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

2018 Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Shan Guoxin (單國心) *(Chief executive officer)*
Mr. Lu Wenzuo (陸文佐)

Non-executive Directors

Mr. Zhao John Huan (趙令歡) *(Chairman)*
Mr. Wei Kai (魏凱)
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. Wei Kai (魏凱)

REMUNERATION COMMITTEE

Ms. Chen Xiaohong (陳曉紅) *(Chairman)*
Mr. Shan Guoxin (單國心)
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. Shan Guoxin (單國心)
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, 2018 RMB'000	%	The year ended December 31, 2017 RMB'000	%	The year ended December 31, 2016 RMB'000	%	The year ended December 31, 2015 RMB'000	%	From February 21, 2014 to December 31, 2014 RMB'000	%
Revenue	383,610	100.0	149,158	100.0	130,882	100.0	142,524	100.0	23,653	100.0
Cost of revenue	(231,478)	(60.3)	(61,320)	(41.1)	(49,343)	(37.7)	(41,395)	(29.0)	(7,763)	(32.8)
Gross profit	152,132	39.7	87,838	58.9	81,539	62.3	101,129	71.0	15,890	67.2
Selling expenses	(204)	(0.1)	–	–	–	–	(1)	0.0	–	–
Administrative expenses	(63,322)	(16.5)	(53,706)	(36.0)	(26,373)	(20.2)	(13,203)	(9.3)	(7,947)	(33.6)
Other (losses)/gain - net	(57,635)	(15.0)	(120)	(0.1)	1,125	0.9	(342)	(0.2)	(47)	(0.2)
Other income	2,874	0.7	3,742	2.5	2,982	2.3	2,477	1.7	–	–
Operating profit	33,845	8.8	37,754	25.3	59,273	45.3	90,060	63.2	7,896	33.4
Finance (costs)/income - net	(15,962)	(4.1)	(18,526)	(12.4)	677	0.5	53	0. 0	584	2.5
Profit before income tax	17,883	4.7	19,228	12.9	59,950	45.8	90,113	63.2	8,480	35.9
Income tax expense	(41,304)	(10.8)	(22,912)	(15.4)	(19,248)	(14.7)	(22,788)	(16.0)	(4,185)	(17.7)
Loss/Profit for the year/period	(23,421)	(6.1)	(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	–	–	–	–
Loss/Profit for the year/period	(23,421)	(6.1)	9,198	6.2	41,481	31.7	67,325	47. 2	4,295	18.2
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive (loss)/income for the year/period	(23,421)	(6.1)	9,198	6.2	41,481	31.7	67,325	47.2	4,295	18.2

CONSOLIDATED ASSETS AND LIABILITIES

	As of December 31, 2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	3,805,851	1,965,516	1,287,577	1,302,029	1,282,058
Total liabilities	2,137,867	403,391	126,634	173,490	220,844
Total equity	1,667,984	1,562,125	1,160,943	1,128,539	1,061,214

Dear Shareholders,

In China, the healthcare industry has become one of the industries with the greatest potential for future development. It has already and will continue to brew and form a huge blue ocean market with value of more than RMB10 trillion. Health services have become a national-level major industrial sector related to the national economy and people's livelihood and the overall social happiness index of the future. In recent years, as the state continued to implement the "Healthy China Strategy (健康中國戰略)", significant benefits have been brought to the medical and health industry, medical demands have been continuously released, and a rapid growth trend has been shown in the medical industry. In the future, with the superposition of many favourable factors including the transformation of Chinese economy, upgrading of consumptions, deepening of medical reforms, deepening of aging and comprehensive coverage of medical insurances, the increasing demands of Chinese consumers for content and quality of medical services and the continuous introduction of various policies to promote the development of private hospitals, have brought unprecedented historical opportunities to the medical service industry, especially to the social capital invested medical service industry.

The Group was born in the context of the above-mentioned development of the healthcare industry. It was listed on the main board of the Stock Exchange on March 16, 2017 and has been in the process of rapid development. In 2018, the Group received investment from Legend Holdings Corporation, an internationally renowned enterprise, and assisted "Lenovo Holdings" in assuming the mission to establish a domestic first-class healthcare service industry platform, thus it has laid a solid foundation for the development of the Company. The Group has been focusing on meeting the growing health needs of the public, focusing on common, frequently-occurring and chronic diseases. Through merger and acquisition of hospitals, it will rapidly achieve expansion of scale, focus on areas with more developed economies and higher population density, and build a leading medical and health service network through the integration and interconnection of medical resources among various regions.

Since 2018, the Group has taken the initiative to analyse the policy changes including the "Hierarchical Diagnosis and Treatment System (分級診療)" and "Zero mark-ups on drugs (藥品零加成)" in the medical industry and the market environment of the hospitals, and has relied on the brand and funding advantages of "Lenovo Holdings" and "Hony Capital" and their excellent medical investment, operation and management capabilities in the industry, to further re-arrange the Group's development strategies, closely focus on and be committed to building the core competitiveness of a value-creating "medical investment and operation integration", and be committed to developing a leading medical service industry development platform in China. During the year under review, the Group focused on the following works:

1. We have implemented the general requirements of "successful Acquisition, well management, scale expansion (收到、管好、上量)" proposed by the board of directors, and have established the strategic goal of building a first-class value-creating medical group in China under the "Three Conforming (三 符 合)" conditions of conforming to the development patterns of the medical industry, the models of modern corporate governance and the construction standards of affiliated hospitals in universities;

2. We have introduced the implementation of eight management instruments including "6S management system (6S管理體系)", "discipline assessment (學科評估)", "business plan (商業計劃)", "operation analysis (運營分析)" and "performance integrated management (績效綜合管理)" in the hospitals within the Group, started the construction of the group operation and management system, improved the systems operation and management capabilities of the hospitals in the Group, and formed the core competitiveness of long-term sustainable development of the Group;

3. We have actively reserved medical merger and acquisition resources, formed the value-creating investment value judgment standards of "three internal focuses, three external focuses and one core (內三看、外三看、一核心)" and explored to build an investment, merger and acquisition system with "integration of investment and operation (投資運營一體化)"; ("Three internal focuses" means to focus on factors like hospital discipline construction, future space for development and core management team of the project; "Three external focuses" means to focus on the economic development, population and market competition factors of the place where the project is located from an external perspective; and "One core" means to focus on the fairness of the acquisition price of the project.)

4. We have systematically sorted out the talents for the headquarter and the hospitals of the Group, built the overall talent system layout, explored the interactive group-based professional operation and management mode of the headquarter and the hospitals of the Group, re-established the "investment and management integration" team of the Group, and supplemented the key first-tier operation and management staff for the hospitals, and built an excellent team with good industry background, rich management experience and strong work capacity;

5. Through strengthening the management of the Group and the hospitals within the system and the construction of various professional talents, strengthening the construction of special and advantageous disciplines, strengthening the construction of key technology projects, strengthening the construction of demonstrated base, strengthening the academic (technical) communication and the information exchange among the institutions within the system, strengthening the implementation of multi-site practice of experts according to the national regulations, strengthening comprehensive measures such as technical output of professional teams, we have realized the integration of resources of hospitals in the Group and the sharing of core experts and technologies. For example, the rehabilitation and treatment disciplines of the hospitals being constructed into a value-creating rehabilitation and treatment demonstration base that meets the criterion of "three interventions and two integrations (三介入兩融合)", and with the important specialist technical support and the profit growth;

6. We have started the construction of the information management platform of the hospitals in the Group, and the information management centre of the headquarter of the Group has been allocated to the hospitals, which provides professional informational services to the Group and the hospitals with the group informational management base as the core;

7. We have established a procurement management model that combines centralised procurement with purchases by the hospitals under the guidance of the supply chain management department of the Group, effectively increasing the profitability and profit of the enterprise; and

8. We have established the professional operation teams for the hospitals under the guidance of the Group, and have initially formed a professional comprehensive business expansion model for the hospitals.

2018 is the first year of the systematic construction of the Group. Under the joint efforts of all the staff, the Group has comprehensively and rapidly promoted the development of its every business, has completed the main business and income indicators, and the Group has a good development momentum. The project market follow-up, project selection, due diligence and project audit and evaluation models related to hospital investments, mergers and acquisitions have become mature, and the Company has entered a stage of steady progress. In the next three years, the Group will improve the operation and the management of hospitals, condense the core competitiveness of the hospitals, and comprehensively enhance the hospital scale and brand advantages, so as to maintain its long-term competitive advantages in strategy, talent, management, technologies, capital and brand. The Company will strive to create a first-class value-creating medical group that is respected by patients and the industry under the "Three Conforming (三符合)" conditions, so as to provide quality medical and health services to the public and create values for our Shareholders and the society.

ACKNOWLEDGMENT

I would like to take this opportunity to express my sincere gratitude to our directors, management and all 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.

Shan Guoxin
Executive Director and Chief Executive Officer

Beijing, China
March 29, 2019

BUSINESS OVERVIEW

Business Positioning: The Group closely follows the general requirements and strategic objectives of "successful acquisition, well management, scale expansion (收到、管好、上量)" proposed by the board of directors, to actively invest, construct and develop comprehensive or specialized hospitals with strong comprehensive capabilities, distinctive professional characteristics, good growth and synergy, and a high level of group management and governance, build a medical management and operation system with "integration of investment and operation (投資運營一體化)", and create a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions. ("Three Conforming" means conformities to the development pattern of the medical industry, the management and control patterns of modern enterprises and the construction standard for hospitals affiliated to colleges and universities.)

Business layout: 3 to 5 regional medical centers will be formed in densely populated and economically developed regions, and a three-level medical network will be formed within the regions. At the same time, key development disciplines will be selected according to the characteristics of the regional market invested and the resource advantages of the Group, and a quality medical network that is jointly developed by the regional comprehensive medical system and the Group's specialized system will be built through the coordination of resources and management.

Main businesses: The Company's main businesses focus on building the construction of investment and operation integration system for regional medical care;

- Hospital management: The Group supports the construction of a solid foundation for hospital development through strategic positioning, high end talent introduction and hospital management instrument implementation. In order to meet the needs of hospital development, the Group has introduced talents with a wide range of industry backgrounds, rich experience in hospital and enterprise management and good resource integration capabilities, including introducing medical discipline construction talents for cancer, respirology, cardiovascular, neurography, rehabilitation, gynaecology and orthopedics, and medical professional operation management talents for brands, performance, operation, information and market to the hospitals of the Group, for providing professional output support to the hospitals, and cooperating with the hospital management teams to build the group medical professional operation and management teams, and to promote the rapid development of hospital business. At the same time, the Group has introduced management instruments such as "discipline assessment (學科評估)", "operation analysis (運營分析)" and "6S management system (6S管理體系)" to guide the hospitals to form scientific and systematic operation and management models; through assisting the hospitals in establishing the scientific management system that conforms to medical pattern and integrates with modern enterprise systems, to provide support and value added services to the hospitals in a number of key areas; to condense and enhance the core competencies of the hospitals, to enable them to maintain their long-term competitive advantages in strategy, talent, management, technology, capital and brand and to achieve the goals of value enhancement, employees' growth, and social responsibility committment;

- Investment, merger and acquisition: The Company has vigorously expanded the regional medical markets and initially formed a framework for the medical development system in the Yangtze River Delta region through mergers and acquisitions and reorganizations. At the same time, according to its strategic positioning, the Group has actively reserved resources of medical merger and acquisition subject assets, explored cooperation modes for different types of hospitals that are in line with the Group's strategic development positioning, and formed a value-creating investment value judgment system of "three internal focuses, three external focuses and one core (內三看、外三看、一核心)"; ("Three internal focuses" means to focus on factors like hospital discipline construction, future space for development and core management team of the project; "Three external focuses" means to focus on the economic development, population and market competition factors of the place where the project is located from an external perspective; and "One core" means to focus on the reasonableness of the acquisition price of the project.)

- Integrated business: The Group has established a group integrated business support system including human resources, logistics services, administrative support, supply chain, information management and performance management, to implement standardized and systematic operations, improve management level and reduce operating costs, and provide strong support for achieving the Group's goals.

INDUSTRY OVERVIEW

Chinese medical service industry covers medical service institutions, elderly healthcare institutions, health insurances, etc.. Hospitals are the main body of the entire medical service industry. Hospitals belong to a rigid demanding industry with heavy assets and a long-time cycle. In the future, Chinese medical service industry will continue to have huge room for development with the prominence of population aging problem, the improvement of residents' income and health awareness, the government's great investments and the increase in socially-run medical care institutions.

Chinese medical service industry has shown a high degree of sensitivity to policy. In recent years, in order to improve the imbalance in the distribution of medical resources and the lack of quality medical resources, reduce the price of medicines and materials and rectify the existing medical industry issues including "supporting medical industry by pharmaceutical business (以藥養醫)", the state has carried out a series of targeted reforms to guide the healthy development of the medical service industry, including the following policies:

- The Opinions of the General Office of the State Council on Promoting the Development of "Internet + Healthcare", which has provided regulations on internet-based diagnosis and treatment for the first time, which will promote the construction trend of internet hospitals in the future.

- Reforms related to the supply of medicines. First is supply-side reform, which encourages relevant enterprises to innovate and implement the consistency evaluation of generic drugs, accelerates the drug review and approval, and the pharmaceutical market will develop in the direction of high quality and high efficiency in the future; second is the price reduction of drugs. These will be gradually promoted from the hospital end (Zero-markups), channel end (Two-invoice system) and production end (including national drug price negotiation and centralised procurement), and such policies will improve the income structure of the hospitals, reduce dependence on drugs and improve the transparency in pharmaceutical circulation.

- The Hierarchical Diagnosis and Treatment System (分級診療) and the Allocation of Medical Personnel and Medical Resources to Primary Care (雙下沉) policies. The promotion of such policies will lead to the formation of a strong "community healthcare system (醫共體)" network among hospitals, so that excellent medical resources and talents will be allocated to primary care and medical resources will be allocated effectively.

- The establishment of the National Medical Insurance Bureau in 2018. The "integration of three insurances (三保合一)" (including the basic medical insurance for urban workers, the basic medical insurance for urban residents and the new rural cooperative medical system) will be accelerated; and in terms of "medical insurances", payment by disease type and payment by disease diagnosis related group (DRGs) will be vigorously promoted to reduce excessive medical treatments such as "excessive prescription (大處方)" and "excessive inspection (大檢查)", and strengthen control of fees.

The above-mentioned series of policy reforms will bring huge impacts on the operation of private hospitals in China, the profit margin of medicines will be further compressed, the "community healthcare system" network will bring substantial influence on the source of patients of private hospitals, and the medical insurance funds under the model of DRGs require more effective treatment method. However, the overlapping effect of the population increase and the lack of medical resources will continue to promote the public's demand for medical services. Based on the vision of creating a medical industry group integrating domestic first-class investment and operation and meeting the "Three Conforming (三符合)" construction standards, the Company has actively turned to cater to policy requirements and medical market demand, and it will expand the Group's scale through merger and acquisition projects involving high-quality hospitals in the future, focus on building a group of disciplines with good comprehensive strength, distinctive specialty characteristics and differentiated competitive advantages, and promote medical services with high efficiency and high quality, improve the proportion of non-pharmaceutical incomes in hospital medical services, continue to optimize its income structure, strengthen cooperation with public hospitals, private hospitals and other community medical institutions at various levels, establish rich referral channels, and promote the long-term development of the Group's medical network, to give full play to the advantages of group operation and create synergies in strategy, organization and operation.

