, the BVI | US$1 | 100% | 100% | — | — |
| Ever Surpass Investments Limited (恒越投資有限公司) ('Ever Surpass') | The BVI, on December 10, 2013 | Investment Holding, the BVI | US$1 | 100% | 100% | — | — |
| **Indirectly owned:** | | | | | | | |
| Bliss Success Holdings Limited (妙榮控股有限公司) ('Bliss Success') | Hong Kong, on December 20, 2011 | Investment Holding, Hong Kong | HK$1 | 100% | 100% | — | — |
| New Pride Holdings Limited (捷穎控股有限公司) ('New Pride') | Hong Kong, on April 11, 2012 | Investment holding, Hong Kong | HK$1 | 100% | 100% | — | — |
| Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司) ('Honghe Yixin') | The PRC, on July 29, 2014 | Investment holding, the PRC | RMB 30,000,000 | 100% | 100% | — | — |
| Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司) ('Honghe Zhiyuan') | The PRC, on October 10, 2014 | Management services, the PRC | RMB 30,000,000 | 100% | 100% | — | — |
| Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司) | The PRC, on December 23, 2014 | Hospital management, the PRC | RMB 500,000 | 80% | 80% | 20% | 20% |
| Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司) | The PRC, on April 15, 2002 | Hospital management, the PRC | RMB 30,000,000 | 80% | 80% | 20% | 20% |
| Shanghai Fuhua Hospital Co., Ltd. (上海福華醫院有限公司) | The PRC, on October 17, 2007 | General hospital services, the PRC | RMB 1,000,000 | — | 80% | — | 20% |

## 12 SUBSIDIARIES – *continued*

### (a) Investment in subsidiaries

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

### (b) Significant restrictions

Cash and short-term deposits of RMB144,845,000 (2016: RMB120,935,000) is held in China and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

### (c) Material non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

*Summarised balance sheet*

| | Weikang Investment<br>As at December 31, | | Honghe Ruixin<br>As at December 31, | |
|---|---|---|---|---|
| | 2017<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 |
| Current assets | 130,644 | 82,789 | 79,824 | 65,504 |
| Current liabilities | (69,607) | (44,910) | (9,716) | (8,654) |
| **Current net assets** | 61,037 | 37,879 | 70,108 | 56,850 |
| Non-current assets | 131,101 | 145,292 | 4,892 | 70 |
| Non-current liabilities | (27,078) | (30,758) | — | — |
| **Non-current net assets** | 104,023 | 114,534 | 4,892 | 70 |
| Net assets | 165,060 | 152,413 | 75,000 | 56,920 |
| Accumulated NCI | 33,012 | 30,483 | 15,000 | 11,384 |

## 12 SUBSIDIARIES – *continued*

### (c) Material non-controlling interests (NCI) – *continued*

*Summarised statement of comprehensive income*

| | Weikang Investment Year ended December 31, | | Honghe Ruixin Year ended December 31, | |
|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Revenue | **76,485** | 89,626 | **94,190** | 71,759 |
| Profit before income tax | **59,030** | 44,991 | **78,016** | 57,870 |
| Income tax expense | **(15,253)** | (10,573) | **(7,057)** | (5,225) |
| **Profit for the year** | **43,777** | 34,418 | **70,959** | 52,645 |
| Other comprehensive income | **—** | — | **—** | — |
| **Total comprehensive income** | **43,777** | 34,418 | **70,959** | 52,645 |
| Profit allocated to NCI | **8,755** | 6,884 | **14,192** | 10,529 |
| Dividends paid to NCI | **6,226** | 6,373 | **10,576** | 7,665 |

*Summarised cash flows*

| | Weikang Investment Year ended December 31, | | Honghe Ruixin Year ended December 31, | |
|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Cash flows from operating activities | **36,447** | 111,957 | **36,960** | 81,716 |
| Cash flows from investing activities | **27,052** | (7,976) | **(3,667)** | (88) |
| Cash flows from financing activities | **(7,454)** | (58,099) | **(52,300)** | (38,326) |
| **Net increase/(decrease) in cash and cash equivalents** | **56,045** | 45,882 | **(19,007)** | 43,302 |

## 13 INCOME TAX EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 9% and 25% for the years ended December 31, 2017 and 2016.

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Current income tax: | | |
| – PRC corporate income tax | **25,559** | 19,237 |
| Deferred income tax (Note 29) | **2,090** | (631) |
| | **27,649** | 18,606 |

Income tax is attributable to:

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Profit from continuing operations | **22,912** | 19,248 |
| Profit from discontinued operations | **4,737** | (642) |
| | **27,649** | 18,606 |

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

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Profit from continuing operations before income tax | **19,228** | 59,950 |
| Profit from discontinued operations before income tax | **17,619** | 137 |
| | **36,847** | 60,087 |
| Calculated at taxation rate of 25% | **9,212** | 15,022 |
| Effect of different tax rates available to different subsidiaries of the Group | **(12,546)** | (9,288) |
| Expenses not tax deductible | **25,441** | 10,411 |
| Tax effect of unrecognized tax losses | **203** | 330 |
| Utilization of tax losses in previous years | **—** | (678) |
| Withholding tax | **5,339** | 2,809 |
| Income tax expense | **27,649** | 18,606 |

## 13 INCOME TAX EXPENSE – *continued*

### (a) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

### (b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% (2016: 16.5%) for the year ended December 31, 2017. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2017 and 2016.

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

The income tax rate of Weikang Investment, Fuhua Hospital and Honghe Yixin was 25% (2016: 25%) for the year ended December 31, 2017. The income tax rate of Honghe Zhiyuan and Honghe Ruixin was 9% (2016: 9%) for the year ended December 31, 2017.

Honghe Zhiyuan and Honghe Ruixin are eligible for a preferential 9% income tax rate for the period from January 1, 2015 to December 31, 2017, and then 15% from January 1, 2018 in accordance with the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Anomous Region (西藏自治區企業所得税政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

### (d) Withholding Tax

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

## 14 (LOSSES)/EARNINGS PER SHARE

### (a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme.

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| (Loss)/Profit attributable to the owners of the Company | | |
| From continuing operations | (24,055) | 23,445 |
| From discontinued operations | 10,306 | 623 |
| | (13,749) | 24,068 |
| Weighted average number of ordinary shares in issue (in thousands) | 127,165 | 98,943 |
| Basic (losses)/earnings per share | | |
| From continuing operations | (0.189) | 0.237 |
| From discontinued operations | 0.081 | 0.006 |
| | (0.108) | 0.243 |

In determining the weighted average number of ordinary shares, the one share issued upon incorporation and 9,699 shares issued in 2016 were treated as if they have been in issue since February 21, 2014.

In addition, the weighted average number of ordinary shares in issue was adjusted by additional 300 shares which were issued to Midpoint Honour on March 31, 2016.

## 14 (LOSSES)/EARNINGS PER SHARE – *continued*

### (a) Basic (losses)/earnings per share – *continued*

On December 4, 2016, the Company repurchased and subsequently cancelled 14 out of 300 ordinary shares. The remaining 286 shares held by Midpoint Honour were treated as treasury share due to the amendments of the Subscription Agreement on December 4, 2016 and January 23, 2017.

On January 3, 2017, the Company allotted and issued 9,986 ordinary shares of a par value of HK$0.001 each to the then existing shareholders in proportion to their respective shareholdings in the Company at a consideration equal to the par value of HK$0.001 each and credited as fully paid, and 9,986 ordinary shares of a par value of US$1.00 each of the Company were repurchased at a price of HK$0.001 each and cancelled.

On March 16, 2017, capitalization issue of 99,850,014 shares was effective. Accordingly, the weighted average number of ordinary shares in issue have been adjusted retrospectively as if it was effective from the date of the beginning.

On March 16, 2017, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited with the global offering of ordinary shares of HK$0.001 each of the Company, including a public offering in Hong Kong of 3,333,600 shares and an international offering of 30,000,400 shares.

On April 13, 2017, the Company issued 5,000,000 ordinary shares pursuant to the full exercise of the over-allotment option.