RECENT DEVELOPMENTS

Time	Event
January 2018	New Pride Holdings Limited ("**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. ("**Jiande Hexu**") at a total consideration of RMB483,000,000 on October 27, 2017. The completion of this acquisition took place in January 2018.
January 25, 2018	The Company and Vanguard Glory Limited ("**Vanguard Glory**") entered into a subscription agreement, pursuant to which Vanguard Glory agreed to subscribe and the Company agreed to issue convertible bonds of the Company in an aggregate principal amount of HKD468,000,000. The transaction was approved by extraordinary general meeting of the Company held on March 2, 2018 and the convertible bonds were issued on March 5, 2018.
February 8, 2018	New Pride entered into an equity transfer agreement in relation to the acquisition of the entire equity interest in Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") at a total consideration of RMB336,000,000. The completion of this acquisition took place in March 2018.
May 29, 2018	The Company entered into a share purchase agreement in relation to the acquisition of the entire issued share capital of Oriental Ally Holdings Limited ("**Oriental Ally**") at a total consideration of RMB630,000,000 (equivalent to approximately HKD773,879,717), which shall be satisfied by the issuance of convertible bonds in the aggregate principal amount of HKD773,879,717 to Hony Capital Fund VIII (Cayman), L.P. The transaction was approved by extraordinary general meeting of the Company held on July 10, 2018, and the completion of this acquisition took place in August 2018.
December 21, 2018	The Company and Leap Wave Limited (立濤有限公司) (the "**Subscriber**") entered into the subscription agreement (as amended by an amendment agreement dated January 16, 2019), pursuant to which, among other things, the Company agreed to issue, and the Subscriber agreed to subscribe for the convertible bonds in the aggregate principal amount of HKD800,000,000 for a total consideration equal to the aggregate principal amount of the convertible bonds, and with an initial conversion price of HKD20.00 per conversion share. The transaction was approved by extraordinary general meeting of the Company held on February 1, 2019, and the convertible bonds were issued on February 27, 2019.
March 12, 2019	Mr. Lin Sheng has tendered his resignation as a non-executive Director of the Company, a member of the audit committee of the Company and a member of the remuneration committee of the Company with effect from March 12, 2019 due to his other work commitment. With effect from March 12, 2019, Mr. Shan Guoxin ("**Mr. Shan**") has been appointed as an executive Director of the Company and Mr. Wei Kai ("**Mr. Wei**") has been appointed as a non-executive Director of the Company. The Board has appointed Mr. Shan as a member of the remuneration committee and Mr. Wei as a member of the audit committee, with effect from March 12, 2019.

EVENTS AFTER THE REPORTING PERIOD

The Company entered into a subscription agreement (as amended by an amendment agreement dated January 16, 2019), pursuant to which, Leap Wave Limited as the Subscriber agreed to subscribe for the convertible bonds in an aggregate principal amount of HKD800,000,000 at a total consideration equal to the aggregate principal amount of the convertible bonds. The transaction has been approved at the Company's extraordinary general meeting held on February 1, 2019. The Company issued to the Subscriber on February 27, 2019 and the Subscriber subscribed for the convertible bonds in an aggregate principal amount of HKD800,000,000 with an initial conversion price of HKD20.00 per conversion share.

Mr Lin Sheng has resigned as a non-executive director of the Company, a member of the audit committee and a member of the remuneration committee of the Company due to his other work commitment with effect from March 12, 2019. Mr Shan has been appointed as an executive director of the Company, and Mr. Wei has been appointed as a non-executive director of the Company, both with effect from March 12, 2019. The board of directors has appointed Mr Shan as a member of the remuneration committee and Mr Wei as a member of the audit committee, both with effect from March 12, 2019.

Save as disclosed, there is no material subsequent event undertaken by the Company or by the Group after December 31, 2018 and up to the date of this report.

REVIEW OF 2018 ANNUAL PERFORMANCE

The Group's revenue increased from approximately RMB170.7 million (including revenue of RMB21.5 million from discontinued operations) for the year ended December 31, 2017 (the "**Corresponding Period**") to approximately RMB383.6 million for the period. Such increase is mainly due to: (a) revenue and management fees generated or received from the hospitals and hospital management companies acquired by us in 2018, namely Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (建德中醫院有限公司) ("**Jiande Hospital**"), Cixi Honghe Medical Management Co., Ltd. (慈溪弘和醫療管理有限公司) ("**Cixi Honghe**") and Zhejiang Guangsha Medical Technology Co., Ltd (浙江廣廈醫療科技有限公司) ("**Guangsha Medical**"); and (b) increase in the management service fees received from Shanghai Yangsi Hospital ("**Yangsi Hospital**").

We recorded a net loss of approximately RMB23.4 million for the period, representing a decrease of approximately RMB32.6 million from net profit of approximately RMB9.2 million for the Corresponding Period. Loss for the period is mainly due to: (a) amortization charges for management share-based awards; (b) exchange losses and related losses on fair value change due to the translation into Renminbi of the HKD-denominated convertible bonds issued by the Company; (c) amortization arising from acquisition of identified identifiable intangible assets; and (d) expenses and accrued professional service fees resulting from acquisition and potential acquisition of hospitals and hospital management companies and issuance of convertible bonds. The Company considers that these extraordinary items are not indicative of the operational performance of the Company's businesses for the reporting period.

Results of Operations

Revenue

Our revenue increased by approximately 124.7% from RMB170.7 million in 2017 to RMB383.6 million in 2018. The table below sets forth the Group's revenue by segment and by services category for the years indicated:

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue	**383,610**	170,675
– Hospital management services	**199,194**	149,158
– General hospital services	**183,823**	21,517
– Wholesale of pharmaceutical products	**593**	—

Hospital management services

Revenue from our hospital management services segment, which consists of the provision of hospital management services to Yangsi Hospital, Cixi Union Hospital ("**Cixi Hospital**") and Zhejiang Jinhua Guangfu Oncological Hospital ("**Jinhua Hospital**"), increased by 33.5% from RMB149.2 million in 2017 to RMB199.2 million in 2018. The increase was mainly attributable to (a) management service income generated or received from our acquisition of hospital management companies in 2018, i.e. Cixi Honghe and Guangsha Medical; (b) the increase in management service fees received from Yangsi Hospital.

General hospital services

Revenue from our general hospital services segment increased by 754.9% from RMB21.5 million in 2017 to RMB183.8 million in 2018. The revenue of the Group's general hospital services segment primarily derived from individual patients for the periods ended December 31, 2018 and 2017. The increase was mainly attributable to the acquisition of Jiande Hospital, which is owned as to 70% indirectly by Jiande Hexu, in January 2018, which enlarged our revenue base.

Wholesale of pharmaceutical products

Revenue from wholesale of pharmaceutical products is derived from the business of Zhejiang Dajia Medicines Co., Ltd ("**DJ Medicines**"), which is indirectly owned as to 70% by Jiande Hexu and is principally engaged in the supply of pharmaceutical products to Jiande Hospital and third-party customers.

Cost of revenue

Our cost of revenue increased by 183.0% from RMB81.8 million in 2017 to RMB231.5 million in 2018. The increase was mainly attributable to the addition of the cost of revenue of RMB157.3 million incurred by Jiande Hospital and DJ Medicines, owned as to 70% indirectly by Jiande Hexu which was acquired by the Group in January 2018 and the increase of RMB20.2 million in amortization of the identifiable intangible assets identified and acquired by the Group.

Administrative expenses

The administrative expenses of continuing operations were RMB53.7 million and RMB63.3 million for the year ended December 31, 2017 and 2018, respectively, and amounted to 36.0% and 16.5% as a percentage of the revenue of the corresponding year. The increase was mainly attributable to the administrative expenses of RMB17.5 million incurred by Jiande Hospital (which is owned as to 70% indirectly by Jiande Hexu) acquired by the Group.

Other losses-net

Other losses-net increased by RMB57.5 million from RMB0.1 million in 2017 to RMB57.6 million in 2018. The increase in other losses-net was mainly attributable to the losses of RMB65.2 million on changes in fair value arising from the changes in the value of the convertible bonds issued by the Group.

Other income

We recorded other income of RMB3.7 million and RMB2.9 million for the years ended December 31, 2017 and 2018, respectively, representing a 21.6% year-on-year decrease. The decrease was mainly attributable to the decrease of RMB1.1 million in government grants and subsidies granted by the People's Government of Sanlin town in Shanghai in 2018 (2017: RMB2.5 million, 2018: RMB1.4 million) for the tax contribution of Weikang Investment.

Finance income and finance costs

Our finance income decreased from RMB2.7 million in 2017 to RMB2.6 million in 2018 mainly due to the decrease of RMB1.4 million in interest income from short-term bank deposits, short-term structured deposits and deposits at calls, as we deposited our unutilized proceeds from Listing and management fee received into these products, which were offset by the increase of RMB1.3 million in finance income on the financial liability measured at amortised cost.

Our finance cost decreased from RMB21.2 million in 2017 to RMB18.6 million in 2018 mainly due to the decrease of RMB18.5 million (2017: RMB21.2 million, 2018: RMB2.7 million) in foreign exchange losses as a result of the translation of the deposits denominated in US dollars or Hong Kong dollars into Renminbi, which were offset by the increase of approximately RMB15.9 million (2017: nil, 2018: RMB15.9 million) in financing interest expense on bank borrowings.

Income tax expense

Our income tax expense was RMB27.6 million and RMB41.3 million for the years ended December 31, 2017 and 2018, respectively. The RMB13.7 million increase in income tax expenses was mainly attributable to the RMB14.6 million increase in income tax expenses for the year under review.

Loss for the year

We recorded a net loss of approximately RMB23.4 million for the period, representing a decrease of approximately RMB32.6 million from net profit of approximately RMB9.2 million for the corresponding period. Loss for the year under review is mainly due to the following extraordinary factors: (a) amortization charges for management share-based awards in the amount of RMB24.3 million; (b) exchange losses and related losses on fair value change of RMB65.2 million due to the translation into Renminbi of the HKD-denominated convertible bonds issued by the Company and gains on fair value change and foreign exchange of RMB5.5 million relating to other items; (c) amortization of RMB20.2 million arising from acquisition of identified identifiable intangible assets; and (d) the expenses and accrued professional service fees of approximately RMB12.0 million resulting from the acquisition and potential acquisitions of hospitals and hospital management companies and issuance of convertible bonds. The Company considers that the above-mentioned extraordinary items are not indicative of the operational performance of the Company's businesses for the year under review. The Company also considers that expected changes in fair value of convertible bonds, amortization of identified identifiable intangible assets being acquired, changes in RMB exchange rates and expenses relating to the acquisition of target hospitals and hospital management companies may or will continue to have an impact on the Group's future financial results.

Discussion of certain items from the consolidated balance sheets

Cash and cash equivalents

We had cash and cash equivalents of RMB260.8 million and RMB195.5 million as of December 31, 2017 and 2018, respectively. The RMB65.3 million decrease in 2018 was primarily attributable to the (a) payment for the acquisition in 2018 of RMB314.4 million, (b) payment for the purchase of financial assets at fair value through profit or loss of RMB267.0 million, (c) repayment of bank loans of approximately RMB55.0 million; and (d) payment of interests, dividends and withholding tax of RMB43.8 million, offset by (i) proceeds of RMB378.7 million from issuance of convertible bonds, (ii) proceeds from borrowings of RMB70.0 million, (iii) recovery of deposit payment in respect of acquisition of subsidiaries of RMB80.0 million and (iv) proceeds from disposal of financial assets at fair value through profit or loss of RMB40.8 million.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments decreased significantly by RMB557.6 million from RMB563.7 million as of December 31, 2017 to RMB6.1 million as of December 31, 2018, primarily due to a decrease of RMB483.0 million in prepayment for acquisition of Jiande Hexu as at the end of 2017 due to the completion of the acquisition in January 2018 and the recovery of deposit payments for acquisition of Jiande Hexu of RMB80.0 million in 2018.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as of December 31, 2018 amounted to approximately RMB249.8 million, including monetary funds at floating rates of RMB248.6 million and the option to acquire the remaining equity of subsidiaries of RMB1.2 million. The following table sets out the changes in the monetary funds at floating rates for the year ended December 31, 2018.

	Year ended December 31, 2018 RMB'000
Opening balance	17,396
Additions	267,041
Settlements	(41,415)
Fair value change resulting from change in monetary funds value	5,545
Closing balance	248,567

The details of monetary funds owned by us during the year under review which have been acquired from several financial institutions are set out below:

Name of financial assets at fair value through profit or loss	Name of monetary funds	Balance as at December 31, 2018 (including dividend revenue) RMB
Monetary fund	HSBC Jintrust Monetary Market Fund B (滙豐晉信貨幣基金B)	50,267,927
Monetary fund	Harvest HuoQiBao Monetary Market Fund (嘉實活期寶貨幣基金)	738,212
Monetary fund	Harvest Express Monetary Market Fund (嘉實快線貨幣市場基金)	465,670
Monetary fund	Huaxia Cash Enhances Securities Investment Fund (華夏現金增利證券投資基金)	852,151
Monetary fund	Citic-prudential Monetary Market Securities Investment Fund B (信誠貨幣市場證券投資基金B)	47,413,160
Monetary fund	Harvest Express Monetary Market Fund (嘉實快線貨幣市場基金)	5,244,719
Monetary fund	CCB Principal Asset Management Monetary Market Fund B (建信貨幣市場基金B)	12,014,618
Monetary fund	E Fund Daily Wealth Management Monetary Market Fund (易方達天天理財貨幣市場基金)	41,294,800
Monetary fund	Fuguo Tianshi Monetary Market Fund (富國天時貨幣市場基金)	12,931,159
Monetary fund	China Merchants Cash Appreciation Securities Fund (招商現金增值證券基金)	133,274
Monetary fund	Aegon-Industrial Monetary Market Securities Investment Fund (興全貨幣市場證券投資基金)	20,618,936
Monetary fund	Huan Cash Fuli Investment Fund (華安現金富利投資基金)	15,306,554
Monetary fund	Minsheng Royal Cash Enhances Monetary Fund (民生加銀現金增利貨幣基金)	41,286,499

Given all the applicable percentage ratios are below 5%, none of the acquisitions of the monetary funds during the year under review as set out above constituted a notifiable transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

These financial assets that the Company invested in during the year ended December 31, 2018 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 RMB117.0 million and RMB139.3 million as of December 31, 2017 and 2018, respectively. The accruals and other payables increased by RMB22.3 million, mainly due to (i) the increase in amounts due to third parties of approximately RMB59.2 million resulting from the acquisition of Guangsha Medical, (ii) the RMB20.1 million increase in remuneration payable to employees, taxes and fees payable and withholding tax payable and (iii) the RMB7.0 million in amounts payable in respect of purchase of equipment, offset by the RMB60.9 million decrease in payables relating to the share-based payments in connection with the grant of share-based awards by our management.

LIQUIDITY AND CAPITAL RESOURCES

Our total equity as of December 31, 2018 was RMB1,668.0 million (2017: RMB1,562.1 million). As of December 31, 2018, we had current assets of RMB681.7 million (2017: RMB404.2 million) and current liabilities of RMB538.1 million (2017: RMB149.8 million). The current ratio was 1.27 as of December 31, 2018 as compared to 2.70 as of December 31, 2017.

Our current assets increased by RMB277.5 million from RMB404.2 million as of December 31, 2017 to RMB681.7 million as of December 31, 2018, mainly due to the improvement in our operating results. Moreover, we bought more financial assets which were monetary funds at floating rates in order to improve the efficiency of fund usage. Our current liabilities increased by RMB388.3 million from RMB149.8 million as of December 31, 2017 to RMB538.1 million as of December 31, 2018, mainly due to the increase in short-term borrowings and financial liability measured at amortized costs.

Our primary uses of cash in 2018 were for working capital, payment in respect of the acquisition of subsidiary and payment for financial assets at fair value through profit or loss. 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 generated from operating activities of RMB122.4 million, consisting of RMB141.6 million in net cash inflows generated from our operations before changes in working capital, net cash inflows of RMB11.0 million relating to changes in working capital, cash outflow on income tax paid of RMB30.7 million and interests received of RMB0.5 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB17.9 million, adjusted for non-cash and non-operating items, including primarily to add-back of share-based compensation expenses of RMB16.0 million, depreciation of property, plant and equipment and amortization of intangible assets of RMB30.3 million and loss on fair value change arising from the change in value of convertible bonds of RMB65.2 million. Our net cash inflows relating to changes in working capital were primarily attributable to the increase in accruals and other payables of RMB28.3 million and the increase in receivables from related parties of RMB16.9 million.

In the year under review, we had net cash outflow from investing activities of RMB509.2 million, primarily comprised of payment for acquisition of subsidiary of RMB314.4 million, payments for financial assets at fair value through profit or loss of RMB267.0 million, payment for property, plant and equipment of RMB30.1 million, payment of professional service fees for acquisitions of RMB14.3 million and amounts due from related parties of RMB7.1 million, offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB40.8 million and recovery of deposits on acquisition of subsidiary of RMB80.0 million.

Cash and Borrowings

We had cash and cash equivalents of RMB260.8 million and RMB195.5 million as of December 31, 2017 and 2018, respectively. Our borrowing was RMB263.6 million as of December 31, 2018 (as of December 31, 2017: RMB238.5 million), which is secured. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Bank borrowings	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**89,692**	23,846
Between 1 and 2 years	**74,538**	47,693
Between 2 and 5 years	**99,385**	166,925
	263,615	238,464

As of December 31, 2018, the net gearing ratio of the Company was 6.9%. 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, 2018, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECT

Although the Group currently faces a series of problems in its operation management and control, including systematic construction to be further strengthened, management and control ability of the hospitals' management teams to be further improved, resources sharing among hospitals within the system to be further strengthened, etc., the Group will continue to implement multi-dimensional development strategy and establish regional healthcare service centers; consolidate medical resources to build a healthcare services network with domestic high-quality medical professional resources as the core and high-quality foreign medical professional resources from Europe and the United States of America as the auxiliary; and enhance intra-group synergy to optimize the allocation of resources, by strengthening constant construction of the Group's headquarters, systematic promotion of the Group's specialized management segments, construction of hospital management team, hospital's systematic improvement and enhancement, hospital's operational efficiency conversion and profitability, development of investment and acquisition project sources, mix of branding and marketing to strengthen the construction of the Group's operation management and control system as well as management output. In particular, 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 within regions in China with a sizeable population and well-developed economic activities.

The Group is committed to building a first class and value-creating medical group in the PRC that conforms to the "Three Conforming (三符合)" conditions including the development patterns of the medical industry, the modern corporate management and control model and the construction standards of affiliated hospitals in universities. Through continuous strengthening of the culture development of the Group and its hospitals and strategic optimization and improvement of our employees' skill set, we promote healthy and rapid development from various aspects, and in turn continuously enhance the value of our hospitals. We will continue to increase the comprehensive investments in our hospitals, and actively support the hospitals in the development of new businesses, new technologies and new projects. While improving the quality of basic medical treatment, we will also focus on building and developing advanced and specialized services, and strive to build a medical group with industrial influence. Through the introduction of scientific management concepts, technologies and measures, we seek to comprehensively improve the management and governance of the Group and the hospitals in terms of their operational efficiency and brand influence, so that we will be able to effectively control operating costs, increase income and enhance profitability, as well as to create more social benefits and to realise corporate economic value. Regarding merger and acquisition activities, the Group will combine the cutting-edge experience of the Company and the industry, and will adopt comprehensive measures such as strengthening our investment team, integrating the resources from our professional teams, and improving our capabilities in project evaluation and judgment, in order to actively explore channels of new projects, to broaden our project source and to enhance our accuracy and timeliness in project evaluation, to ensure that we are able to complete more valuable acquisition projects, and to guarantee a solid project resource for the healthy and rapid development of the Group.

By adhering to our established strategies, the Company expanded its medical network and enhanced diversity in its medical services continuously. The medical quality and management operating capabilities of the Company were improved. As at December 31, 2018, the Group managed, owned and/or founded six hospitals in total. The Group recorded out-patient visits of approximately 2,246,753 persons. The number of in-patient visits was approximately 87,334 persons for the year under review. The number of surgeries was approximately 15,123 for the year under review.

The Group will continue to step up its management efforts in its hospitals to practically improve operating results, including adopting the following key measures:

- continuous development of advanced and specialized services, talents training and equipment upgrading to improve the hospitals' business profit and generate new profit growth point;
- reinforcing supervision and inspection of hospitals by the academic committee of the hospitals, strengthening the management of hospital services and quality of medical services;
- implementing practices at multiple sites by high-quality professional and technical experts among hospitals within the system in accordance with national policies to achieve the sharing of core technology resources and enhance the full use of the most valuable high-end human resources;
- promoting the close integration of internet technology and medical diagnosis and treatment technology to achieve remote image diagnosis and pathological diagnosis resource sharing among hospitals within the system, improve the efficiency of high-quality expert resources, and effectively reduce operating costs;
- exploring diversified marketing strategies to enhance the influence and brand value of the hospitals;
- enhancing operating capabilities of the management team through provision of management and training;
- effectively reducing operating costs through improving the supply chain management capabilities across hospitals within the system; and
- invigorating the development of hospitals through optimized performance evaluations and reformed incentive measures.

OPERATING LEASE COMMITMENTS

We leased our offices in 2018. Our future aggregate minimum lease payments under non-cancellable operating leases were RMB1.6 million for the year ended December 31, 2018.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as the acquisition of Jiande Hexu and its subsidiaries, Cixi Hongai and its subsidiaries, and Oriental Ally and its subsidiaries as disclosed in "Recent Developments" above, the Group did not have any other material acquisition and disposal of subsidiaries and affiliated companies from January 1, 2018 until December 31, 2018.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, as of December 31, 2018, the Group did not have any significant investment or future plans for material investments or capital assets.

EXPOSURE TO 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 2018, 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 did not apply any derivatives as hedges against foreign exchange risk. 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.

PLEDGE OF ASSETS

On December 31, 2018, the Group pledged its assets as the security for bank loans, with details contained in note 29 to the consolidated financial statements,

CAPITAL EXPENDITURES

In 2018, our capital expenditures were RMB30.1 million, which were primarily related to upgrading and improvement of our properties and purchase of new equipment.

HUMAN RESOURCES

As of December 31, 2018, we had a total of 473 employees (December 31, 2017: 32). The increase was due to acquisition of Jiande Hexu and its subsidiaries, Cixi Hongai and its subsidiaries, and Oriental Ally and its subsidiaries. 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, 2018, the total employee benefits expenses (including Directors' remuneration) were RMB131.4 million (2017: RMB61.0 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, 2018.

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; (ii) provision of management and consultation services to three not-for-profit hospitals, i.e. Yangsi Hospital, Cixi Hospital and Jinhua Hospital; and (iii) wholesale of pharmaceutical products in China.

Segment analysis of the Company for the year ended December 31, 2018 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 11 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 8 to 21 of this annual report which constitute part of this report of the Directors.

Save as disclosed on page 12 of this annual report, there is no significant subsequent event undertaken by the Company or by the Group from January 1, 2019 to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of comprehensive income on page 77.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for February 21, 2014 to December 31, 2014, and the years ended December 31, 2015, 2016, 2017 and 2018, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2018 are set out in Note 24 to the consolidated financial statements. As of the date of this annual report, the total share capital of the Company was HKD138,194 divided into 138,194,000 Shares of HKD0.001 each.

FINAL DIVIDEND AND DIVIDEND POLICY

As a Cayman Islands company, any dividend recommendation will be at the absolute discretion of the Directors. The Company may declare dividends after taking into account its results of operations and earnings, our capital requirements and surplus, our general financial condition, contractual restrictions, and other factors as the Directors may deem relevant at such time.

Chinese laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS. Some of the Company's subsidiaries in China that are foreign-invested enterprises set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant Chinese laws and the provisions of their respective articles of association. These portions of the Company's subsidiaries' net profits are not available for distribution as cash dividends. Distributions from the Company's subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that the Company or the Company's subsidiaries may enter into. Since we rely on our Chinese subsidiaries' dividends as the source of funds to pay dividends, these restrictions may limit or completely prevent us from paying dividends.

Any declaration and payment, as well as the amount of dividends, will be subject to the Articles and the Cayman Companies Law. The Shareholders in general meetings may approve and make any declaration of dividends, which must not exceed the amount recommended by the Directors. No dividend may be declared or paid except out of our profits or reserves set aside from profits in the Directors' discretion. Dividends may also be declared and paid out of the share premium account in accordance with the Cayman Companies Law and the Articles, provided that no dividend may be paid out of the Company's share premium account unless the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be paid.

The Board does not recommend the payment of a final dividend for the year ended December 31, 2018.

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, 2018 are set out in Note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As of December 31, 2018, the Company's had no distributable reserves to be distributed to the Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2018 are set out in Note 14 to the consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The Shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (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 approximately HKD465.6 million. The net proceeds received from the global offering has been and will be in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated February 28, 2017 (the "**Prospectus**"). All unutilized amounts are deposited in licensed banks in Hong Kong and will be used in a manner that is consistent with that mentioned in the Prospectus and according to the needs of the Company from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2018 is set out below:

	Percentage to the total amount	**Net Proceeds**	**Utilized Amount**	**Unutilized Amount**
		HKD million	HKD million	HKD 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	8.13	43.09
– Upgrading and improvement of medical facilities	7%	32.59	20.62	11.97
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	27.94	—
– Employing medical professionals and experts in business management	5%	23.28	8.90	14.38
– 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	3.35	29.24
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	—
	100%	465.60	348.30	117.30

CONVERTIBLE BONDS

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory, a shareholder holding 70.19% of the Company's issued share capital, entered into a subscription agreement on January 25, 2018, pursuant to which the Company will issue and Vanguard Glory will subscribe for the convertible bonds in the principal amount of HKD468 million ("**Vanguard Convertible Bonds**") with an initial conversion price of HKD18.00 and convertible into 26,000,000 ordinary shares of the Company.

The net proceeds from the Vanguard Convertible Bonds, after deducting all the related costs and expenses, is approximately HKD467 million. As of December 31, 2018, the proceeds was used to acquire Cixi Hongai of approximately HKD405 million in March 2018. As at December 31, 2018, approximately HKD62 million was placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular dated February 12, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospital or hospital management businesses by the Group. The directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As of December 31, 2018, the analysis of use of the net proceeds is as follows:

	Percentage to the total amount	Net Proceeds HKD million	Utilized Amount HKD million	Unutilized Amount HKD million
Acquisition of Cixi Hongai	45%	211	405	—
Acquisitions of other hospital or hospital management businesses	55%	256	—	62
Total	100%	467	405	62

As of December 31, 2018, none of the Vanguard Convertible Bonds were converted into shares. Details of Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 12, 2018, respectively.

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. (the "**Vendor**") entered into a share purchase agreement (the "**Share Purchase Agreement**") in relation to the sale and purchase of the entire equity interest in Oriental Ally, a company incorporated in the British Virgin Islands with limited liability and is owned by the Vendor, with a consideration of RMB630,000,000 (equivalent to approximately HKD773,879,717).

Oriental Ally is an investment holding company, which directly owns 100% equity interest in Impeccable Success Limited ("**Impeccable Success**"), which in turn directly owns 75% equity interest in Guangsha Medical (collectively referred to as the "**Target Group**"). The Target Group is principally engaged in provision of management and consultation services to a not-for-profit hospital, Jinhua Hospital in the PRC.

On August 7, 2018, the acquisition was completed. The Company directly holds 100% of equity interest in Oriental Ally and Oriental Ally became a subsidiary of the Company. Through Oriental Ally, the Company will indirectly hold 75% equity interest in Guangsha Medical and the remaining 25% equity interest held by Hony Kangshou Management Consulting (Shanghai) Co., Ltd. shall be recognized as non-controlling interests.

The consideration was satisfied by the issuance of the convertible bonds in the aggregate principal amount of HKD773,879,717 by the Company to the Vendor on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the convertible bonds were issued in registered form in the denomination of HKD1.00 each provided that in no event shall any bonds be transferred, exchanged, converted or purchased in an aggregate principal amount that is less than HKD1.00. The convertible bonds will mature five years from the issue at its principal amount or can be converted into ordinary shares of the Company at the holder's option upon conversion at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price).

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

During the year ended December 31, 2018, 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. Shan Guoxin (*Chief Executive Officer) (appointed as executive director on March 12, 2019*)
Mr. Zhang Xiaopeng *(Chief Executive Officer) (resigned from executive director and chief executive officer on May 23, 2018*)
Mr. Lu Wenzuo

Non-executive Directors:

Mr. Zhao John Huan *(Chairman)*
Mr. Lin Sheng *(resigned on March 12, 2019)*
Mr. Wei Kai *(appointed on March 12, 2019)*
Ms. Liu Lu *(appointed on May 26, 2017)*
Ms. Wang Nan *(appointed 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 38 to 50 of this annual report.

Ms. Liu Lu, Ms. Wang Nan and Mr. Shi Luwen shall retire at the forthcoming annual general meeting of the Company (the "**AGM**") pursuant to the articles of associations of the Company (the "**Articles**"). Mr. Shan Guoxin and Mr. Wei Kai shall be re-elected at the AGM pursuant to 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 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, 2018 and up to the date of this report.

As of December 31, 2018, 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.

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 38 to the consolidated financial statements constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. This is because the opposite parties of the relevant related party transactions are not regarded as connected persons of the Company under the Listing Rules, or the opposite party to the relevant one-off related party transaction had not become a subsidiary of the Company at the time of entering into such transaction. During the reporting period, the Group had not entered into 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 at December 31, 2018, 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[4]
Mr. Zhao John Huan	Interest in controlled corporation	161,693,985[1]	117.01%
	Deemed interest	2,500,000[2]	1.81%
Ms. Liu Lu	Interest in controlled corporation	9,098,800[3]	6.58%

Notes:

(1) This includes the Shares held by Mr. Zhao John Huan in respect of the convertible bonds for an aggregate principal amount of HKD1,241,879,717. For more details, please refer to the circulars of the Company dated February 13, 2018 and June 24, 2018.

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

(3) 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.

(4) 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 December 31, 2018, 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 December 31, 2018, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares of the Company:

Name of Shareholder	Capacity/Name of interest	Number of Shares	Approximate percentage of interest in the Company(5)
Vanguard Glory	Beneficial owner	123,000,000	89.01%
Hony Capital Fund V, L.P.(2)	Interest in controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP, L.P.(2)	Interest in controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP Limited(2)	Interest in controlled corporation	123,000,000	89.01%
Hony Group Management Limited(1)(2)(3)	Interest in controlled corporation; deemed interest	164,193,985	118.81%
Hony Managing Partners Limited(1)(2)(3)	Interest in controlled corporation; deemed interest	164,193,985	118.81%
Exponential Fortune Group Limited(1)(2)(3)	Interest in controlled corporation; deemed interest	164,193,985	118.81%
Hony Capital Fund VIII (Cayman), L.P. (3)	Beneficial owner	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman), L.P. (3)	Interest in controlled corporation	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman) Limited (3)	Interest in controlled corporation	38,693,985	28.00%
Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥))(4)	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"**)(4)	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))(4)	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)(4)	Interest in controlled corporation	9,098,800	6.58%
Mr. Niu Yang(4)	Interest in controlled corporation	9,098,800	6.58%

Notes:

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

(2) Hony Capital Fund V, L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund V, L.P. 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) Hony Capital Fund VIII (Cayman), L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund VIII (Cayman), L.P. is Hony Capital Fund VIII GP (Cayman), L.P., whose general partner is Hony Capital Fund VIII GP (Cayman) Limited. Hony Capital Fund VIII GP (Cayman) 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.