### (b) Diluted (Losses)/Earnings per share

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

## 15 PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Medical equipment RMB'000 | Office equipment, furniture and motor vehicles RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At January 1, 2016** | | | | | | |
| Cost | 19,128 | 3,828 | 721 | 2,187 | 2,201 | 28,065 |
| Accumulated depreciation | (1,999) | (1,637) | (191) | (613) | — | (4,440) |
| Net amount | 17,129 | 2,191 | 530 | 1,574 | 2,201 | 23,625 |
| **At December 31, 2016** | | | | | | |
| Opening net amount | 17,129 | 2,191 | 530 | 1,574 | 2,201 | 23,625 |
| Additions | — | 411 | — | 354 | 1,926 | 2,691 |
| Transfer upon completion | 4,127 | — | — | — | (4,127) | — |
| Depreciation charge | (1,686) | (1,307) | (136) | (557) | — | (3,686) |
| Closing net amount | 19,570 | 1,295 | 394 | 1,371 | — | 22,630 |
| **At December 31, 2016** | | | | | | |
| Cost | 23,255 | 4,239 | 721 | 2,541 | — | 30,756 |
| Accumulated depreciation | (3,685) | (2,944) | (327) | (1,170) | — | (8,126) |
| Net amount | 19,570 | 1,295 | 394 | 1,371 | — | 22,630 |
| **At December 31, 2017** | | | | | | |
| Opening net amount | 19,570 | 1,295 | 394 | 1,371 | — | 22,630 |
| Additions | — | 101 | 248 | 427 | — | 776 |
| Depreciation charge | (1,806) | (474) | (24) | (588) | — | (2,892) |
| Disposal of subsidiary (Note 22) | — | (902) | (618) | (611) | — | (2,131) |
| Closing net amount | 17,764 | 20 | — | 599 | — | 18,383 |
| **At December 31, 2017** | | | | | | |
| Cost | 23,255 | 2,644 | — | 1,125 | — | 27,024 |
| Accumulated depreciation | (5,491) | (2,624) | — | (526) | — | (8,641) |
| Net amount | 17,764 | 20 | — | 599 | — | 18,383 |

## 15 PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation expense of RMB1,811,000 (2016: RMB1,690,000) was charged in 'cost of revenue', and RMB631,000 (2016: RMB1,362,000) in 'administrative expenses' for the year ended December 31, 2017. Depreciation expense of RMB450,000 (2016: RMB634,000) was classified as expense from discontinued operation due to the disposal of Fuhua Hospital on August 29, 2017.

The Group's land and buildings have certain title defects. The Group does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction work planning permits, commencement permits or completion inspection certificates. The Group has not yet obtained properties title certificates and is in the process of obtaining ownership certificates for all its properties.

Furthermore, PRC legal advisors of the Group have advised that the title defects on the land and buildings will not create any substantive legal obstacle for the Group to continue using the land and the buildings located on it or cause suspension to the operations of the Group. The management of the Group reasonably and firmly believes that the risk of the Group being required to suspend using the land and buildings is extremely remote. Moreover, the management has considered and assessed the feasibility of relocation and made a relocation plan accordingly. In addition, the controlling shareholder have confirmed to the management of the Group that they have sufficient financial resources (including capital commitments of the limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify the Group for any damages or costs incurred in relation to the title defects.

Based on the aforementioned facts, the directors of the Company are of the view that:

(i) The title defects of the land and buildings did not have a significant impact on the operation and going concern issue related to the basis of preparation of the financial information of the Group during the periods; and

(ii) Any damages or costs incurred in relation to the title defects of the land and building will be indemnified by the controlling shareholder of the Company, thus there will be no significant financial impact on the financial information of the Group.

The acquisition cost of buildings is comprising of the land and its building cost. According to an independent valuer, due to the title defects, it is infeasible and impractical to separately evaluate the fair value of the land and the buildings, which would be required to split the value between land and building cost. The directors of the Company consider as there is no reasonable basis to allocate the consideration to the land and the buildings located thereon, respectively, the total consideration has been recognized in the 'Property, Plant and Equipment' as buildings and depreciated over the estimated useful lives of 20 years. The directors of the Company is of the view that the reclassification of non-current assets in the balance sheet and the difference between depreciation and amortization charges resulting from different useful lives is immaterial.

## 16 INTANGIBLE ASSETS

| | Software RMB'000 | Goodwill RMB'000 | Contractual rights to provide management services RMB'000 | Licenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | |
| Cost | — | 958,864 | 116,000 | 15,000 | 1,089,864 |
| Accumulated amortisation | — | — | (3,075) | (1,438) | (4,513) |
| Net amount | — | 958,864 | 112,925 | 13,562 | 1,085,351 |
| **At December 31,2016** | | | | | |
| Opening net amount | — | 958,864 | 112,925 | 13,562 | 1,085,351 |
| Additions | 180 | — | — | — | 180 |
| Amortisation | (3) | — | (2,306) | (1,151) | (3,460) |
| Closing net book amount | 177 | 958,864 | 110,619 | 12,411 | 1,082,071 |
| **At December 31,2016** | | | | | |
| Cost | 180 | 958,864 | 116,000 | 15,000 | 1,090,044 |
| Accumulated amortisation | (3) | — | (5,381) | (2,589) | (7,973) |
| Net amount | 177 | 958,864 | 110,619 | 12,411 | 1,082,071 |
| **At December 31,2017** | | | | | |
| Opening net amount | 177 | 958,864 | 110,619 | 12,411 | 1,082,071 |
| Additions | 35 | — | — | — | 35 |
| Amortisation | (39) | — | (2,306) | (767) | (3,112) |
| Disposal of subsidiary (Note 22) | — | (7,948) | — | (11,644) | (19,592) |
| Closing net amount | 173 | 950,916 | 108,313 | — | 1,059,402 |
| **At December 31,2017** | | | | | |
| Cost | 215 | 950,916 | 116,000 | — | 1,067,131 |
| Accumulated amortisation | (42) | — | (7,687) | — | (7,729) |
| Net amount | 173 | 950,916 | 108,313 | — | 1,059,402 |

Amortisation expense of RMB2,306,000 (2016: RMB2,306,000) was charged in 'cost of revenue', and RMB39,000 (2016: RMB3,000) in 'administrative expenses' for the year ended December 31, 2017. Amortisation expense of RMB767,000 (2016: RMB1,151,000) was classified as expense from discontinued operation due to the disposal of Fuhua Hospital on August 29, 2017.

## 16 INTANGIBLE ASSETS – *continued*

### (a) Contractual rights to provide management services

On January 1, 2013, Weikang Investment entered into a Hospital Management Framework Agreement ('HMFA') arrangement with Yangsi Hospital. Pursuant to the HMFA arrangement, Weikang Investment provides management services to Yangsi Hospital for a period of 6 years from 2013 to 2018.

On September 23, 2014, the executive committee of Yangsi Hospital passed a resolution to extend the HMFA arrangement period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment pursuant to the resolution.

### (b) Impairment tests for goodwill

Goodwill of RMB958,864,000 is resulted from acquisitions of subsidiaries in 2014, among which RMB950,916,000 was allocated to hospital management services segment and RMB7,948,000 was allocated to general hospital services segment.

In 2017, the Company disposed the 80% equity interest in Fuhua Hospital. Following the completion of the disposal, the goodwill allocated to general hospital services segment was derecognised.

Management reviews the business performance and monitors goodwill on operating segment level.

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

| | Opening<br>RMB'000 | Addition<br>RMB'000 | Impairment<br>RMB'000 | Disposal<br>RMB'000 | Closing<br>RMB'000 |
|---|---|---|---|---|---|
| **Year ended December 31, 2016** | | | | | |
| General hospital services segment | 7,948 | — | — | — | 7,948 |
| Hospital management services segment | 950,916 | — | — | — | 950,916 |
| | 958,864 | — | — | — | 958,864 |

| | Opening<br>RMB'000 | Addition<br>RMB'000 | Impairment<br>RMB'000 | Disposal<br>RMB'000 | Closing<br>RMB'000 |
|---|---|---|---|---|---|
| **Year ended December 31, 2017** | | | | | |
| General hospital services segment | 7,948 | — | — | (7,948) | — |
| Hospital management services segment | 950,916 | — | — | — | 950,916 |
| | 958,864 | — | — | (7,948) | 950,916 |

## 16 INTANGIBLE ASSETS – *continued*

### (b) Impairment tests for goodwill – *continued*

The recoverable amount of an operating segment is determined based on value-in-use. These calculations use cash flow projections based on financial budgets approved by management covering an eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the operating segment operates.