(4) 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).

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

(6) Leap Wave Limited has entered into the a subscription agreement on December 21, 2018 with the Company to subscribe for convertible bonds issued by the Company, which can be convertible into 40,000,000 conversion shares of the Company, representing approximately 28.94% of the existing issued share capital of the Company as at the date of this report. Completion only occurred in February 2019. Details of this transaction can be found on page 12 of this report.

SHARE-BASED PAYMENTS SCHEMES

Save as disclosed below and Note 25 to the consolidated financial statements, the Company does not have other share option schemes.

(a) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the "**Share Subscription Agreement**") with certain members of the management (collectively, the "**Management Subscribers**"), their respective investment holding companies, Midpoint Honour Limited (a shareholder of the Company, which was collectively owned by the investment holding companies of the Management Subscribers) ("**Midpoint Honour**"), Hony Capital 2008 Management Limited ("**Hony Management**"), a management company established by Hony Capital, and Vanguard Glory, the immediate parent company of the Company.

The Share Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017, respectively (the "**Amendment Agreements**").

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new shares to Midpoint Honour (the "**Subscription Shares**"), representing 3% of the Company's then issued ordinary shares for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HKD1,787,000 and subsequently cancelled these shares. Pursuant to the Amendment Agreements, the Subscription Shares with par value amounting to RMB2,000 were treated as treasury shares. On March 16, 2017, the remaining 286 Subscription Shares were divided into 2,860,000 shares of a par value of HKD0.001 each upon the capitalization issue.

Pursuant to the Share Subscription Agreement and the Amendment Agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the Subscription Shares to the Company, when a Management Subscribers resigns with the Company's consent, with a consideration equal to the subscription consideration plus interests where available (the "**Put Back Consideration**"). As a result, it is accounted as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. Options are conditional on the employees completing the first year and second year's services, which are 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. The exercise price of the granted options is equal to the Put Back Consideration. The granted share options were considered as equity-settled share-based payment to the subscriber.

On March 15, 2018, pursuant to the Share Subscription Agreement and the Amendment Agreements, the First Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. On May 23, 2018, one of the Management Subscriptions resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

The share-based compensation expense related to the Share Subscription Agreement of RMB2,549,000 (2017: RMB4,445,000) were recognized as 'cost of revenue' for the year ended December 31, 2018.

(b) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the Board of the Company approved a share appreciation rights scheme prior to the initial public offering (the "**Pre-IPO SARs Scheme**") which enables the Company to grant share appreciation rights to certain members of management (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 from June 30, 2016.

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, which is 25% of the total notional shares were free to be vested. On May 23, 2018, one of the Pre-IPO SARs Grantees resigned and remaining 75% locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

In January 2019, one of the Pre-IPO SARs Grantees exercised the 25% of the total notional shares that were free to be vested.

Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB1,055,000 was recognized as 'cost of revenue' for the year ended December 31, 2018 (2017: RMB2,808,000).

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

Pursuant to a service contract between New Pride and Mr. Lu Wenzuo (the "Service Contract"), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(a) 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 such Share Awards will be settled by New Pride at the end of Mr. Lu's tenure; and

(b) Share appreciation rights ("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. Mr. Lu's SARs will be settled by New Pride at the end of Mr. Lu's tenure;

On May 30, 2018, pursuant to an exercise notification from Mr. Lu Wenzuo to New Pride, Mr. Lu Wenzuo confirmed that he chose to settle the Share Awards in shares rather than in cash. Pursuant to the Service Contract, the fair value of the debt component of the Share Awards amounting to RMB40,500,000 was recognised as capital reserve upon the date of the exercise notification.

Share-based compensation expenses related to the Mr. Lu's SARs of RMB7,200,000 was recognized as 'cost of revenue' for the year ended December 31, 2018 (2017: RMB3,833,000).

(d) **Share Incentive Scheme**

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the "Share Incentive Scheme") with certain members of management (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 shares held by Vanguard Glory at the exercise price of HKD14.35 per share, subject to certain lock-up restrictions.

On May 23, 2018, one of the Share Incentive Grantees, Mr. Zhang Xiaopeng, resigned and the Company agreed that all of the share awards granted by Vanguard Glory to Mr. Zhang would remain in effect after his resignation with an accelerated vesting schedule.

On August 31, 2018, another member of the Share Incentive Grantees entered into a termination agreement with the Company. As agreed by the Company, 25% of the share awards granted by Vanguard Glory to her would be free to be vested after her resignation, the remaining 75% locked-up notional shares granted to her lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantees for the year ended December 31, 2018 was recognised as capital reserve upon her resignation.

Share-based compensation expenses related to the Share Incentive Scheme of RMB11,855,000 was recognized as 'cost of revenue' for the year ended December 31, 2018 (2017: nil).

(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") 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 Eligible Participants who accepted the offer 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 2018 or subsisted at the end of 2018.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The controlling shareholders' compliance of the deed of non-competition entered into with the Company on December 13, 2018 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 Listing Date 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 51 to 59 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 2018 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, 2018 is set out below:

Remuneration bands	Number of individuals
HKD1,500,000 to HKD2,000,000	nil
HKD2,000,000 to HKD2,500,000	1
HKD4,000,000 to HKD4,500,000	1
HKD4,500,000 to HKD5,000,000	1

Details of the remuneration of each of the Directors for the year ended December 31, 2018 are set out in Note 41 to the consolidated financial statements.

None of the Directors has agreed to waive any emoluments for the year ended December 31, 2018.

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, 2018.

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

In 2018, Yangsi Hospital, Cixi Hospital and Jinhua Hospital were our largest customers, and the Group received management service fees from Yangsi Hospital, Cixi Hospital and Jinhua Hospital in respect of provision of management and consultancy services to them. In 2018, our management service fees received from them (net of value-added tax) were RMB199.2 million, accounting for approximately 51.9% of our revenue and the management service fees received from the largest customer accounted for approximately 41.9% of our revenue for the year ended December 31, 2018. Our other customers are patients of Jiande 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 2018, the purchase of the top five suppliers of the Group amounted to RMB50.9 million in total (net of value-added tax), accounting for approximately 56.5% of our total purchase costs and the amount of purchase from the largest supplier accounted for appoximately 28.2% of our total purchase costs for the year ended December 31, 2018.

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 HKD, 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 2018 were classified as financial assets at fair value through profit and loss. 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, 2018, we borrowed RMB263.6 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

Credit risk mainly arises from short-term deposits, bank balance, financial assets at fair value through profit or loss ('**FVPL**'), 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, bank balance, financial assets at FVPL is limited because the counterparties are state-owned or reputable commercial banks which are high-credit-quality financial institutions in the PRC.

The trade receivable of the Group is subject to the expected credit loss model. While financial assets at FVPL are also subject to the impairment requirements of IFRS 9, no impairment was identified. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2018 or January 1, 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Other financial assets at amortised cost include other receivables, deposits and amounts due from related parties. The directors of the Group have assessed that other receivables, deposit and amounts due from related parties have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The directors of the Group do not expect any losses from non-performance by the counterparties of other receivables, deposits and amounts due from related parties was recognised.

Details of the credit risk of the Group during the year ended December 31, 2018 are set out in Note 3.1(ii) to the consolidated financial statements.

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 21% as of December 31, 2017 and 56% as of December 31, 2018. In 2018, the increase in our liability-to-asset ratio was mainly due to our issuance of convertible bonds and there were no changes in our approach to capital management. 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, 2018, the Group incurred RMB242,897 (2017: RMB13,814) 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, 2018 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, 2018 and up to the date of this 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, 2018 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

Shan Guoxin
Executive Director and Chief Executive Officer

Hong Kong
March 29, 2019

DIRECTORS

Shan Guoxin (單國心) (appointed on March 12, 2019)

Executive Director and chief executive officer

Mr. Shan, aged 57, has been appointed as a chief executive officer of the Company on June 5, 2018 and as a director on March 12, 2019. Mr. Shan has over 30 years of experience in the management of hospitals and healthcare groups, investment in hospitals and hospital operations. Prior to joining the Group, he was the deputy director of medical education department at Zhujiang Hospital, an affiliate hospital of First Military Medical University (currently known as Southern Medical University) (第一軍醫大學(現南方醫科大學) 附屬珠江醫院). Since 2005, Mr. Shan served as the assistant to hospital administrator, vice hospital administrator, executive hospital administrator and hospital administrator of Guangdong 999 Neurology Hospital (廣東三九腦科醫院), a Class IIIA specialty hospital. From November 2012 to November 2016, he also served as the Chief Operating Officer and vice general manager of China Resources Healthcare Group (華潤醫療集團), and in the meantime as the hospital administrator of Xuzhou Mining Hospital (徐州市礦山醫院), a Class IIA general hospital under China Resources Healthcare Group.

Mr. Shan graduated from the First Military Medical University (Guangzhou) (第一軍醫大學(廣州)) in August 1984 with major in military clinical medicine. He completed his postgraduate program at First Military Medical University in August 1995 and has attended various educational programs, including hospital management program at Second Military Medical University (第二軍醫大學), EMBA program at South China University of Technology (華南理工大學), public relations courses (through correspondence) at Language and Logic University of China (中國語言與邏輯函授大學), and economic management courses (through correspondence) at Central Party School of the Communist Party of China (中共中央黨校). Mr. Shan became a vice professor at First Military Medical University in October 1995 and had served as the chairman of Guangdong Community Health Association (廣東社區衛生學會).

Zhang Xiaopeng (張曉鵬) (resigned on May 23, 2018)

Executive Director and chief executive officer

Mr. Zhang Xiaopeng (張曉鵬), aged 57, has been 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 73, is an executive Director of our Company and was appointed as a Director on December 16, 2015. Mr. Lu is responsible for overall hospital operation and management of Yangsi Hospital. He joined our Group in December 2003. He currently serves as a director of Weikang Investment and also held the position as the hospital administrator of Yangsi Hospital upon its establishment. As the hospital administrator of Yangsi Hospital, Mr. Lu is primarily responsible for overall management and operations of Yangsi Hospital. Mr. Lu has significant decision-making authority in administrative matters in Yangsi Hospital, including the decision-making authority in daily operations, hiring and promotion of personnel and remuneration. Mr. Lu is also responsible for the implementation of plans and financial auditing of Yangsi Hospital. Furthermore, Mr. Lu is also responsible for overseeing and executing the tasks formulated by the Chinese government and the Group. Mr. Lu has more than 34 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 56, is the Chairman and non-executive Director of our Company and was appointed as a Director on February 21, 2014. Mr. Zhao is responsible for overseeing the corporate development and strategic planning of our Group. He is currently the chairman and chief executive officer of Hony Capital, and executive vice president and executive director of Legend Holdings Corporation (HKEX Stock Code: 3396).

Mr. Zhao is currently a non-executive director of Lenovo Group Limited (HKEX Stock Code: 0992), a non-executive director of China Glass Holdings Limited (HKEX Stock Code: 3300), an executive director, the chairman of the board and the chief executive officer of Best Food Holding Company Limited (HKEX Stock Code: 1488), a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (HKEX Stock Code: 1157; Shenzhen Stock Exchange Stock Code: 000157), a director of ENN Ecological Holdings Co., Ltd. (Shanghai Stock Exchange Stock Code: 600803), 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) (Shanghai Stock Exchange Stock Code: 600754 (A shares) and 900934 (B shares)).

Mr. Zhao holds a Bachelor's degree in physics from Nanjing University, dual Master's degrees in electronic engineering and physics from Northern Illinois University, the United States and a Master of Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States.

WEI Kai (魏凱) (appointed on March 12, 2019)

Non-executive Director

Mr. Wei Kai (魏凱), aged 42, is appointed as a Director on March 12, 2019. Mr. Wei, is currently an executive director of the innovative consumption and service investment division of Legend Holdings Corporation ("**Legend Holdings**"). He joined Legend Holdings in February 2008, and has been mainly responsible for strategic investment in innovation consumption and medical services sectors, as well as post-investment management of investment targets in the related fields. Prior to joining Legend Holdings, Mr. Wei worked in the department of strategy and investment management within China International Television Corporation, and his responsibilities were subsidiary management and strategic investments in media-related fields. Mr. Wei obtained his master's degree in business administration from Tsinghua University (清華大學) in 2004 and his bachelor's degree in thermal engineering from Jilin University (吉林大學) (formerly known as Jilin University of Technology (吉林工業大學)) in 1998.

Lin Sheng (林盛) (resigned on March 12, 2019)

Non-executive Director

Mr. Lin Sheng (林盛), aged 44, is a non-executive Director of our Company and was appointed as a Director on February 21, 2014. Mr. Lin is responsible for overseeing the corporate development and strategic planning of our Group and supervising overall business and operations of our Group. He joined Hony Capital in April 2003 and was mainly responsible for pharmaceutical services and medical devices, medical services, media, telecommunications and technology industry research and investment. Mr. Lin has extensive experience in business operation, product marketing and management and has extensive expertise in information technology. From July 29, 2011 to April 27, 2015, Mr. Lin had been a non-executive director of Chinasoft International Limited, a company listed on the Stock Exchange (Stock Code: 0354). Mr. Lin obtained a Master's degree in Technical Economy and Management in July 1999, and a dual Bachelor's degree in Engineering Physics and Business Administration from Tsinghua University (清華大學) in China in July 1997.

Liu Lu (劉路)

Non-executive Director

Ms. Liu Lu (劉路), aged 45, is a non-executive Director of our Company and was appointed as a Director on May 26, 2017. Ms. Liu is mainly 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 Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司). 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 June 1994 and from Nankai University (南開大學) in June 1997, respectively.

Wang Nan (王楠)

Non-executive Director

Ms. Wang Nan (王楠), aged 42, is a non-executive Director of our Company and was appointed as a Director on May 26, 2017. Ms. Wang is mainly 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 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. Wang has been serving as a senior vice president and the secretary to the board of directors at Neusoft Corporation since May 2011 and December 2011, respectively. 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 67, 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
China Pharmaceutical Innovationand Research Development Association Medicinal Policy Committee (中國醫藥創新促進會醫藥政策委員會)	Director	2015
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 55, 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
Pharmaceutical Affairs Management Subcommittee of National Health Commission for Professional Training of Administrative Leaders in Public Hospitals (衛生健康委員會公立醫院行政領導人員職業化培訓藥事管理分委會)	Vice chairman	2018
Medicine Policy Professional Committee of China Health Economics Association (中國衛生經濟學會藥物政策專委會)	Vice chairman	2018
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	Term of service
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 38, 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. He has served as the manager of Tianjin Hexinyuan Investment Company (天津和信源投資公司) since July 2018.

SENIOR MANAGEMENT

Huang Meiliang (黃美良)

Deputy general manager of the Company

Mr. Huang Meiliang (黃美良), aged 54, was appointed as a deputy general manager of the Company in August 2018. He is primarily responsible for supervising the Personnel and Administration Department, supply chain management and information construction of the Group. Mr. Huang has 26 years of experience in medical administration. He joined the Group in December 2017 and served as the chief medical officer and was later promoted to be a deputy general manager of the Group. Prior to joining the Group, Mr. Huang served as the director of health care office since March 2000, the director of medical affairs department since March 2007, and an executive vice hospital administrator since March 2012 of Chinese People's Liberation Army Air Force General Hospital (中國人民解放軍空軍總醫院). From 1992 to February 2000, Mr. Huang was an orthopedist at the Air Force Beijing Hospital (空軍北京醫院), where he later served as medical assistant and deputy director of the medical affairs department.

Mr. Huang obtained his Master's degree in public health from the Third Military Medical University (第三軍醫大學) in December 2010, graduated from the military medical class of the Air Force Medical College (空軍醫學高等專科學校) in May 1989, and studied full time for half a year in the first training class for hospital administrators held by the Health Department of General Logistics Department (總後勤部衛生部) in 2009.

Chen Wenming (陳文明)

Deputy general manager of the Company

Mr. Chen Wenming (陳文明), aged 55, was appointed as a deputy general manager of the Company in September 2018. He is primarily responsible for the academic construction of the Company and over all hospital operation and management of Jinhua Hospital. Mr. Chen has over 30 years of experience in the medical industry. Prior to joining the Group, Mr. Chen served as the director of the neurology department of Chinese People's Liberation Army 458 Hospital (中國人民解放軍第458醫院), a class IIIA general hospital, since September 2000, and successively served as director of the neurology department, director of medical affairs department, assistant to hospital administrator and vice hospital administrator of Guangdong 999 Neurology Hospital (廣東三九腦科醫院), a class IIIA neurology hospital located in Guangzhou, from 2006 to August 2018. Mr. Chen was also a resident physician in the department of gastroenterology of Beijing Military General Hospital (北京軍區總醫院) from July 1987 to September 1989.

Mr. Chen obtained his Master's and Bachelor's degree in medicine from the First Military Medical University (第一軍醫大學) (currently known as Southern Medical University (現南方醫科大學)) in July 1992 and July 1987, respectively.

Jiang Donghui (姜東暉)

Deputy general manager of the Company

Ms. Jiang Donghui (姜東暉), aged 44, was appointed as a deputy general manager of the Company in July 2018. She is primarily responsible for the medical investment and assistance of the chief executive officer of the Group. Ms. Jiang has over 17 years of experience in the healthcare industry. Prior to joining the Group, Ms. Jiang served as an executive director of the innovation consumption and service investment department of Legend Holdings since March 2014, deputy general manager of Tongren Healthcare Industry Group (同仁醫療產業集團) from October 2004 to 2014, chief financial officer of TEDA International Cardiovascular Hospital (泰達國際心血管病醫院) from July 2002 to 2004, and deputy director of investment and securities department of China Bluestar Group (中國藍星集團) from 1996 to 2000.

Ms. Jiang obtained her Master's degree in international business administration from Peking University in 2002 and Bachelor's degree in economics from Central University of Finance and Economics in 1996, majoring in investment and minoring in international finance.

Zou Ran (鄒然)

Chief financial officer

Mr. Zou Ran (鄒然), aged 32, 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.

Ding Yue (丁玥)

Chief nursing officer of the Company

Ms. Ding Yue (丁玥), aged 46, 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.

Yang Wen (楊文)

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

Mr. Yang Wen (楊文), aged 55, 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 58, 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 65, 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.

Pang Jiayi (龐家漪)

Financial director of Weikang Investment

Ms. Pang Jiayi (龐家漪), aged 65, 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).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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. Except for the disclosed below, the Board considered that, during the year under review, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Following the resignation of Mr. Zhang Xiaopeng as Chief Executive Officer with effect from May 23, 2018, Mr. Zhao John Huan, who is the Chairman of the Board, served as the Acting Chief Executive Officer. Upon the appointment of Mr. Shan Guoxin as the Chief Executive Officer of the Company with effect from June 5, 2018, Mr. Zhao John Huan ceased to act as the Acting Chief Executive Officer of the Company. As such, the roles of Chairman and Chief Executive Officer are separated and the Company has re-complied with the provision A.2.1 of the CG Code since then.

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 for Securities Transactions by Directors of Listed Issuers (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 throughout the year ended December 31, 2018.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:
Mr. Shan Guoxin *(Chief Executive Officer) (appointed on March 12, 2019)*
Mr. Zhang Xiaopeng *(Chief Executive Officer) (resigned on May 23, 2018)*
Mr. Lu Wenzuo

Non-executive Directors:
Mr. Zhao John Huan *(Chairman)*
Mr. Wei Kai *(appointed on March 12, 2019)*
Mr. Lin Sheng *(resigned on March 12, 2019)*
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 38 to 50 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

Following the resignation of Mr. Zhang Xiaopeng as Chief Executive Officer with effect from May 23, 2018, Mr. Zhao John Huan, who is the Chairman of the Board, served as the Acting Chief Executive Officer. Upon the appointment of Mr. Shan Guoxin as the Chief Executive Officer of the Company with effect from June 5, 2018, Mr. Zhao John Huan ceased to act as the Acting Chief Executive Officer of the Company. As such, the roles of Chairman and Chief Executive Officer are separated and the Company has re-complied with the provision A.2.1 of the CG Code since then.

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.

During the year under review, 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 under review, relevant reading materials including legal and regulatory updates have been provided to the Directors appointed (if any) under review 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 meetings 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, 2017 and the interim report of the Company for the six months ended June 30, 2018;

(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 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 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, 2018 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*	3/3	0/1
Mr. Lu Wenzuo	7/7	0/3
Mr. Zhao John Huan	7/7	1/3
Mr. Lin Sheng**	7/7	1/3
Ms. Liu Lu	7/7	3/3
Ms. Wang Nan	7/7	1/3
Ms. Chen Xiaohong	5/7	1/3
Mr. Shi Luwen	7/7	1/3
Mr. Zhou Xiangliang	6/7	1/3

* resigned on May 23, 2018.

** resigned on March 12, 2019.

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, 2018.

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 66 to 76 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, 2018 is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services of Annual Report	2,930
Non-audit Services	1,941
Total	4,871

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, Cixi Hospital, Jiande Hospital and Jinhua Hospital have 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 SWCS Corporate Services Group (Hong Kong) Limited, external service provider, has been engaged by the Company as its company secretary. Ms. Kwong has confirmed that she has complied with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Mr. Huang Meiliang, 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, Cixi Hospital, Jiande Hospital and Jinhua Hospital have 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, 2018.

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, Yangsi Hospital, Cixi Hospital, Jinhua Hospital, Yongkang Hospital and Dongyang Guangfu Hospital ("Dongyang Hospital") for the year ended December 31, 2018.

	The Group	Yangsi Hospital	Cixi Hospital	Jinhua Hospital	Yongkang Hospital	Dongyang Hospital
Energy Consumption						
– Gas (m^3)	14,699	58,361	1,437	390,000	N/A	N/A
– Electricity (kilowatt/hour)	3,307,520	4,367,981	2,151,000	5,547,531	842,701	1,922,851
Water Consumption (m^3)	80,557	95,921	32,815	170,885	37,788	31,626
Office Paper Consumption (pack)(500 sheets/pack)	930	2,990	825	4,790	1,027	425
Packaging Material used for Finished Products	N/A	N/A	N/A	N/A	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 and target 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 total annual salary determinations 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 2018, some senior management resigned as a result of the reappointment of our Chief Executive Officer, but we did not experience 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 have been 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, radioactive source protection, 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 as well as personal protection knowledge; 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 competent government agencies and departments.

We had been in compliance with the relevant regulatory requirements and laws and regulations in 2018, 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, medical equipment 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. Medical equipment is purchased through open tender in accordance with the Bidding Law of China.

We entered into quality assurance agreements with the suppliers as pharmaceuticals purchases are conducted through Sunshine Medical Website designated by the competent national government authority. 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.

When selecting suppliers, we will consider their product type, price, reputation, service quality and delivery time. We require suppliers to obtain business license and GMP and/or GSP certification and other licenses and permits necessary for operation. We actively communicate with suppliers in order to provide medical devices and pharmaceuticals of high quality and high specification and to better control the quality of medical supplies through centralized procurement.

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. When we enter into contracts with suppliers, we clearly state our professional integrity and specify various requirements including regulatory compliance, anti-corruption and other business ethics to counterparties and ensure its supply chain management is socially responsible.

Product Responsibility

We provide hospital management services to Yangsi Hospital, Cixi Hospital and Jinhua Hospital and direct medical services to the patients at our hospitals. We maintain a good and steady relationship with each 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 competent health administration departments of the places where the hospitals are located, 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 2018, 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 2018, 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 , Cixi Hospital, Jiande Hospital and Jinhua Hospital in connection with, among others, the provision of healthcare services and the procurement of pharmaceuticals, medical consumables and medical devices. These measures include promotion of national policies and regulations, improvement of internal system, internal training programs, internal policies and guidelines governing the our employees 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 each hospital to further institutionalize our anti-bribery practice. In accordance with the internal policy, both the our employees and each 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. 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 2018, our Group offered complimentary or discounted healthcare and consulting services as part of our community activities, including:

Yangsi Hospital

- provided complimentary healthcare services that covers patients suffering from high blood pressure, diabetes, maternal and child health care, infectious diseases, cancer, etc.;
- provided 11,537 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.

Jinhua Hospital

- hold 17 health lectures with more than 1,110 residents participated;
- provided 19 free health medical treatments with more than 6,280 residents participated;
- dispatched more than 1,000 copies of health education and hospital promotional materials;
- provided 238 medical services at individual households;
- arranged medical practitioners and nurses to work in a nursing home and provided services 20 times for more than 1,000 elderlies staying in nursing homes; and
- accompanied 2,100 elderly people staying in welfare homes and community.

Jiande Hospital

- provided 17 free medical treatments to 1,596 people in rural, community and township health centers in 2018; and
- provided services to 150 people in nursing homes.

Cixi Hospital

- visited the Cixi Social Welfare Institute to provide consultation, ward rounds, diagnosis and treatment of pa-tients, follow-up visits and other services; and dispatched a nursing staff to the welfare institute to provide nursing services in a long run;
- went to Minsheng Bank to conduct health education for 6 times; went to Ningbo Xingzhi Vocational and Technical School, Taioor Kitchenware, Geely Automobile and other factories to hold health lectures, provide first aid CPR training, free medical treatment, health checkups, work-related green channel docking, etc.;
- entered communities and villages to carry out health education and free medical treatment, serving more than 1,000 people; and
- provided free medical services to 70 destitute people (only in those villages co-constructed under Party Construction).

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hospital Corporation of China Limited
(incorporated in the Cayman Islands 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 77 to 194, which comprise:

- the consolidated balance sheet as at December 31,2018;
- 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 December 31, 2018, 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:

- Assessment of purchase price allocation and goodwill impairment
- Assessment of control over not-for-profit hospitals
- Valuation of share-based compensation schemes
- Fair value estimation of convertible bonds

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of purchase price allocation and goodwill impairment	
Refer to note 2.9(i), 4(i), 4(iv), 15 and 37 to the consolidated financial statements. On January 11, 2018, New Pride Holdings Limited ("New Pride"), a subsidiary of the Group, acquired the 100% equity interests in Jiande Hexu Enterprise Management Co., Ltd. from Mr. Hong Jiangxin and Mr. Hong Yang, the then controlling shareholders, at a consideration of RMB483,000,000, and thereafter has indirectly obtained the 100% equity interests in Jiande Heyue Enterprise Management Co., Ltd. and 70% equity interests in Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ("Jiande Chinese Medicine Hospital"), Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. and Zhejiang Dajia Medicines Co., Ltd. On March 14, 2018, New Pride acquired the 100% equity interests in Cixi Hongai Medical Management Co., Ltd. from Ms. Mi Yuehua and Mr. Chen Yuegen, the then controlling shareholders, at a consideration of RMB336,000,000, and thereafter has indirectly obtained the 70% equity interests in Cixi Honghe Medical Management Co., Ltd. ("Cixi Honghe").	We understood and evaluated the internal controls over goodwill impairment assessment, and we tested the relevant controls. We assessed the independence, competence, capabilities and objectivity of the professional valuer. We assessed the valuation methods applied and the relevant key assumptions as follows: • compound growth rate of revenue by reference to the industry forecast data provided by the industry consultant; • cost and operating expense percentage to revenue by reference to the historical financial performance of the segments; • long-term growth rate by reference to the long-term inflation rate of China; • contributory asset charge rates by reference to the post-tax cost of debt, the cost of equity and the weighted average of equity and debt; • post-tax discount rate by reference to the cost of equity of comparable companies.

KEY AUDIT MATTER – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of purchase price allocation and goodwill impairment	
On August 7, 2018, the Company acquired the 100% equity interests in Oriental Ally Holdings Limited ("Oriental Ally") from Hony Capital Fund VIII (Cayman), L.P., the then controlling shareholder, at a consideration of RMB630,000,000, and thereafter has indirectly obtained the 100% equity interests in Impeccable Success Limited ("Impeccable Success") and 75% equity interests in Zhejiang Guangsha Medical Technology Co., Ltd. ("Guangsha Medical"), the subsidiary of Impeccable Success. On August 31, 2018, Jiande Chinese Medicine Hospital acquired the 100% equity interests in Jiande Xinlin Pharmacy Co., Ltd. ("Xinlin Pharmacy") from Mr. Song Shaofan and Mr. Chen Genming, the then controlling shareholders, at a consideration of RMB2,350,000, and thereafter has directly obtained the 100% equity interests in Xinlin Pharmacy. Goodwill of RMB1,617,767,000 was resulted from acquisitions of subsidiaries, among which RMB1,306,506,000 was allocated to hospital management services segment, RMB301,995,000 was allocated to general hospital services segment and the rest RMB9,266,000 was allocated to wholesale of pharmaceutical products segment. Management reviews the business performance and monitors goodwill on operating segment level. The management assessed purchase price allocation with reference to the valuation reports issued by independent valuers. The valuers assessed the fair value of identifiable assets acquired and liabilities assumed and estimated remaining lives for the identified assets based on the estimates and judgements of the management.	• Tax amortization benefit by reference to the amortization year and the tax rate. We also checked the mathematical accuracy of the calculation of purchase price allocation with the assistance from valuation expert and the mathematical accuracy of the calculations of fair value less costs of disposal performed by management on sample basis. We discussed with management and independent valuer regarding the sensitivity analysis performed by management and independent valuer on the above key assumptions to further understand the extent to which adverse changes, either individually or in aggregate, would result in the goodwill being impaired. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions and assessment were supported by the evidences we gathered.

KEY AUDIT MATTER – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of purchase price allocation and goodwill impairment Goodwill impairment reviews were undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The recoverable amount of each cash-generating units was determined based on fair value less costs of disposal calculations. These calculations required the use of estimates and judgements. Management engaged an independent valuer in determining the recoverable amount of each cash-generating units in the calculation. The key assumptions used in the calculations were: compound growth rate of revenue, cost and operating expense percentage of revenue, total expansion costs, long-term growth rate and post-tax discount rate. Based on the management's assessment, no impairment was provided as at December 31, 2018. As to assessment of purchase price allocation, we focused on this area due to the relevant key assumptions applied involving significant estimates and judgements and the results of purchase price allocation could have significant impacts on the Group's consolidated financial statements. As to assessment of goodwill impairment, we focused on this area due to the relevant key assumptions applied involving significant estimates and judgements.	