*Hospital Management Service Segment*

| | **Hospital management services segment** | |
|---|---|---|
| | **2017** | 2016 |
| Revenue (% compound growth rate) | **8.01%** | 9.42% |
| Costs and Operating Expenses (% of revenue) | **21.94%** | 17.72% |
| Long term growth rate | **3.00%** | 3.00% |
| Pre-tax discount rate | **14.80%** | 14.51% |
| Recoverable amount of operating segment (RMB'000) | **1,443,540** | 1,432,463 |

These assumptions have been used for the analysis of hospital management services segment.

Revenue compound growth rate is for the eight-year forecast period. It is based on past performance and management's expectations of market development.

The percentage of costs and operating expenses of revenue is the average percentages over the eight-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future price rises in labour, rental and relevant equipment, which management does not expect to be able to pass on to customers through price increases.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. By reference to relevant accounting standards, the future cash flows used in value-in-use calculations to assess the goodwill impairment of the hospital management services segment did not include income tax receipts or payments, and thus the management of the Company used the pre-tax discount rate to match the future cash flows when calculating the recoverable amount of the hospital management services segment.

## 16 INTANGIBLE ASSETS – *continued*

### (b) Impairment tests for goodwill – *continued*

*Hospital Management Service Segment – continued*

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

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Key assumption | Breakeven point | Key assumption | Breakeven point |
| Percentage of the compound growth rate of revenue | 8.01% | 7.43% | 9.42% | 8.80% |
| Percentage of costs and operating expenses over revenue | 21.94% | 23.70% | 17.72% | 20.49% |
| Percentage of the pre-tax discount rate | 14.80% | 15.14% | 14.51% | 14.87% |

No impairment was charged during the year ended December 31, 2017 (2016: nil).

## 17 FINANCIAL INSTRUMENTS BY CATEGORY

| | Loans and receivables As at December 31, | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| **Assets as per consolidated balance sheets** | | |
| Trade receivables | — | 4,575 |
| Other receivables and deposits | 80,708 | 704 |
| Amounts due from related parties | 45,840 | 38,276 |
| Cash and cash equivalents | 260,787 | 129,332 |
| | 387,335 | 172,887 |

| | Available-for-sale investments As at December 31 | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| **Assets as per consolidated balance sheets** | | |
| Available-for-sale financial assets | 17,396 | — |

| | Financial liabilities at amortised costs As at December 31, | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| **Liabilities as per consolidated balance sheets** | | |
| Borrowing | 238,464 | — |
| Trade payables | — | 4,631 |
| Accruals and other payables (excluding accrued employee benefits, share-based payments, other tax liabilities and advance from third parties) | 43,972 | 38,450 |
| Amounts due to related parties | 3,186 | 3,855 |
| | 285,622 | 46,936 |

## 18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | As at December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Monetary funds with floating rates | 17,396 | — |

## 19 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | As at December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Prepayments for acquisition of subsidiaries (a) | 483,000 | — |
| Prepayments for professional service fee in respect of the listing | — | 7,270 |
| Prepayments for rental | — | 331 |
| Prepayments for construction | — | 81 |
| Deposits on acquisition of subsidiaries (b) | 80,000 | — |
| Deposits for rental | 506 | 499 |
| Others | 202 | 389 |
| Total | 563,708 | 8,570 |
| Less: non-current portion | 483,506 | — |
| Current portion | 80,202 | 8,570 |

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

(a) On October 27, 2017, New Pride (the 'Purchaser'), Mr. Hong Jiangxin and Mr. Hong Yang(Mr. Hong Jiangxin and Mr. Hong Yang collectively referred to as the 'Vendors') entered into a sale purchase agreement (the 'Sale Purchase Agreement') in relation to the sale and purchase of the entire equity interest in Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu' or the 'Target Company'), a company incorporated in the PRC with limited liability and is owned by the Vendors, with a cash consideration of RMB483,000,000 (Note 35.1(a)).

As of December 31, 2017, a portion of the cash consideration amounting to RMB477,739,000 has been paid and the rest portion amounting to RMB5,261,000 was accrued and recorded in 'accruals and other payables' (Note 28).

(b) Pursuant to a letter of intent related to the acquisition mentioned above, the Company paid a refundable deposit of RMB 120,000,000 (the "Deposit") into an escrow account. As of December 31, 2017, a portion of the Deposit amounting to RMB40,000,000 has been refunded and the rest portion was recorded in 'Other receivables, deposits and prepayments', which has been fully refunded on January 2, 2018.

## 20 BALANCES WITH RELATED PARTIES

As at December 31, 2017 and 2016, the balances with related parties are unsecured, interest free, receivable/repayable on demand and are denominated in RMB.

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Amounts due from related parties | | |
| -Trade in nature | | |
| Yangsi Hospital | **42,304** | 38,175 |
| -Others | | |
| Dongyang Guangfu Hospital (a) | **3,000** | — |
| Vanguard Glory Limited | **343** | 46 |
| Yangsi Hospital | **152** | — |
| Midpoint Honour Limited | **25** | 30 |
| Grand Roc Holdings Limited | **8** | 13 |
| Han Prestige Limited | **8** | — |
| Marco Alliance Ltd | **—** | 12 |
| Total | **45,840** | 38,276 |

As at December 31, 2017 and 2016, the ageing analysis based on trading date of the trade receivables was as follows:

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Within 30 days | **42,304** | 38,175 |
| 30 to 90 days | **—** | — |
| 90 to 180 days | **—** | — |
| More than 180 days | **—** | — |
| | **42,304** | 38,175 |

As at December 31, 2017, none of the trade receivables was individually determined to be impaired (2016: nil).

## 20 BALANCES WITH RELATED PARTIES – *continued*

(a) On December 5, 2017, Honghe Zhiyuan and Dongyang Guangfu Hospital entered into an entrusted loan agreement with China Merchants Bank, respectively. Pursuant to the agreements, China Merchants Bank issued the loan amounting to RMB3,000,000 to Dongyang Guangfu Hospital, a related party of the Group, on behalf of Honghe Zhiyuan with the fixed interest rate of 4.785%. The mature date of this entrusted loan is on December 4, 2018 (Note 34(e)).

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Amounts due to related parties | | |
| – Others | | |
| Yangsi Hospital | **2,986** | 2,937 |
| Vanguard Glory Limited | **200** | 918 |
| Total | **3,186** | 3,855 |

Their carrying values due as at December 31, 2017 and 2016, approximate their fair values.

## 21 CASH AND CASH EQUIVALENTS

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Cash at banks | **160,786** | 129,318 |
| Cash on hand | **1** | 14 |
| Deposits held at call with financial institutions | **100,000** | — |
| | **260,787** | 129,332 |

## 21 CASH AND CASH EQUIVALENTS – *continued*

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

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| US dollars | **111,213** | 2,545 |
| Hong Kong dollars | **4,721** | 5,843 |
| RMB | **144,853** | 120,944 |
| | **260,787** | 129,332 |

Cash at banks earns interest at floating rates based on daily bank deposit rates, and deposits held at call with financial institutions earns interest at the fixed rates.

The Group's balances of cash at banks and deposits at call which are mainly denominated in RMB are deposited with banks in the PRC. The conversion of these RMB-denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

## 22 DISCONTINUED OPERATION

### (a) Description

On August 23, 2017, Weikang Investment entered into an equity transfer agreement with Shanghai Hongfa Enterprise (Group) Co., Ltd., an independent third party of the Company, in relation to the disposal of the entire equity interest in Fuhua Hospital with effect from August 29, 2017 and Fuhua Hospital is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

## 22 DISCONTINUED OPERATION – *continued*

### (b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the period from January 1, 2017 to August 29, 2017 and the year ended December 31, 2016.

| | Period ended August 29, 2017 RMB'000 | Year ended December 31, 2016 RMB'000 |
|---|---|---|
| Revenue | 21,517 | 30,503 |
| Depreciation | (450) | (634) |
| Amortization | (767) | (1,151) |
| Impairment | 38 | (110) |
| Other expenses | (20,913) | (28,471) |
| (Loss)/Profit before income tax | (575) | 137 |
| Income tax expense | 143 | 642 |
| (Loss)/Profit after income tax of discontinued operation | (432) | 779 |
| Gain on sale of the subsidiary after income tax | 13,314 | — |
| **Profit from discontinued operation** | 12,882 | 779 |
| Net cash (outflow)/inflow from operating activities | (370) | 6,015 |
| Net cash inflow/(outflow) from investing activities (2017 included an inflow of RMB39,214,000 from the sale of Fuhua Hospital) | 38,583 | (553) |
| Net cash inflow/(outflow) from financing activities | 482 | (3,084) |
| **Net increase in cash generated by the subsidiary** | 38,695 | 2,378 |

### (c) Details of the sale of the subsidiary

| | Year ended December 31, | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| Consideration received Cash | 43,000 | — |
| Total disposal consideration | 43,000 | — |
| Carrying amount of net assets sold | (24,806) | — |
| **Gain on sale before income tax** | 18,194 | — |
| Income tax expense on gain | (4,880) | — |
| **Gain on sale after income tax** | 13,314 | — |

## 22 DISCONTINUED OPERATION – *continued*

The carrying amounts of assets and liabilities as at the date of sale (August 29, 2017) were:

| | As at August 29, 2017 RMB'000 |
|---|---|
| Property, plant and equipment | 2,131 |
| Intangible assets | 11,644 |
| Goodwill | 7,948 |
| Deferred income tax assets | 266 |
| Trade receivables | 5,005 |
| Inventories | 1,770 |
| Other receivables, deposits and prepayments | 178 |
| Cash and cash equivalents | 3,786 |
| **Total assets** | 32,728 |
| Deferred income tax liabilities | (2,912) |
| Accruals and other payables | (2,208) |
| Trade payables | (2,869) |
| Current tax liabilities | 67 |
| **Total liabilities** | (7,922) |
| **Net assets** | 24,806 |

## 23 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

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

| | Number of shares | Ordinary shares RMB'000 | Treasury shares RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Issued and Paid** | | | | | |
| As at January 1, 2017 | 9,986 | 65 | (2) | — | 63 |
| Repurchase and cancellation of ordinary shares (a) | (9,986) | (65) | 2 | — | (63) |
| Issuance of ordinary shares to then shareholders (a) | 9,986 | —* | —* | — | —* |
| Capitalization Issue (b) | 99,850,014 | 89 | (3) | (86) | — |
| Issuance of ordinary shares upon global offering (c) | 33,334,000 | 30 | — | 378,294 | 378,324 |
| Issuance of ordinary shares upon exercise of over-allotment option (c) | 5,000,000 | 4 | — | 56,533 | 56,537 |
| Share issuance costs (c) | — | — | — | (30,720) | (30,720) |
| As at December 31, 2017 | 138,194,000 | 123 | (3) | 404,021 | 404,141 |

* The balance stated above was less than RMB 1,000.

(a) Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, the authorized share capital of the Company increased from US$50,000 divided into 50,000 ordinary shares of a par value of US$1.00 each to the aggregate of US$50,000 and HK$500,000 divided into (i) 50,000 ordinary shares of a par value of US$1.00 each and (ii) 500,000,000 shares of a par value of HK$0.001 each by the creation of 500,000,000 shares of a par value of HK$0.001 each.

Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, 9,986 ordinary shares of a par value of HK$0.001 each were allotted and issued to the then existing shareholders in proportion to their respective shareholdings in the Company at a consideration equal to the par value of HK$0.001 each and credited as fully paid. 9,986 ordinary shares of a par value of US$1.00 each of the Company were repurchased at a price of HK$0.001 each and cancelled. The authorized share capital was reduced by cancellation of the 50,000 authorized but unissued ordinary shares of a par value of US$1.00 each, following which, the authorized share capital of the Company was HK$500,000 divided into 500,000,000 shares of a par value of HK$0.001 each. The issuance, buy back and cancellation were completed on January 3, 2017.

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

(b) Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, following the change in authorized share capital of the Company and conditional on the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of shares by the Company pursuant to the global offering, the directors of the Company were authorised to capitalize HK$99,850.014 standing to the credit of the share premium account of the Company by applying such sum to pay up in full 99,850,014 shares at par for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the date immediately preceding the date on which the global offering becoming unconditional in proportion to their respective shareholdings in the Company or in accordance with the direction of such member ('Capitalization Issue'). The Capitalization Issue was completed on March 16, 2017, immediately at the listing date of the Company.

(c) On March 16, 2017, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited with the global offering of ordinary shares of HK$0.001 each of the Company, including, a public offering in Hong Kong of 3,333,600 shares and an international offering of 30,000,400 shares, in each case at a price of HK$12.80 per share. The proceeds from the global offering were approximately RMB378 million.

On April 13, 2017, the Company issued 5,000,000 additional new ordinary shares of HK$0.001 each at HK$12.80 per share pursuant to the full exercise of the over-allotment option. The proceeds from the over-allotment option were approximately RMB57 million.

The share issuance costs of the global offering and exercise of over-allotment option were approximately RMB31 million and recorded as a deduction of share premium.

## 24 SHARE-BASED PAYMENTS

### (a) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the 'Subscription Agreement') with Mr. Zhang Xiaopeng ('Mr. Zhang'), Ms. Xia Yuanqing ('Ms. Xia'), Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (Mr. Zang Chuanbo, Ms. Ding Yue and Ms. Kan Ruihan collectively referred to as the 'Management Subscribers'), the respective investment holding companies wholly owned by the Management Subscribers (collectively, the 'Management SPVs'), Midpoint Honour which was collectively owned by the Management SPVs and Han Prestige Limited ('Han Prestige'), an investment holding company wholly owned by Ms. Xia, Hony Capital 2008 Management Limited ('Hony Management'), a management company established by Hony Capital and Vanguard Glory, the controlling shareholder of the Company.

Pursuant to the Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the 'Subscription Shares'), representing 3% of the Company's then issued ordinary shares upon completion of the Subscription Agreement, for a total consideration of RMB31,152,000.

Pursuant to lock-up restrictions provided in the Subscription Agreement, Midpoint Honour undertakes that, unless obtaining a written consent from Vanguard Glory,

(i) within the first 12 months following the listing date (the 'First Year'), it shall not dispose of any of the Subscription Shares held by it;

(ii) within the 12 months following expiration of the First Year (the 'Second Year'), Midpoint Honour shall not dispose of more than 50% of the Subscription Shares held by it;

(iii) after expiration of the Second Year, Midpoint Honour is free to dispose of any of the Subscription Shares held by it.

Pursuant to the exit mechanism provided in the Subscription Agreement, in the event that the Management Subscribers resigns with the Company's consent, the Management Subscribers shall put back the Subscription Shares to Hony Management, or a nominee designated by Hony Management with a consideration equal to the Subscription Consideration plus interests where applicable (the 'Put Back Consideration').

## 24 SHARE-BASED PAYMENTS – *continued*

### (a) Share Subscription Agreement – *continued*

Pursuant to both the lock-up restrictions and the exit mechanism, the Subscription Agreement was accounted for as a share option scheme, under which the Management Subscribers were granted by 300 share options and the Group receives services from the Management Subscribers. The exercise price of the granted options is equal to Put Back Consideration at the end of the First Year and the Second Year. Options are conditional on the employees completing the First Year's and the Second Year's service (the vesting period). The options are exercisable starting 12 months (the 'First Batch Share Options') or 24 months (the 'Second Batch Share Options') from the listing date of the Company. In accordance with the Subscription Agreement, the Group had no legal or constructive obligation to repurchase or settle the options in cash. The granted share options were considered as equity-settled share-based payment to the Management Subscribers. The Subscription Consideration proceeded from the Management Subscribers was deemed as a loan to Hony Management.

Honghe Ruixin, the employer of the Management Subscribers, receives the services provided by the Management Subscribers.

The fair value of the First Batch Share Options and the Second Batch Share Options granted to the Management Subscribers on grant date, March 31, 2016, as determined by a professional valuation firm was RMB5,160,000 and RMB6,000,000, respectively.