KEY AUDIT MATTER – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of control over not-for-profit hospitals	
Refer to note 4(iii) to the consolidated financial statements. Shanghai Yangsi Hospital ("Yangsi Hospital") is a not-for-profit hospital founded by Shanghai Weikang Investment Management Co., Ltd. ("Weikang Investment"), a subsidiary of the Company. 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. Cixi Union Hospital ("Cixi Hospital"), a not-for-profit hospital, was founded by Cixi Honghe, a subsidiary acquired by New Pride in March 2018. Cixi Honghe entered into agreements under which the Group has obtained contractual rights to provide management services of Cixi Hospital for certain periods and is entitled to performance-based service fee.	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 the Relevant Not-for-profit Hospitals. We corroborated management's assessment of the relevant activities of the Relevant Not-for-profit Hospitals and whether the Group has the power over those relevant activities through discussion with management, inspecting the Relevant Not-for-profit Hospitals' articles of association, the meeting minutes of internal governance body and conducting interviews with certain members of internal governance body of the Relevant Not-for-profit Hospitals.

KEY AUDIT MATTER – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of control over not-for-profit hospitals	
Zhejiang Jinhua Guangfu Oncological Hospital ("Jinhua Hospital"), Dongyang Guangfu Hospital ("Dongyang Hospital") and Yongkang Hospital, three not-for-profit hospitals, were founded by Guangsha Medical, a subsidiary acquired by the Company in August 2018. Guangsha Medical entered into agreements with Jinhua Hospital under which the Group has obtained contractual rights to provide management services of Jinhua Hospital for certain periods and is entitled to performance-based service fee. In determining whether the Group has control over the not-for-profit hospitals, management exercised significant judgements in relation to (i) whether the Group has power over the relevant activities of the hospitals; (ii) whether the magnitude and variability of returns from the hospitals will indicate that the Group has substantive power and thus has control. Management concluded that the Group does not control and thus does not consolidate the not-for-profit hospitals. We focused on this matter because the assessment of control over Yangsi Hospital, Cixi Hospital, Jinhua Hospital, Dongyang Hospital and Yongkang Hospital ("the Relevant Not-for-profit Hospitals") involving significant judgements.	We obtained and inspected the management agreements and other relevant documents with the Relevant Not-for-profit Hospitals. We assessed management's analysis of monetary and non-monetary variable returns received by different parties resulting from their involvement in the Relevant Not-for-profit Hospitals. Based on the work performed, we found that the management's assessment was supported by the evidences we gathered.

KEY AUDIT MATTER – *continued*

Key Audit Matter

Valuation of share-based compensation schemes

Refer to note 2.24, 4(v) and 25 to the consolidated financial statements.

The Group has several share-based compensation schemes which have significant impact on the consolidated financial statements for the year ended December 31, 2018.

The fair value of these share-based compensation schemes were determined by management with reference to the valuation reports issued by an independent professional valuer, using valuation techniques. Judgements and estimates were applied in determining valuation method and assumptions.

The key assumptions included volatility, dividend yield, expected option life and annual risk-free interest rate.

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.

How our audit addressed the Key Audit Matter

We assessed the independence, competence, capabilities and objectivity of the professional valuer.

We assessed the valuation methods applied and the relevant key assumptions as follows:

- volatility by reference to the daily share price volatility of comparable companies for an observation period;
- dividend yield by reference to the dividend policy of the Group;
- expected option life by reference to the terms in the adopted share-based compensation schemes;
- annual risk-free interest rate by reference to the market yield of government bond with similar issuing date and maturity date as of the valuation date;

We also checked the mathematical accuracy of the calculation of fair value of the share-based compensation schemes with the assistance from valuation expert.

In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered.

KEY AUDIT MATTER – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value estimation of convertible bonds Refer to note 4(vi) and 32 to the consolidated financial statements. The convertible bonds issued by the Company are designated as financial liabilities at fair value through profit or loss. The fair value of these convertible bonds were determined by management with reference to the valuation report issued by an independent professional valuer, using valuation techniques. Judgements and estimates were applied in determining valuation method and assumptions. The key assumptions included risk free rate of interest, volatility, dividend yield, and time to expiration. We focused on this area because of the fair value determination of convertible bonds could have significant impact to the consolidated financial statements and the relevant key assumptions applied in valuation involving significant judgements and estimates.	We assessed the independence, competence, capabilities and objectivity of the professional valuer. We assessed the valuation methods applied and the relevant key assumptions as follows: • risk free rate of interest by reference to the yield of Hong Kong government bond with similar maturity of the convertible bonds and converted into continuously compounded; • volatility by reference to annualized standard deviation of comparable companies calculated based on the daily trading price; • dividend yield by reference to the dividend policy of the Group; • time to expiration by reference to the convertible bonds instruments. We also checked the mathematical accuracy of the calculation of fair value of the convertible bonds with the assistance from valuation expert. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered.

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 THE 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.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Continuing operations			
Revenue	5	**383,610**	149,158
Cost of revenue	6	**(231,478)**	(61,320)
Gross profit		**152,132**	87,838
Selling expenses	6	**(204)**	—
Administrative expenses	6	**(63,322)**	(53,706)
Other losses – net	7	**(57,635)**	(120)
Other income	8	**2,874**	3,742
Operating profit		**33,845**	37,754
Finance income	10	**2,618**	2,701
Finance costs	10	**(18,580)**	(21,227)
Profit before income tax		**17,883**	19,228
Income tax expense	12	**(41,304)**	(22,912)
Loss from continuing operations		**(23,421)**	(3,684)
Profit from discontinued operation		**—**	12,882
(Loss) /Profit for the year		**(23,421)**	9,198
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(23,421)**	9,198
Attributable to:			
Owners of the Company		**(50,490)**	(13,749)
Non-controlling interests		**27,069**	22,947
Total comprehensive (loss)/income for the year		**(23,421)**	9,198

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Total comprehensive (loss)/income for the year attributable to owners of the Company arises from:			
Continuing operations		**(50,490)**	(24,055)
Discontinued operations		**—**	10,306
		(50,490)	(13,749)
Losses per share for loss from continuing operations attributable to owners of the Company:			
– Basic and diluted losses per share (in RMB)	13	**(0.368)**	(0.189)
Losses per share for loss attributable to owners of the Company:			
– Basic and diluted losses per share (in RMB)	13	**(0.368)**	(0.108)

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

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**143,940**	18,383
Intangible assets	15	**2,936,539**	1,059,402
Land use right	16	**39,487**	—
Deferred income tax assets	31	**933**	—
Other receivables, deposits and prepayments	20	**3,243**	483,506
Total non-current assets		**3,124,142**	1,561,291
Current assets			
Available-for-sale financial assets	3.3	**—**	17,396
Financial assets at fair value through profit or loss	22	**249,767**	—
Inventories	19	**8,664**	—
Trade receivables	18	**33,822**	—
Other receivables, deposits and prepayments	20	**2,895**	80,202
Amounts due from related parties	21	**191,040**	45,840
Cash and cash equivalents	23	**195,521**	260,787
Total current assets		**681,709**	404,225
Total assets		**3,805,851**	1,965,516
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**123**	123
Share premium	24	**432,993**	404,021
Treasury shares	24	**-***	(3)
Reserves	26	**910,458**	1,070,628
(Accumulated losses)/retained earnings	27	**(19,172)**	39,344
		1,324,402	1,514,113
Non-controlling interests		**343,582**	48,012
Total equity		**1,667,984**	1,562,125

* The balance stated above was less than RMB500.

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

CONSOLIDATED BALANCE SHEET

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowing	29	173,923	214,618
Convertible bonds	32	1,073,856	—
Deferred income tax liabilities	31	350,512	35,633
Accruals and other payables	30	1,466	3,311
Total non-current liabilities		1,599,757	253,562
Current liabilities			
Borrowings	29	89,692	23,846
Trade payables	28	16,885	—
Contract liabilities		549	—
Accruals and other payables	30	137,836	113,662
Amounts due to related parties	21	40,136	3,186
Financial liability at amortised cost	37(iii)	221,800	—
Current income tax liabilities		31,212	9,135
Total current liabilities		538,110	149,829
Total liabilities		2,137,867	403,391
Total equity and liabilities		3,805,851	1,965,516

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

The financial statements on page 77 to page 194 were approved by the Board of Directors on March 29, 2019 and were signed on its behalf.

Zhao John Huan　　　　Shan Guoxin

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company							
Balance at January 1, 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		(65)	2	—	63	—	—	—	—
Issuance of ordinary shares to the then shareholders		—*	—*	—	—	—	—*	—	—*
Capitalization issue		89	(3)	(86)	—	—	—	—	—
Issuance of new ordinary shares upon global offering and exercise of over-allotment option		34	—	434,827	—	—	434,861	—	434,861
Share issuance cost		—	—	(30,720)	—	—	(30,720)	—	(30,720)
Transfer of reserves		—	—	—	7,504	(7,504)	—	—	—
Dividend		—	—	—	—	—	—	(16,802)	(16,802)
Share-based payments		—	—	—	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
Balance at January 1, 2018		123	(3)	404,021	1,070,628	39,344	1,514,113	48,012	1,562,125
Comprehensive income - (Loss)/ profit for the year		—	—	—	—	(50,490)	(50,490)	27,069	(23,421)
Non-controlling interests on acquisition of subsidiaries	37	—	—	—	—	—	—	292,973	292,973
Value of financial liability at amortised cost	37(iii)	—	—	—	(223,100)	—	(223,100)	—	(223,100)
Share vested under the share-based payments	24&26	—	3	28,972	40,500	—	69,475	—	69,475
Share-based payments – share subscription agreement	26	—	—	—	2,549	—	2,549	—	2,549
Share-based payments – share option scheme	26	—	—	—	11,855	—	11,855	—	11,855
Transfer of reserve	26&27	—	—	—	8,026	(8,026)	—	—	—
Dividend	33	—	—	—	—	—	—	(24,472)	(24,472)
Balance at December 31, 2018		123	—*	432,993	910,458	(19,172)	1,324,402	343,582	1,667,984

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

* The balance stated above was less than RMB 500.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations		152,565	63,085
Income tax paid		(30,727)	(18,408)
Interest received		513	2,394
Net cash generated from operating activities		122,351	47,071
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	3.3(iii)	(267,041)	—
Purchase of property, plant and equipment		(30,146)	(1,452)
Purchase of intangible assets		(1,460)	(35)
Purchase of available-for-sale financial asset		—	(176,100)
Payment for acquisition of subsidiaries		(314,386)	(477,739)
Payment of professional fees for acquisition		(14,299)	—
Payment for deposit on acquisition of subsidiaries		—	(80,000)
Loans to related parties		(7,123)	(435)
Entrusted loan to related party		—	(3,000)
Recovery of deposit for acquisition		80,000	—
Proceeds received from disposal of financial assets at fair value through profit or loss	3.3(iii)	40,831	—
Entrusted loan collected from related party	38	3,000	—
Interest received on financial assets at fair value through profit and loss		584	90
Interest received on structured deposits		805	312
Proceeds from disposal of available-for-sale financial asset		—	159,845
Proceeds from sale of a subsidiary		—	39,214
Net cash used in investing activities		(509,235)	(539,300)

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds received from borrowing		**70,000**	238,874
Proceeds received from convertible bonds	32	**378,706**	—
Loans from related parties		**202**	47
Proceeds received from issuance of new ordinary shares		—	434,861
Repayment to related parties		**(33,599)**	—
Repayment of borrowing		**(54,965)**	—
Payment of loan interests		**(17,255)**	—
Dividend and withholding tax paid		**(26,590)**	(17,495)
Share issuance costs paid		—	(25,681)
Net cash generated from financing activities		**316,499**	630,606
Net (decrease)/increase in cash and cash equivalents		**(70,385)**	138,377
Cash and cash equivalents at beginning of the year		**260,787**	129,332
Effects of exchange rate changes on cash and cash equivalents		**5,119**	(6,922)
Cash and cash equivalents at end of the year		**195,521**	260,787

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; (ii) provision of management and consultation services to three not-for-profit hospitals and (iii) wholesale of pharmaceutical products 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 ordinary share of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited ('the listing') on March 16, 2017.

The consolidated financial statements is presented in Renminbi ('RMB') and rounded to nearest thousand yuan, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments) - measured at fair value, and
- Convertible bonds – measured at fair value.

(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, 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The Group also elected to adopt the following amendments early.

- Annual Improvements to IFRS Standards 2015-2017 Cycle, and

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretation not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iv) New standards and interpretation not yet adopted – continued

IFRS 16 Leases

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

The accounting for lessors will not significantly change.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB1,612,000 (Note 36). Of these commitments, approximately RMB602,000 relate to short-term leases and RMB8,000 to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group expects to recognise lease liabilities of approximately RMB875,000 and right-of-use assets of approximately RMB1,109,000 on January 1, 2019 after adjustments for prepayments and accrued lease payments recognised as at December 31, 2018. Overall prepayments for lease agreements, accrued rental payable and the net profit of the Group will increase in 2019 as a result of adopting the new rules. Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements.

(i) Impact on the consolidated financial statements

As explained in Note 2.2(ii) and 2.2(iii) below, IFRS 9 and IFRS 15 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new classification rules of financial instruments are therefore recognised in the opening balance sheet on January 1, 2018. The adjustment arising from new impairment rules of IFRS 9 is not recognised as the impact is immaterial.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	December 31, 2017 As originally presented RMB'000	Reclassification under IFRS 9 RMB'000	Reclassification under IFRS 15 RMB'000	**January 1,2018 Restated RMB'000**
Current assets				
Financial assets at fair value through profit or loss ('FVPL')	—	17,396	—	**17,396**
Available-for-sale financial assets	17,396	(17,396)	—	—
Total assets	1,965,516	—	—	**1,965,516**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies – *continued*

(ii) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.13 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings and equity is immaterial.

(a) Classification and measurement

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification is the investment in monetary funds with floating rates with a fair value of RMB17,396,000 were reclassified from available-for-sale financial assets to financial assets at FVPL, as the contractual cash flows of these investments do not represent solely payments of principal and interest.

Other financial assets as at January 1, 2018 including receivables are required to be classified as financial assets at amortised cost under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies – *continued*

(ii) IFRS 9 Financial Instruments – continued

(b) Impairment of financial assets

The Group has three types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables from the provision of general hospital services
- trade receivables for wholesales of pharmaceutical products
- trade receivable relating to hospital management contracts

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(c) Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

As the impact of adoption of IFRS 9 is immaterial, the adjustment is therefore not restated in the balance sheet as at December 31, 2017.

(iii) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The adoption of IFRS 15 has no impact on the Group's retained earnings or the presentation of assets and liabilities related to contracts with customers as at January 1, 2018. Thus, no reclassification or adjustment was recognised in the opening balance sheet on January 1, 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 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.

The acquisition method of accounting is used to account for business combinations by the Group (Note 37).

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 comprehensive income, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred,
- Liabilities incurred to the former owners of the acquired business,
- Equity interests issued by the Group,
- Fair value of any asset or liability resulting from a contingent consideration arrangement, and
- Fair value of any pre-existing equity interest in the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.4 Business combinations – *continued*

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the

- Consideration transferred,
- Amount of any non-controlling interest in the acquired entity, and
- Acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 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.

2.6 Segment reporting

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

2.7 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 Group's functional currency and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates 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 consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the consolidated statement of comprehensive income within 'finance cost – net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other losses – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 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 consolidated statement of comprehensive income during the financial period in which they are incurred.

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

– Buildings	20-50 years
– Medical equipment	5-10 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 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other losses– net' in the consolidated statement of comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 2.4. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units ('CGUs') or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) 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.

(iii) Contractual rights to provide management services

Contractual rights to provide management services are the rights to provide management services to three not-for-profit hospitals. These contractual rights acquired in a business combination are recognised at fair value at the acquisition date. These contractual rights have 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.

(iv) 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 or 10 years. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Land use right

Land use right are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated statement of comprehensive income on a straight-line basis over the remaining period of the lease.

2.11 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 (CGUs). 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.

2.12 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 consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Investments and other financial assets

(i) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(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.

(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 FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Investments and other financial assets – *continued*

(iii) Measurement – continued

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Investments and other financial assets – *continued*

(iii) Measurement – continued

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and its receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(v) Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until December 31, 2017 the Group classifies its financial assets in the following categories:

- Loans and receivables, and
- Available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated 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*

2.13 Investments and other financial assets – *continued*

(v) Accounting policies applied until December 31, 2017 – continued

Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

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

- For ‘financial assets at FVPL’– in profit or loss within other gains/(loss), and
- For other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Investments and other financial assets – *continued*

(v) Accounting policies applied until December 31, 2017 – continued

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

- *Assets carried at amortised cost*

  For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could 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 decreased and the decrease could 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 was recognised in profit or loss.

  Impairment testing of trade receivables is described in Note 3.1(ii).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Investments and other financial assets – *continued*

(v) Accounting policies applied until December 31, 2017 – continued

Impairment – *continued*

- *Assets classified as available-for-sale*

  If there was 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 – was removed from equity and recognised in profit or loss.

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

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

2.14 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.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on a first-in-first-out 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.16 Trade and other receivables

Trade receivables are amounts due from patients and customers for goods sold or services performed 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1(ii) for a description of the Group's impairment policies.

2.17 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 banks, 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.

2.18 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*

2.19 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.

2.20 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.

The convertible bonds were designated as financial liabilities at FVPL by management, the amount of change in fair value of the financial liabilities that is attributable to change in the credit risk of that liabilities shall be presented in other comprehensive income, the remaining amount of change in the fair value of liabilities shall be presented in profit or loss.

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 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.

2.22 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Current and deferred income tax – *continued*

Deferred income tax – continued

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.

2.23 Employee benefits

(i) Pension obligations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Employee benefits – *continued*

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.24 Share-based payments

(i) Equity-settled share-based payment transactions

The Group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (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*

2.24 Share-based payments – *continued*

(ii) 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.

(iii) 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*

2.24 Share-based payments – *continued*

(iii) 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.

(iv) 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.

(v) 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*

2.25 Revenue recognition

Revenues are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- Provides all of the benefits received and consumed simultaneously by the customer;
- Creates and enhances an asset that the customer controls as the Group performs; or
- Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

The progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- Direct measurements of the value of individual services transferred by the Group to the customer; or
- The Group's efforts or inputs to the satisfaction of the performance obligation

If contracts involve the sale of multiple goods, goods followed by related services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative standalone selling prices. If the standalone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.25 Revenue recognition – *continued*

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

(i) Hospital Management Services

Revenue from provision of hospital management services is recognised in the accounting period in which the services are rendered.

For the hospital management services in relation to various aspects of daily operations of not for profit hospitals, the contracts include multiple deliverables. Considering such services have the same pattern and are all highly relevant, it is therefore regarded as one performance obligation.

Relevant revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value to the customer of service transferred by us.

The Group receives the payment according to the contracts. Any unconditional rights to consideration of the contract is presented as a receivable. If the Group performs by transferring services to the customer before the customer pays consideration or before payments is due, the Group presents the contract as a contract asset, excluding any amounts presented as a receivable. If a customer pays consideration before the Group transfer services to the customer, the Group presented the contract as a contract liability when the payment is made or the payment is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.25 Revenue recognition – *continued*

(ii) General hospital services

Revenue from provision of general hospital services is recognised when the related services have been rendered to customers.

For inpatient service, the customers normally receive inpatient treatment which contains various treatment components that are all highly relevant and regarded as one performance obligation. The usual period of inpatient is within two weeks. Relevant revenue of inpatient treatment is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value of individual services transferred by us to the customer.

Relevant revenue of outpatient services is recognized at a point in time.

The Group usually receives the payment from customers in advance before the hospital services are rendered. Customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The contract liability is recognised as revenue when the related services are rendered.

For the cost to be borne by the relevant social security authority, the Group usually receives the payment based on a payment schedule. If the services rendered by the Group exceed the payment, the account receivable is recognised.

(iii) Wholesale of pharmaceutical products

Revenue from wholesale of pharmaceutical products is recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.26 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains on these assets, see Note 7 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – available-for-sale securities, consolidated and loans and receivables) calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 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 36). 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.

2.28 Dividends distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.29 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. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Note 8 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.

(i) Market risk

(a) 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 2018, 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, 2018		Year ended December 31, 2017	
	USD	**HKD**	USD	HKD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Amounts due from related parties	**1,639**	**346**	1	41
Cash and cash equivalents	**8,541**	**93,371**	111,213	4,721
Borrowings	**—**	**(223,615)**	—	(238,464)
Convertible bonds	**—**	**(1,073,856)**	—	—
Accruals and other payables	**(802)**	**(494)**	(7,681)	(386)
	9,378	**(1,204,248)**	103,533	(234,088)

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk – continued

(a) Foreign exchange risk – *continued*

As at December 31, 2018, if RMB had weakened/strengthend by 5% against USD, with all other variables held constant, post-tax profit for the year of the Group would have been RMB469,000 higher/lower (2017: RMB3,112,000 higher/lower).

As at December 31, 2018, if RMB had weakened/strengthend by 5% against HKD, with all other variables held constant, post-tax profit for the year of the Group would have been RMB60,212,000 lower/higher (2017: RMB9,640,000 lower/higher).

(b) Cash flow and fair value 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, 2018		Year ended December 31, 2017	
	RMB'000	**% of total loans**	RMB'000	% of total loans
Fixed rate borrowings	**30,000**	**11%**	—	0%
Other borrowings				
– repricing dates:				
3 months or less	**233,615**	**89%**	238,464	100%
	263,615	**100%**	238,464	100%

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk – continued

(b) Cash flow and fair value interest rate risk – *continued*

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

At December 31, 2018, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB2,489,000 lower/higher.

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.

(ii) Credit risk

Credit risk mainly arises from short-term deposits, bank balance, financial assets at FVPL, 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.

(a) Risk management

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(b) Impairment of financial assets

The trade receivable of the Group is subject to the expected credit loss model. While financial assets at FVPL are also subject to the impairment requirements of IFRS 9, no impairment was identified.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2018 or January 1, 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(b) Impairment of financial assets – *continued*

On that basis, the loss allowance of trade receivable as at December 31, 2018 and January 1, 2018 (on adoption of IFRS 9) was determined as follows:

	Current	More than 90 days past due	More than 180 days past due	More than one year past due	Total
December 31, 2018					
Expected loss rate	2.9%	3.0%	3.0%	0.0%	2.9%
Gross carrying amount					
–Trade receivables	28,843	2,150	2,795	1,034*	34,822
Loss allowance	850	65	85	—	1,000
January 1, 2018					
Expected loss rate	—	—	—	—	—
Gross carrying amount					
–Trade receivables	—	—	—	—	—
Loss allowance	—	—	—	—	—

* Trade receivables pass due more than one year as at December 31, 2018 are mainly consist of the receivables from third parties. The balance of these trade receivables had been confirmed by each third parties. The management of the Group believe that there is no risk of impairment related to the trade receivable past due more than one year.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(b) Impairment of financial assets – *continued*

The closing loss allowances for trade receivables as at December 31, 2018 reconcile to the opening loss allowances as follows:

	Trade receivables	
	Year ended December 31, 2018 RMB'000	Year ended December 31, 2017 RMB'000
December 31-calculated under IAS 39	—	—
Amounts restated through opening retained earnings	—	—
Opening loss allowance as at January 1, 2018 (calculated under IFRS 9)	—	—
Business combination	**800**	—
Increase in trade receivables loss allowance recognised in profit or loss during the year	**1,190**	—
Receivables written off during the year as uncollectible	**(190)**	—
Unused amount reversed	**(800)**	—
Closing loss allowance as at December 31	**1,000**	—

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(b) Impairment of financial assets – *continued*

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor
- Probability that the debtor will enter bankruptcy or financial reorganisation, and
- Default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

(c) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, deposits and amounts due from related parties. The directors of the Group have assessed that other receivables, deposit and amounts due from related parties have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The directors of the Group do not expect any losses from non-performance by the counterparties of other receivables, deposits and amounts due from related parties was recognised.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(iii) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2018					
Borrowing and interests	101,887	83,873	106,719	—	292,479
Trade payables	16,885	—	—	—	16,885
Accruals and other payables (excluding accrued employee benefits, share-based payments and other taxes)	78,427	—	—	—	78,427
Amounts due to related parties	40,136	—	—	—	40,136
Convertible bonds	—	—	1,073,856	—	1,073,856
Financial liability at amortised cost	221,800	—	—	—	221,800
	459,135	83,873	1,180,575	—	1,723,583
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

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, 2018 was 56% (2017: 21%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2018 and 2017.

3.3 Fair value estimation

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets that are measured at fair value at December 31, 2018 and 2017.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(i) Fair value hierarchy – continued

At December 31, 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial asset at FVPL				
– Monetary funds with floating rate	—	248,567	—	248,567
– Call option to acquire subsidiaries' remaining interests	—	—	1,200	1,200
Total assets	—	248,567	1,200	249,767
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds	—	—	1,073,856	1,073,856
Total liabilities	—	—	1,073,856	1,073,856

At December 31, 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
–Monetary funds with floating rate	—	17,396	—	17,396
Total asset	—	17,396	—	17,396

See Note 2.2 for reclassification following the adoption of IFRS 9 Financial Instrument.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(i) Fair value hierarchy – continued

There were no transfers between level 1, 2 and 3 during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments, and
- For call currency option and convertible bonds – option pricing models (eg binomial model).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(iii) Fair value measurements using significant observable inputs (level 2)

The following table presents the changes in level 2 instruments for the year ended December 31, 2018 and 2017, respectively.

	Monetary funds with floating rates RMB'000	Total RMB'000
Opening balance as at January 1, 2017	—	—
Additions	176,100	176,100
Settlements	(159,845)	(159,845)
Gains recognised in other income	1,141	1,141
Closing balance as at December 31, 2017	17,396	17,396
Additions	267,041	267,041
Settlement	(41,415)	(41,415)
Fair value change resulting from change in monetary funds value	5,545	5,545
Closing balance as at December 31, 2018	248,567	248,567

Financial instruments in level 2 were monetary funds with floating rates treated as FVPL held by the Group. The fair value changes resulting from the change of the monetary funds value held by the Group is RMB5,545,000 during the year ended December 31, 2018 and was recognised in other losses - net (2017: RMB1,141,000 in other income).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(iv) Fair value measurements using significant unobservable inputs (level 3)

	Call option to acquire subsidiaries' remaining interest(a) RMB'000	Wealth management contract with floating rates RMB'000	Convertible bonds (Note 32) RMB'000	Total RMB'000
Opening balance as at January 1, 2018	—	—	—	—
Additions	1,700	—	(1,008,706)	(1,007,006)
Fair value change recognised in other losses - net	(500)	—	(65,150)	(65,650)
Closing balance December 31, 2018	1,200	—	(1,073,856)	(1,072,656)
Opening balance as at January 1, 2017	—	—	—	—
Additions	—	113,600	—	113,600
Settlements	—	(113,690)	—	(113,690)
Gains recognised in other income	—	90	—	90
Closing balance as at December 31, 2017	—	—	—	—

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(iv) Fair value measurements using significant unobservable inputs (level 3)

(a) Call option to acquire subsidiaries' remaining interests

On October 27, 2017, New Pride Holdings Limited ('New Pride') entered into a sale purchase agreement in relation to the sale and purchase of the entire equity interest in Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu') with Mr. Hong Jiangxin and Mr. Hong Yang. Pursuant to the sale purchase agreement, Zhejiang Xinxiangli Investment Co., Ltd., a company incorporated under the laws of the PRC with limited liability and held as to 83% by Mr. Hong Jiangxin, granted to New Pride a call option to acquire the remaining interests 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 RMB1,200,000 as at December 31, 2018 with reference to a valuation report issued by an independent valuer.

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.

(i) 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 fair value less costs of disposal and value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering an eight-year period for general hospital services segment, hospital management services segment and wholesale of pharmaceutical products segment('Forecast 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 Forecast Period are extrapolated using the estimated growth rates stated in Note 15. These growth rates are consistent with forecasts included in industry information and data provided by an independent industry consultant specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 15.

(a) Revenue (% compound growth rates)

The revenue compound growth rates over the Forecast Period is based on the Group's forecast of its average revenue growth rate. The Group considers the business transition strategy and other market forecasts in estimating this growth rate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(i) Estimation of goodwill impairment – *continued*

(b) Cost and operation expenses (% of revenue)

The cost and operation expenses (% of revenue) for the Forecast Period are determined on the basis of management's past experience.

(c) Long-term growth rate

The long-term growth rate after the 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.

(d) Discount rates

The discount rates for the 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 15.

No impairment was charged during the years ended December 31, 2018 and 2017.

(ii) 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*

(iii) Assessment of control over not-for-profit hospitals

Yangsi Hospital, a not-for-profit hospital, was founded by Shanghai Weikang Investment Management Co., Ltd. ('Weikang Investment'), a subsidiary of the Company. Despite the fact that Weikang Investment founded the hospital, Weikang Investment is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Weikang Investment and its affiliate have entered into agreements with the hospital in which Weikang Investment and its affiliate obtained contractual rights to provide management services for certain periods and was entitled to receive performance-based management fees for the years ended December 31, 2018 and 2017.

Cixi Hospital, a not-for-profit hospital, was founded by Cixi Honghe Medical Management Co., Ltd. ('Cixi Honghe'), a subsidiary acquired by New Pride in March 2018. Despite the fact that Cixi Honghe founded the hospital, Cixi Honghe is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Cixi Honghe has entered into agreements with the hospital in which Cixi Honghe obtained contractual rights to provide management services for certain periods and was entitled to receive performance-based management fees for the year ended December 31, 2018.

Jinhua Hospital, Dongyang Guangfu Hospital ('Dongyang Hospital') and Yongkang Hospital, three not-for-profit hospitals, were founded by Zhejiang Guangsha Medical Technology Co., Ltd. ('Guangsha Medical'), a subsidiary acquired by the Company in August 2018. Despite the fact that Guangsha Medical founded the hospitals, Guangsha Medical is not entitled to the dividend of the hospitals in accordance with relevant PRC rules and regulation. Guangsha Medical has entered into agreements with Jinhua Hospital in which Guangsha Medical obtained contractual rights to provide management services for certain periods and was entitled to receive performance-based management fees for the year ended December 31, 2018.