The significant inputs into the Black-Scholes valuation model were listed as below:

| | As at March 31, 2016 | |
|---|---|---|
| | First Batch Share Options | Second Batch Share Options |
| Volatility | 52.0% | 52.0% |
| Dividend yield | 0.0% | 0.0% |
| Expected option life (month) | 19.5 | 31.5 |
| Annual risk-free interest rate | 0.43% | 0.69% |

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

The share-based compensation expense related to the Subscription Agreement of RMB4,445,000 (2016: RMB3,334,000) was recognised as 'cost of revenue' for year ended December 31, 2017.

## 24 SHARE-BASED PAYMENTS – *continued*

### (a) Share Subscription Agreement – *continued*

Along with the Subscription Agreement, Mr. Zhang further entered into two loan agreements (the 'Loan Agreements') between Hony Management and Midpoint Honour, respectively, in which Hony Management agreed to grant Mr. Zhang a loan in the principal amount of US$3,200,000 at a simple interest rate of 4% per annum and repayable on demand ('Hony Management's Loan'), and Mr. Zhang agreed to grant Midpoint Honour an interest-free loan in the principal amount of RMB25,960,000 for the purpose of subscription of the Subscription Shares by Midpoint Honour.

The Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017 respectively by the amendments to the Subscription Agreement (the 'Amendment Agreements'). In accordance with the Amendment Agreements, in the event that a Management Subscribers resigns with the Company's consent, the Company, instead of Hony Management or a nominee designated by it, shall have the right to repurchase all the shares indirectly held by the Management Subscribers through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contribution made by such Management Subscribers plus interest where applicable. In other events, the Company, instead of Hony Management or a nominee designated by it, shall have the right to repurchase all the shares indirectly held by the Management Subscribers through his or her respective Management SPV and Midpoint Honour at a price equal to monetary contribution made by such Management Subscribers. Pursuant to the Amendment Agreements, the Subscription Shares should be treated as treasury shares. The fair value of the 300 share options granted to the Management Subscribers did not change due to the modification. Moreover, the Subscription Consideration proceed from the Management Subscribers of approximately RMB31 million was recognized as financial liability in the financial information of the Group subsequently, instead of previously deemed as a loan from Management Subscribers to Hony Management.

### (b) Pre-IPO Share Appreciation Rights Scheme

As the end of June 2016, the key terms and conditions of a Pre-IPO share appreciation rights scheme (the 'Pre-IPO SARs Scheme') were discussed with all employees' concerned. The employees concerned were also informed that the Pre-IPO SARs Scheme was subject to board approval, which was obtained in November 2016.

On November 28, 2016, the Board of the Company approved the Pre-IPO SARs Scheme which enables the Company to grant share appreciation rights to Mr. Zhang Xiaopeng, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (collectively referred to as the 'Pre-IPO SARs Grantees').

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting at June 30, 2016.

Honghe Ruixin, the employer of the Pre-IPO SARs Grantees, receives the services provided by the Pre-IPO SARs Grantees.

## 24 SHARE-BASED PAYMENTS – *continued*

### (b) Pre-IPO Share Appreciation Rights Scheme – *continued*

The fair value of the notional shares granted to the Pre-IPO SARs grantee as at December 31, 2017, as determined by a professional valuation firm was RMB10,369,000. The starting date of the vesting period of the Pre-IPO SARs Scheme is June 30, 2016.

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

| | As at December 31, 2017 | | | |
|---|---|---|---|---|
| | First Batch Share Options | Second Batch Share Options | Third Batch Share Options | Fourth Batch Share Options |
| Volatility | 30.9% | 30.9% | 30.9% | 30.9% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected option life (month) | 20.50 | 32.50 | 44.50 | 56.50 |
| Annual risk-free interest rate | 1.70% | 1.70% | 1.70% | 1.70% |

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

Share-based compensation expense related to the Pre-IPO SARs Scheme of RMB2,808,000 (2016: RMB2,775,000) was recognized as 'cost of revenue' for the year ended December 31, 2017.

### (c) Service Contract with Mr. Lu Wenzuo

As the end of June 2016, the key terms and conditions of a service contract were discussed with Mr. Lu Wenzuo ('Mr. Lu'). Mr. Lu was also informed that the service contract was subject to board approval, which was obtained in December 2016.

Pursuant to the Board of Directors' resolution dated December 13, 2016, New Pride entered into a service contract with Mr. Lu Wenzuo (the 'Service Contract'). Pursuant to the Service Contract on December 13, 2016, New Pride conditionally granted the following awards to Mr. Lu if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator till December 31, 2017:

(i) Certain share awards (the 'Share Awards') to acquire 1% equity interest in each of Weikang Investment and Honghe Ruixin from New Pride and Honghe Zhiyuan or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017 and the Share Awards will be settled by New Pride at the end of Mr. Lu's tenure at one time;

(ii) Share appreciation rights (the 'Mr. Lu's SARs') to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin. The Mr. Lu's SARs will be settled by New Pride at the end of Mr. Lu's tenure;

## 24 SHARE-BASED PAYMENTS – *continued*

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

Pursuant to the Service Contract, Weikang Investment receives the services provided by Mr. Lu and has no obligation to settle the Share Awards and the Mr. Lu's SARs.

The Share Awards are deemed as a compound financial instrument. The fair value of the equity component of the Share Awards on the grant date, December 13, 2016, as determined by a professional valuation firm was RMB300,000. The fair value of the debt component of the Share Awards and Mr. Lu's SARs as at December 31, 2017, as determined by a professional valuation firm was RMB40,500,000 and RMB6,700,000, respectively. The starting date of the vesting period is June 30, 2016.

The significant inputs in the valuation model related to the Share Awards were listed as below:

| | As at December 31, 2017 |
|---|---|
| Discount for lack of marketability | 20% |
| Length of the vesting period (month) | 18 |

The significant inputs in the valuation model related to Mr. Lu's SARs were listed as below:

| | As at December 31, 2017 |
|---|---|
| Volatility | 29.8% |
| Length of the vesting period (month) | 18 |
| Annual risk-free interest rate | 1.119% |
| Expected exercise date | December 31, 2018 |

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

Share-based compensation expenses related to the Share Awards of RMB26,900,000 (2016: RMB13,900,000) and share-based compensation expenses related to the Mr. Lu's SARs of RMB3,833,000 (2016: RMB2,867,000) was recognized as 'cost of revenue' for the year ended December 31, 2017.

The Service Contract with Mr. Lu has no impact on the Company's separate financial statements as the Company is not a party to the transactions.

## 24 SHARE-BASED PAYMENTS – *continued*

### (d) Share Option Scheme

On October 24, 2017, Vanguard Glory, the immediate parent company of the Company, entered into a share option scheme (the 'Share Option Scheme') with Mr. Zhang Xiaopeng, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Sun Congshan, Mr. Zou Ran and Ms. Kan Ruihan (collectively referred to as the 'Share Option Grantees') respectively.

Pursuant to the Share Option Scheme, Vanguard Glory granted 6,412,201 share options to the Share Option Grantees entitling them to subscribe the Company's ordinary shares held by Vanguard Glory at the price of HK$14.35 per share upon exercise of the options over a vesting period starting at October 24, 2017.

The Group, employer of the Share Option Grantees, received the services provided by the Share Option Grantees.

The fair value of the share options granted to the Share Option Grantees on grant date, October 24, 2017, as determined by a professional valuation firm was RMB30,474,000.

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

| | As at October 24, 2017 | | | |
|---|---|---|---|---|
| | First Batch Share Options | Second Batch Share Options | Third Batch Share Options | Fourth Batch Share Options |
| Volatility | 29.6% | 29.6% | 29.6% | 29.6% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected option life (month) | 17.26 | 29.26 | 41.26 | 53.26 |
| Annual risk-free interest rate | 1.76% | 1.76% | 1.76% | 1.76% |

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

Share-based compensation expense related to the Share Option Scheme for the year ended December 31, 2017 is immaterial because of the short term duration from the grant date to December 31, 2017.

Other than the Subscription Agreement, the Pre-IPO SARs Scheme, the Share Awards, the Mr. Lu's SARs and the Share Option Scheme mentioned above, there is no other share-based payments plan.

## 25 RESERVES

| | Capital reserve RMB'000 | Other reserve RMB'000 | Total RMB'000 |
|---|---|---|---|
| At January 1, 2016 | 1,037,035 | 7,812 | 1,044,847 |
| Transfer of reserves (a) | — | 8,671 | 8,671 |
| Share-based payments (Note 24) | 3,434 | — | 3,434 |
| Capital contribution by shareholders | 1,464 | — | 1,464 |
| At December 31, 2016 | 1,041,933 | 16,483 | 1,058,416 |
| At January 1, 2017 | 1,041,933 | 16,483 | 1,058,416 |
| Transfer of reserves (a) | — | 7,504 | 7,504 |
| Share-based payments (Note 24) | 4,645 | — | 4,645 |
| Repurchase and cancellation of ordinary shares (Note 23) | 63 | — | 63 |
| At December 31, 2017 | 1,046,641 | 23,987 | 1,070,628 |

### (a) Statutory surplus reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

## 26 RETAINED EARNINGS

| | RMB'000 |
|---|---|
| **At January 1, 2016** | 45,200 |
| Profit for the year | 24,068 |
| Transfer of reserve | (8,671) |
| **At December 31, 2016** | 60,597 |
| **At January 1, 2017** | 60,597 |
| Profit for the year | (13,749) |
| Transfer of reserve | (7,504) |
| **At December 31, 2017** | 39,344 |

## 27 BORROWINGS

| | As at December 31, 2017 | | | As at December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Secured | | | | | | |
| Bank loans (a) | 23,846 | 214,618 | 238,464 | — | — | — |
| Total borrowings | 23,846 | 214,618 | 238,464 | — | — | — |

### (a) Bank loans

On December 11, 2017, the Company entered into a loan agreement with China Merchants Bank Shanghai Zhangyang Branch, the proceed of which amounting to HKD285,280,000 was used for settlement of the consideration paid for acquisition of Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu') (Note 35).

The bank loan commencing from December 12, 2017 will mature until 2022 and bear an floating interest rate with reference to Hong Kong Interbank Offer Rate plus 360 basis points per annum. The bank loan is pledged by the 100% equity interest of Jiande Hexu and Jiande Heyue Enterprise Management Co., Ltd. and 70% equity interest of Jiande Hospital of Traditional Chinese Medicine Co., Ltd., Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. and Zhejiang Dajia Medicines Co., Ltd.

## 27 BORROWINGS – *continued*

### (a) Bank loans – *continued*

As at December 31, 2017, the Group's borrowings were repayable as follows:

| | Bank borrowings | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Within 1 year | 23,846 | — |
| Between 1 and 2 years | 47,693 | — |
| Between 2 and 5 years | 166,925 | — |
| Over 5 years | — | — |
| | 238,464 | — |

The fair value of the bank loan approximated its carrying amount since the interest payable on the loan is close to current market rate.

## 28 ACCRUALS AND OTHER PAYABLES

| | As at December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Accrued employee benefits | 10,277 | 11,217 |
| Share-based payments | 52,783 | 19,442 |
| Payables to Management Subscribers (Note 24(a)) | 30,951 | 30,234 |
| Withholding tax (a) | 7,155 | 5,357 |
| Accrued professional service fee in respect of the listing | 189 | 6,839 |
| Accrued other professional service fee | 6,985 | — |
| Payable for business acquisition (Note 19(a)) | 5,261 | — |
| Duty and tax payables other than corporate income tax | 2,786 | 2,647 |
| Advance from third parties | — | 167 |
| Others | 586 | 1,377 |
| Total accruals and other payables | 116,973 | 77,280 |
| Less: non-current portion | 3,311 | 19,442 |
| Current portion | 113,662 | 57,838 |

## 28 ACCRUALS AND OTHER PAYABLES – *continued*

(a) Weikang Investment declared a dividend of RMB31.1 million including withholding tax on October 30, 2017, out of which RMB6.2 million was declared to its minority shareholders. The withholding tax amounting to RMB5.1 million of Weikang Investment's majority shareholders had been recognized as liability as of December 31, 2017. The after-tax dividend amounting to RMB5.0 million was fully paid to Weikang Investment's minority shareholders on October 31, 2017.

Honghe Ruixin declared a RMB52.9 million dividend including withholding tax on October 25, 2017, out of which RMB10.6 million was declared to its minority shareholders. The withholding tax amounting to RMB2.1 million of Honghe Ruixin's minority shareholders had been recognized as liability as of December 31, 2017. The after-tax dividend amounting to RMB8.5 million was fully paid to Honghe Ruixin's minority shareholders on October 31, 2017.

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

## 29 DEFERRED INCOME TAX

| | As at December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Deferred income tax assets: | | |
| - Deferred income tax assets to be recovered after more than 12 months | **—** | — |
| - Deferred income tax assets to be recovered within 12 months | **—** | 276 |
| | **—** | 276 |
| Deferred income tax liabilities: | | |
| - Deferred income tax liabilities to be settled after more than 12 months | **(35,056)** | (35,601) |
| - Deferred income tax liabilities to be settled within 12 months | **(577)** | (864) |
| | **(35,633)** | (36,465) |
| Deferred income tax liabilities – net | **(35,633)** | (36,189) |

## 29 DEFERRED INCOME TAX – *continued*

### Deferred income tax assets

| | Provisions RMB'000 |
|---|---|
| Balance at January 1, 2016 | 249 |
| Credited to profit or loss | 27 |
| **At December 31, 2016** | 276 |
| Balance at January 1, 2017 | 276 |
| Charged to profit or loss | (10) |
| Disposal of a subsidiary | (266) |
| **At December 31, 2017** | — |

### Deferred income tax liabilities

| | Intangible assets RMB'000 | Withholding tax RMB'000 | Total RMB'000 |
|---|---|---|---|
| Balance at January 1, 2016 | (31,622) | (5,447) | (37,069) |
| Credited/(charged) to profit or loss | 864 | (260) | 604 |
| **At December 31, 2016** | (30,758) | (5,707) | (36,465) |
| Balance at January 1, 2017 | (30,758) | (5,707) | (36,465) |
| Credited/(charged) to profit or loss | 768 | (2,848) | (2,080) |
| Disposal of a subsidiary | 2,912 | — | 2,912 |
| **At December 31, 2017** | (27,078) | (8,555) | (35,633) |

Deferred income tax asset is recognised for provision for impairment of trade receivables to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The unrecognised deferred income tax assets of Honghe Zhiyuan was RMB70,000 (2016: RMB109,000) in respect of losses amounting to RMB775,000 (2016: RMB1,211,000) that can be carried forward against future taxable income for the year ended December 31, 2017. There is no material tax losses of other entities in the Group carried forward in respect of which deferred tax assets have not been accounted for.

The recognized deferred tax liabilities by the Group was RMB8,555,000 (2016: RMB5,707,000) as at the year ended December 31, 2017, in respect of the PRC dividend withholding tax on temporary differences relating to the undistributed profits of the PRC entities attributable to the Company amounting to RMB85,552,000 (2016: RMB57,073,000), as it was considered probable that these profits would be distributed in the foreseeable future.

## 30 DIVIDENDS

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on October 30, 2017, a dividend, including withholding tax, of RMB24,905,000 to its majority shareholders and RMB6,226,000 to its minority shareholders was declared. The after-tax dividend to its minority shareholders of RMB4,981,000 had been settled on October 31, 2017.

Pursuant to a resolution of the board of directors' meeting of Honghe Ruixin on October 25, 2017, a dividend, including withholding tax, of RMB42,306,000 to its majority shareholders and RMB10,576,000 to its minority shareholders was declared. The after-tax dividend to its minority shareholders of RMB8,461,000 had been settled on October 31, 2017.

## 31 CASH GENERATED FROM OPERATIONS

### (a) Cash flow information

| | As at December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Profit before income tax from | | |
| Continuing operations | 19,228 | 59,950 |
| Discontinued operations (Note 22) | 17,619 | 137 |
| **Profit before income tax including discontinued operations** | 36,847 | 60,087 |
| Adjustments for | | |
| – Foreign exchange loss/(gain) | 6,512 | (1,392) |
| – Interest received | (2,394) | (423) |
| – Amortisation of intangible assets (Note 16) | 3,112 | 3,460 |
| – Provision for impairment of trade receivables | (38) | 110 |
| – Depreciation of property, plant and equipment (Note 15) | 2,892 | 3,686 |
| – Gain on structured deposit and fixed deposit | (312) | — |
| – Gain on disposal of available-for-sale financial assets (Note 3.3) | (1,141) | — |
| – Gains on disposal of financial assets at fair value through profit or loss (Note 3.3) | (90) | — |
| – Share-based compensation expenses (Note 24) | 4,645 | 3,434 |
| – Gain on sale of the subsidiary (Note 22) | (18,194) | — |
| Change in operating assets and liabilities: | | |
| – Decrease/(increase) in inventories | 77 | (667) |
| – (Increase)/decrease in trade receivables | (392) | 2,805 |
| – Decrease/(increase) in other receivables, deposits and prepayments | 2,646 | (4,321) |
| – (Increase)/decrease in amounts due from related parties | (4,129) | 128,585 |
| – Decrease in amounts due to related parties | — | (38,377) |
| – (Decrease)/increase in trade payables | (1,762) | 1,712 |
| – Increase in accruals and other payables | 34,806 | 35,655 |
| **Cash generated from operations** | 63,085 | 194,354 |

## 31 CASH GENERATED FROM OPERATIONS – *continued*

### (b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

| | Year ended December 31, 2017 RMB'000 | Year ended December 31, 2016 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **260,787** | 129,332 |
| Borrowings - repayable within one year | **(27,032)** | (3,855) |
| Borrowings - repayable after one year | **(214,618)** | — |
| Net debt | **19,137** | 125,477 |
| Cash | **260,787** | 129,332 |
| Gross debt - interest free | **(3,186)** | (3,855) |
| Gross debt - variable interest rates | **(238,464)** | — |
| Net debt | **19,137** | 125,477 |

| | Cash RMB'000 | Bank Borrowings due within 1 year RMB'000 | Bank Borrowings due after 1 year RMB'000 | Amount due from related parties due within 1 year RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Net debt as at January 1, 2016** | 13,104 | — | — | (51,296) | (38,192) |
| Cash flows | 115,963 | — | — | 47,441 | 163,404 |
| Foreign exchange adjustment | 265 | — | — | — | 265 |
| **Net debt as at December 31, 2016** | 129,332 | — | — | (3,855) | 125,477 |
| Cash flows | 138,377 | (23,887) | (214,987) | 669 | (99,828) |
| Foreign exchange adjustment | (6,922) | 41 | 369 | — | (6,512) |
| **Net debt as at December 31, 2017** | 260,787 | (23,846) | (214,618) | (3,186) | 19,137 |

## 32 CONTINGENCIES

As of the reporting date, no significant lawsuit provision has been made as based on directors' assessment.

## 33 COMMITMENTS

The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Not later than one year | **2,190** | 2,376 |
| Later than one year and not later than five years | **596** | 7,834 |
| Later than five years | **—** | 1,038 |
| | **2,786** | 11,248 |

## 34 SIGNIFICANT RELATED PARTY TRANSACTIONS

### (a) Parent entities

The Group is controlled by the following entities:

| Name | Type | Place of incorporation | Ownership interest 2017 | Ownership interest 2016 |
|---|---|---|---|---|
| Vanguard Glory Limited | Immediate parent company | Road Town, TORTOLA British Virgin Island | **70.19%** | 97.14% |
| Hony Capital Fund V, L.P. | Ultimate controlling shareholder | George Town, Cayman Island | **70.19%** | 97.14% |

### (b) Subsidiaries

Interests in subsidiaries are set out in Note 12.

## 34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

### (c) Key management compensation

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

| | Year ended December | |
|---|---|---|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Wages, salaries and bonuses | 12,721 | 14,039 |
| Share-based compensation expenses | 37,550 | 22,482 |
| Contributions to pension plans and other expenses | 541 | 608 |
| | 50,812 | 37,129 |

### (d) Transactions with other related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Yangsi Hospital is considered to be related as the Group has participated internal governance body of Yangsi Hospital. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The Directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

| Name | Relationship with the Group |
|---|---|
| Shanghai Yangsi Hospital | Certain employees or directors of the Group are Yangsi Hospital's internal governance body members |
| Dongyang Guangfu Hospital | Certain employees or directors of the Group are Dongyang Guangfu Hospital's internal governance body members |
| Grand Roc Holdings Limited | Related party which is owned by Mr. Zhang |
| Midpoint Honour Limited | Related party which is owned by the Management Subscribers |
| Marco Alliance Ltd. | Related party of ultimate controlling shareholder |
| Han Prestige Limited | Related party of immediate parent company |

## 34 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

### (d) Transactions with other related parties – *continued*

As set out in Note 4, the Group has exercised significant judgements in determining whether the Group has control over Yangsi Hospital. After assessment, the management concluded that the Group does not obtain the decision making power over the internal governance body to direct the relevant activities of Yangsi Hospital, so the Group does not control and thus does not consolidate Yangsi Hospital.

The following significant transactions were carried out between the Group and its related parties for the years ended December 31, 2017 and 2016. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Continuing transactions** | | |
| Management Service fee | | |
| –Yangsi Hospital | **147,574** | 129,563 |

### (e) Loans to a related party

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Beginning of the year | — | — |
| Loans advanced | **3,000** | — |
| End of year | **3,000** | — |

### (f) Balances with related parties

Balances with related parties as at December 31, 2017 were disclosed in Note 20.

## 35 EVENTS AFTER THE REPORTING PERIOD

### 35.1 Business combination

*(a) Acquisition of Jiande Hexu*

As disclosed in Note 19(a), the Group acquired the entire equity interest in Jiande Hexu, the Target Company.

The Target Company is an investment holding company which directly owns 100% equity interest in Jiande Heyue Enterprise Management Co., Ltd. ('Jiande Heyue'), which in turn directly owns 70% equity interest in each of the Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ('Jiande Hospital'), Zhejiang Dajia Medicines Co., Ltd. ('DJ Medicines') and Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. ('DJ Pharmaceutical Technology') (collectively referred to as the 'Target Group'). The Target Group are principally engaged in (i) operation and management of its privately owned hospital, Jiande Hospital and (ii) wholesale of pharmaceutical products in the PRC.

On January 11, 2018, the acquisition was completed and the Company indirectly held 100% of equity interest in Jiande Hexu through New Pride and Jiande Hexu became a subsidiary of the Company. Through Jiande Hexu, the Company indirectly held 70% of equity interest in each of Jiande Hospital, DJ Medicines and DJ Pharmaceutical Technology. The remaining 30% of equity interest in each of Jiande Hospital, DJ Pharmaceutical Technology and DJ Medicines shall be recognized as non-controlling interests.

The following is the result of purchase price allocation as at June 30, 2017 which has been prepared by the Directors of the Company for the purpose of illustrating the effect of the acquisition of the 100% equity interest in Jiande Hexu, together with its subsidiaries, as if the acquisition had been taken place on June 30, 2017.

| | RMB'000 |
|---|---|
| **Consideration** | |
| Cash | 483,000 |
| Contingent consideration(i) | (11,000) |
| Call option to acquire the remaining interest(ii) | (2,400) |
| **Total consideration transferred for acquiring the business of the Target Group** | 469,600 |

## 35 EVENTS AFTER THE REPORTING PERIOD – *continued*

### 35.1 Business combination – *continued*

#### *(a) Acquisition of Jiande Hexu – continued*

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 15,985 |
| Property, plant and equipment | 120,935 |
| Land use right | 27,530 |
| Intangible assets: hospital licenses | 178,300 |
| Intangible assets: GSP licenses | 1,100 |
| Other intangible assets | 14 |
| Inventories | 10,117 |
| Trade receivables | 27,653 |
| Other receivables, deposits and prepayments | 1,636 |
| Amounts due from related parties | 63,690 |
| Amounts due to related parties | 70,885 |
| Trade payables | (12,655) |
| Accruals and other payables | (38,301) |
| Current income tax liabilities | (3,498) |
| Borrowings | (49,600) |
| Deferred income tax assets | 923 |
| Deferred income tax liabilities | (50,648) |
| Net identifiable assets acquired | 222,296 |
| Less: non-controlling interests | (66,689) |
| Add: goodwill | 313,993 |
| Net assets acquired | 469,600 |

(i) Contingent consideration

Pursuant to the Sale Purchase Agreement, Mr. Hong Jiangxin and Mr. Hong Yang have guaranteed to New Pride that the adjusted net profit (being the audited net profit after deduction of tax and non-recurring profit or loss) of Jiande Hospital and DJ Medicines, on a combined basis, for the year ending December 31, 2017 (the '2017 Net Profit') will be no less than RMB28,000,000. The profit guarantee shall be deemed having been fulfilled if the 2017 Net Profit is not less than RMB26,000,000. In the event that the 2017 Net Profit is less than RMB26,000,000, Mr. Hong Jiangxin and Mr. Hong Yang shall compensate the Company a sum in accordance with an agreed formula.

The profit guarantee is recognized as a contingent consideration. The Directors of the Company have determined the fair value of the contingent consideration is RMB11,000,000 as at June 30, 2017 with reference to a valuation report issued by an independent valuer.

## 35 EVENTS AFTER THE REPORTING PERIOD – *continued*

### 35.1 Business combination – *continued*

*(a) Acquisition of Jiande Hexu – continued*

(ii) Call option to acquire the remaining interest

Pursuant to the Sale Purchase Agreement, Zhejiang Xinxiangli Investment Co., Ltd., a company held as to 83% by Mr. Hong Jiangxin granted to New Pride a call option to acquire the remaining interest at a consideration calculated in accordance with an agreed formula. New Pride may exercise the call option at any time during the period commencing from the date of the completion of the acquisition and ending on December 31, 2020, to the extent that the call option and the acquisition of the remaining interest are permissible under the then applicable policies, laws and regulations in the PRC and the Listing Rules, and subject to the availability of finance to fund the exercise of call option.

The Directors of the Company have determined the fair value of the call option is RMB2,400,000 as at June 30, 2017 with reference to a valuation report issued by an independent valuer.

As at the date of this report, the Directors of the Company is in process of performing the purchase price allocation on completion date of the acquisition.

*(b) Acquisition of Cixi Hongai*

On February 8, 2018, New Pride entered into an equity transfer agreement (the 'Equity Transfer Agreement') with Ms. Mi Yuehua, Mr. Chen Yuegen (Ms. Mi Yuehua and Mr. Chen Yuegen collectively referred to as the 'Sellers'), Cixi Union Hospital, Cixi Hongai Medical Management Co., Ltd. ('Cixi Hongai') and Cixi Honghe Medical Management Co., Ltd. in respect of the acquisition of Cixi Hongai. Pursuant to the Equity Transfer Agreement, the Sellers agreed to sell, and New Pride agreed to acquire, the entire equity interest in Cixi Hongai at the Consideration of RMB336,000,000. The acquisition was completed on March 21, 2018.

As at the date of this report, the Directors of the Company is in process of performing the purchase price allocation on completion date of the acquisition.

### 35.2 Issuance of convertible bonds

On January 25, 2018, the Company and Vanguard Glory Limited (the 'Subscriber') entered into a subscription agreement pursuant to which, the Company agreed to issue, and the Subscriber agreed to subscribe for the convertible bonds in the aggregate principal amount of HK$468,000,000 for a total consideration equal to the aggregate principal amount of the convertible bonds (the 'Convertible Bonds'). On March 5, 2018, the Convertible Bonds were issued in registered form in the denomination of HK$1,000,000 each. The Convertible Bonds will mature three years from the issue at its principle amount or can be converted into ordinary shares of the Company at the holder's option upon conversion at the conversion price of HK$18.00 per conversion share (subject to adjustments to the conversion price).

## 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### Balance sheet of the Company

| | Note | As at December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | | 1,051,763 | 1,044,509 |
| **Total non-current assets** | | 1,051,763 | 1,044,509 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | | — | 7,270 |
| Amounts due from subsidiaries | | 489,855 | 347 |
| Cash and cash equivalents | | 105,917 | 8,346 |
| **Total current assets** | | 595,772 | 15,963 |
| **Total assets** | | 1,647,535 | 1,060,472 |
| **Equity** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | 123 | 65 |
| Share premium | | 404,021 | — |
| Treasury shares | | (3) | (2) |
| Reserves | (a) | 1,046,242 | 1,041,734 |
| Accumulated losses | (a) | (83,723) | (22,090) |
| **Total equity** | | 1,366,660 | 1,019,707 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowing | | 214,618 | — |
| Accruals and other payables | | 3,311 | 2,774 |
| **Total non-current liabilities** | | 217,929 | 2,774 |

## 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

### Balance sheet of the Company – *continued*

| | Note | As at December 31, 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Borrowing | | 23,846 | — |
| Accruals and other payables | | 38,899 | 37,075 |
| Amounts due to related parties | | 201 | 916 |
| **Total current liabilities** | | 62,946 | 37,991 |
| **Total liabilities** | | 280,875 | 40,765 |
| **Total equity and liabilities** | | 1,647,535 | 1,060,472 |

The balance sheet of the Company was approved by the Board of Directors on March 29, 2018 and was signed on its behalf:

**Zhang Xiaopeng** **Lin Sheng**

## 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

### Balance sheet of the Company – *continued*

| (a) | Accumulated losses RMB'000 | Other reserves RMB'000 |
|---|---|---|
| At January 1, 2016 | (5,268) | 1,038,400 |
| Loss for the year | (16,822) | — |
| Share-based payment | — | 3,334 |
| **At December 31, 2016** | (22,090) | 1,041,734 |
| At January 1, 2017 | (22,090) | 1,041,734 |
| Loss for the year | (61,633) | — |
| Share-based payment | — | 4,508 |
| **At December 31, 2017** | (83,723) | 1,046,242 |

## 37 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

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

| | Emoluments paid or receivables in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonuses | Employer's contribution to pension scheme | Share-based payments | Estimated money value of other benefits | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Year ended December 31, 2017 | | | | | | | |
| Executive directors | | | | | | | |
| Mr. Zhang Xiaopeng | — | 3,000 | 1,000 | 51 | 5,289 | 150 | 9,490 |
| Mr. Lu Wenzuo | — | 280 | 1,925 | — | 30,733 | — | 32,938 |
| Non-executive directors | | | | | | | |
| Mr. Zhao John Huan | — | — | — | — | — | — | — |
| Mr. Lin Sheng | — | — | — | — | — | — | — |
| Mr. Yuan Bing* | — | — | — | — | — | — | — |
| Mr. Lin Tun* | — | — | — | — | — | — | — |
| Ms. Liu Lu* | — | — | — | — | — | — | — |
| Ms. Wang Nan* | — | — | — | — | — | — | — |
| Independent non-executive directors | | | | | | | |
| Ms. Chen Xiaohong* | 125 | — | — | — | — | — | 125 |
| Mr. Shi Luwen* | 125 | — | — | — | — | — | 125 |
| Mr. Zhou Xiangliang* | 125 | — | — | — | — | — | 125 |
| | 375 | 3,280 | 2,925 | 51 | 36,022 | 150 | 42,803 |
| Year ended December 31, 2016 | | | | | | | |
| Executive directors | | | | | | | |
| Mr. Zhang Xiaopeng | — | 2,625 | 2,400 | 47 | 4,302 | 141 | 9,515 |
| Mr. Lu Wenzuo | — | 226 | 3,917 | — | 16,767 | — | 20,910 |
| Non-executive directors | | | | | | | |
| Mr. Zhao John Huan | — | — | — | — | — | — | — |
| Mr. Yuan Bing | — | — | — | — | — | — | — |
| Mr. Lin Sheng | — | — | — | — | — | — | — |
| Mr. Lin Tun | — | — | — | — | — | — | — |
| | — | 2,851 | 6,317 | 47 | 21,069 | 141 | 30,425 |

* Mr. Yuan Bing and Mr. Lin Tun retired on May 26, 2017.

Ms. Liu Lu and Ms. Wang Nan were appointed as the Company's non-executive directors on May 26, 2017.

Ms. Chen Xiaohong, Mr. Shi Luwen and Mr. Zhou Xiangliang were appointed as the Company's independent non-executive directors on March 16, 2017.

No directors waived or agreed to waive any emoluments during the years ended December 31, 2017 and 2016. No emoluments were paid to directors as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended December 31, 2017 and 2016.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the year ended 2017 (2016: nil).