The Group has exercised significant judgements in determining whether the Group has control over Yangsi Hospital, Cixi Hospital, Jinhua Hospital, Dongyang Hospital and Yongkang Hospital (the 'Relevant Not-for-profit Hospitals'). In exercising such judgement, the Group considers the purpose and design of the Relevant Not-for-profit Hospitals, 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 Relevant Not-for-profit Hospitals, and whether the Group has the ability to use its power over the Relevant Not-for-profit Hospitals 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 Relevant Not-for-profit hospitals, so the Group does not control and thus does not consolidate the Relevant Not-for-profit Hospitals. Instead, agreements are considered as management contracts to generate management services income.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(iv) Purchase price allocation

The application of business combination accounting requires the use of significant estimates and assumptions. The purchase method of accounting for business combinations requires the Group to estimate the fair value of identifiable assets acquired and liabilities assumed. This exercise requires the use of management's assumptions and judgement, including a presumption of contractual relationship renewal at minimum cost, which would not reflect unanticipated events and circumstances that may occur.

An asset is identifiable if it either:

(a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

(v) Share-based payments

Share-based compensation expense for share-based payment schemes granted is determined based on the fair value of each scheme as at grant date, each reporting date and at the date of settlement. The fair value of the share-based payment schemes was 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 25 to the consolidation financial statements.

(vi) Convertible bonds

The fair values of the convertible bonds were determined by using valuation techniques. The Group applies judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. If there is any change in methods or assumptions, the gains or loss relating to fair value changes could be changed.

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 three different segments which are subject to different business risks and different economic characteristics.

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('EBITDA'). The Group's operating and reportable segments for segment reporting purpose are as follows:

(i) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ('Jiande Hospital') and Jiande Xinlin Pharmacy Co., Ltd. ('Xinlin Pharmacy') in 2018.

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the years ended December 31, 2018 and 2017, respectively.

5 SEGMENT INFORMATION – *continued*

(ii) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by Weikang Investment, Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin'), Cixi Honghe and Guangsha Medical.

Pursuant to the hospital management framework agreement and the letter of intent signed by Weikang Investment and Yangsi Hospital on January 1, 2013 and October 8, 2014 respectively, the long-term hospital management agreement signed by Honghe Ruixin and Yangsi Hospital on January 1, 2016 and the annual hospital management agreement signed by Weikang Investment and Honghe Ruixin with Yangsi Hospital on January 1, 2018 and 2017, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 50 years from 2016 to 2065 and the management fee will be calculated based on pre-set formulas set out in the annual hospital management agreement accordingly.

On March 14, 2018, the acquisition of Cixi Hongai Medical Management Co., Ltd. ('Cixi Hongai') was completed. Cixi Honghe, a subsidiary of Cixi Hongai, had entered into a letter of intent with Cixi Hospital on February 1, 2018 and signed a supplemental letter of intent with Cixi Hospital on March 7, 2018. Pursuant to the letter of intent, Cixi Honghe will provide management and consultancy services to Cixi Hospital with a period of 50 years from 2018 to 2067. On March 26, 2018, Cixi Honghe entered into a 5-year hospital management agreement with Cixi Hospital, covering the period from 2018 to 2022. Pursuant to the hospital management agreement, Cixi Honghe can derives management fee based on pre-set formulas set out in the 5-year hospital management agreement. For the details of the acquisition, please refer to Note 37.

On August 7, 2018, the acquisition of Oriental Ally Holdings Limited ('Oriental Ally') was completed. Guangsha Medical, a subsidiary of Oriental Ally, entered into a 50-year hospital management letter of intent with Jinhua Hospital, covering the period from January 1, 2017 to December 31, 2066. Pursuant to the Jinhua Hospital letter of intent, Guangsha Medical agreed to provide consultancy and management services to Jinhua Hospital, and Jinhua Hospital agreed to pay Guangsha Medical management service fees. The detailed service content and pricing are concluded and effective in a separate 3-year hospital management agreement which was signed by Guangsha Medical and Jinhua Hospital on June 30, 2017, covering the period from January 1, 2017 to January 1, 2020. Pursuant to the 3-year hospital management agreement, the management fee will be calculated based on pre-set formulas. For the details of the acquisition, please refer to Note 37.

(iii) Wholesale of pharmaceutical products

Revenue from this segment is generated in the PRC and is derived from wholesale of pharmaceutical products by Zhejiang Dajia Medicines Co., Ltd. ('DJ Medicines'), a new subsidiary of the Group due to the acquisition of Jiande Hexu. For the details of the acquisition, please refer to Note 37.

5 SEGMENT INFORMATION – *continued*

(iv) Unallocated

The 'Unallocated' category mainly represents the headquarter expenses.

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

	General hospital services RMB'000	Hospital management services RMB'000	Wholesale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
Year ended December 31, 2018						
Segment revenue	183,823	199,194	32,425	(31,832)	—	383,610
Inter-segment revenue	—	—	(31,832)	31,832	—	—
Revenue from external customers	183,823	199,194	593	—	—	383,610
Timing of revenue recognition						
– At a point in time	90,611	—	593	—	—	91,204
– Over time	93,212	199,194	—	—	—	292,406
	183,823	199,194	593	—	—	383,610
EBITDA	12,237	146,453	3,505	(373)	—	161,822
Depreciation	(6,582)	(2,053)	(242)	—	(117)	(8,994)
Amortization	(7,538)	(13,365)	(383)	—	(69)	(21,355)
Finance (expense)/income	(1,653)	421	20	—	(14,750)	(15,962)
Headquarter expenses excluding depreciation and amortization					(97,628)	(97,628)
(Loss)/Profit before tax	(3,536)	131,456	2,900	(373)	(112,564)	17,883
As at December 31, 2018						
Segment assets	385,417	1,586,238	22,788	(386)	194,027	2,188,084
Goodwill	301,995	1,306,506	9,266	—	—	1,617,767
Total assets	687,412	2,892,744	32,054	(386)	194,027	3,805,851
Total liabilities	154,280	407,985	8,947	—	1,566,655	2,137,867
Other Segment information for the year ended December 31, 2018						
Depreciation, amortization and impairment	(14,510)	(15,418)	(625)	—	(186)	(30,739)
Additions of non-current assets excluding goodwill and deferred income tax assets	360,940	1,042,230	2,171	—	338	1,405,679

5 SEGMENT INFORMATION – *continued*

(iv) Unallocated – *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

6 EXPENSES BY NATURE

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Employee benefits expenses (Note 9)	131,407	60,971
Cost of inventories	90,958	—
Amortisation and depreciation	30,349	4,787
Professional fees	19,180	12,775
Auditor's remuneration	2,930	3,969
Utilities and office expenses	3,969	855
Operating lease rental expenses	2,411	2,050
Travelling and entertainment expenses	2,179	1,235
Business tax and other transaction taxes	1,298	1,379
Provison for impairment of trade receivables	390	—
Expenses in relation to the listing	—	25,631
Other expenses	9,933	1,374
	295,004	115,026

7 OTHER LOSSES - NET

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Net fair value losses on convertible bonds	(65,150)	—
Net fair value gains on financial assets at FVPL	5,045	—
Others	2,470	(120)
	(57,635)	(120)

8 OTHER INCOME

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Government grants and subsidies (a)	**2,416**	2,511
Others	**458**	1,231
	2,874	3,742

(a) The Government grants and subsidies mainly consist of RMB1,380,000 granted by the People's Government of Sanlin Town in Shanghai for the year ended December 31, 2018 in consideration of the taxation contribution of Weikang Investment (2017: RMB2,511,000) and RMB875,000 were received from the Finance Bureau of Dazi County in Tibet Autonomous Region for the year ended December 31, 2018 in consideration of the taxation contribution of Honghe Ruixin (2017: nil).

9 EMPLOYEE BENEFIT EXPENSE

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries, bonuses and other benefits	**88,911**	20,662
Share-based compensation expenses	**24,265**	37,986
Contribution to pension plans and others	**18,231**	2,323
	131,407	60,971

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.

9 EMPLOYEE BENEFIT EXPENSE – *continued*

(i) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments payables to the remaining three (2017: three) individuals during the year are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,655**	1,977
Bonuses	**1,315**	1,187
Share-based compensation expenses	**6,199**	1,527
	10,169	4,691

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Emolument band		
HKD1,500,000 – HKD2,000,000	—	2
HKD2,000,000 – HKD2,500,000	**1**	1
HKD4,000,000 – HKD4,500,000	**1**	—
HKD4,500,000 – HKD5,000,000	**1**	—
	3	3

10 FINANCE INCOME AND COSTS

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Finance income		
Finance income on financial liability at amortised cost	1,300	—
Interest income on short-term structured deposits	805	312
Interest income on short-term bank deposits	356	2,220
Interest income on deposits held at call with banks	157	169
	2,618	2,701
Finance costs		
Foreign exchange losses – net	(2,677)	(21,227)
Interest expense on bank borrowings	(15,903)	—
	(18,580)	(21,227)
Finance costs – net	(15,962)	(18,526)

11 SUBSIDIARIES

The Group's principal subsidiaries at December 31, 2018 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	
				2018 %	2017 %	2018 %	2017 %
Directly owned:							
Acute Sky Holdings Limited (天鋭控股有限公司)	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)	The BVI, on December 10, 2013	Investment holding, the BVI	US$1	100%	100%	—	—
Oriental Ally Holdings Limited (東協控股有限公司)	The BVI, on May 2, 2014	Investment holding, the BVI	US$1	100%	100%	—	—
Indirectly owned:							
Bliss Success Holdings Limited (妙榮控股有限公司)	Hong Kong, on December 20, 2011	Investment holding, Hong Kong	HK$1	100%	100%	—	—
New Pride Holdings Limited (捷穎控股有限公司)	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	100%	100%	—	—
Impeccable Success Limited (成臻有限公司)	Hong Kong, on June 9, 2014	Investment holding, Hong Kong	US$1	100%	100%	—	—
Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司)	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)	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	77%	80%	23%	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	77%	80%	23%	20%
Zhejiang Guangsha Medical Technology Co., Ltd. (浙江廣廈醫療科技有限公司)	The PRC, on October 29, 2014	Hospital management, the PRC	RMB 88,880,000	75%	—	25%	—

11 SUBSIDIARIES – *continued*

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	
				2018 %	2017 %	2018 %	2017 %
Jiande Heyue Enteprise Management Co., Ltd. (建德和悦企業管理有限公司)	The PRC, on September 20, 2017	Investment holding, the PRC	RMB 80,000,000	100%	—	—	—
Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司)	The PRC, on September 19, 2017	Investment holding, the PRC	RMB 80,000,000	100%	—	—	—
Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (建德中醫院有限公司)	The PRC, on August 6, 1984	General hospital services,the PRC	RMB 10,000,000	70%	—	30%	—
Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. (建德大家中醫藥科技有限公司)	The PRC, on November 12 2014	Property management provided to Jiande Hospital, the PRC	RMB 40,000,000	70%	—	30%	—
Zhejiang Dajia Medicines Co., Ltd. (浙江大佳醫藥有限公司)	The PRC, on August 11, 2005	Wholesale of pharmaceutical products, the PRC	RMB 10,000,000	70%	—	30%	—
Cixi Hongai Medical Management Company Limited. (慈溪弘愛醫療管理有限公司)	The PRC, on November 22, 2017	Investment holding, the PRC	RMB 24,500,000	100%	—	—	—
Cixi Honghe Medical Management Company Limited. (慈溪弘和醫療管理有限公司)	The PRC, on November 22, 2017	Hospital management, the PRC	RMB 35,000,000	70%	—	30%	—
Jiande Xinlin Pharmacy Co., Ltd. (建德鑫林大藥房有限公司)	The PRC, on October 10, 2015	Wholesale of pharmaceutical products, the PRC	RMB 5,000,000	70%	—	30%	—

11 SUBSIDIARIES – *continued*

(i) Investment in subsidiaries

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

(ii) Significant restrictions

Cash and short-term deposits of RMB93,602,000 (2017: RMB144,845,000) 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.

(iii) 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 As at December 31,		Honghe Ruixin As at December 31,		Jiande Hospital As at December 31,		Cixi Honghe As at December 31,		Zhejiang Guangsha As at December 31,	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Current assets	159,896	130,644	102,507	79,824	75,324	—	12,504	—	157,917	—
Current liabilities	(104,874)	(69,607)	(20,709)	(9,716)	(84,710)	—	(4,095)	—	(93,579)	—
Current net assets/ (liabilities)	55,022	61,037	81,798	70,108	(9,386)	—	8,409	—	64,338	—
Non-current assets	114,203	131,101	64	4,892	250,608	—	318,037	—	713,148	—
Non-current liabilities	(27,500)	(27,078)	(59)	—	(50,476)	—	(79,509)	—	(178,277)	—
Non-current net assets	86,703	104,023	5	4,892	200,132	—	238,528	—	534,871	—
Net assets	141,725	165,060	81,803	75,000	190,746	—	246,937	—	599,209	—
Accumulated NCI	28,695	33,012	17,623	15,000	57,224	—	74,081	—	149,801	—

11 SUBSIDIARIES – *continued*

(iii) Material non-controlling interests (NCI) – *continued*

Summarised statement of comprehensive income

	Weikang Investment Year ended December 31,		Honghe Ruixin Year ended December 31,		Jiande Hospital Year ended December 31,		Cixi Honghe Year ended December 31,		Zhejiang Guangsha Year ended December 31,	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	56,555	76,485	106,093	94,190	182,204	—	13,382	—	25,003	—
Profit/(loss) before income tax	40,459	59,030	90,910	78,016	(1,074)	—	6,608	—	17,744	—
Income tax expense	(11,890)	(15,253)	(13,637)	(7,057)	409	—	(1,652)	—	(4,436)	—
Profit/(loss) for the year	28,569	43,777	77,273	70,959	(665)	—	4,956	—	13,308	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
Total comprehensive income/(loss)	28,569	43,777	77,273	70,959	(665)	—	4,956	—	13,308	—
Profit/(loss) allocated to NCI	6,064	8,755	16,717	14,192	(199)	—	1,487	—	3,327	—
Dividends paid to NCI	10,381	6,226	14,093	10,576	—	—	—	—	—	—

Summarised statement of cash flows

	Weikang Investment Year ended December 31,		Honghe Ruixin Year ended December 31,		Jiande Hospital Year ended December 31,		Cixi Honghe Year ended December 31,		Zhejiang Guangsha Year ended December 31,	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Net cash inflow from operating activities	4,139	36,447	97,100	36,960	(40,464)	—	12,279	—	(2,983)	—
Net cash outflow from investing activities	(94,975)	27,052	(15,309)	(3,667)	(13,387)	—	—	—	(31,057)	—
Net cash outflow from financing activities	(8,305)	(7,454)	(72,580)	(52,300)	38,309	—	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	(99,141)	56,045	9,211	(19,007)	(15,542)	—	12,279	—	(34,040)	—

12 INCOME TAX EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% and 15% for the years ended December 31, 2018 (2017: 25% and 9%).

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	40,155	25,559
Deferred income tax (Note 31)	1,149	2,090
	41,304	27,649

Income tax is attributable to:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Profit from continuing operations	41,304	22,912
Profit from discontinued operations	—	4,737
	41,304	27,649

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,	
	2018	2017
	RMB'000	RMB'000
Profit from continuing operations before income tax	17,883	19,228
Profit from discontinued operations before income tax	—	17,619
Calculated at taxation rate of 25%	4,471	9,212
Effect of different tax rates available to different subsidiaries of the Group	(9,098)	(12,546)
Expenses not tax deductible	32,132	25,441
Tax effect of unrecognized tax losses	4,796	203
Withholding tax	9,003	5,339
Income tax expense	41,304	27,649

12 INCOME TAX EXPENSE – *continued*

(i) 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.

(ii) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% (2017: 16.5%) for the year ended December 31, 2018. 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, 2018 and 2017.

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

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. ('Honghe Zhiyuan') and Honghe Ruixin was 15% (2017: 9%) for the year ended December 31, 2018. The income tax rate of other subsidiaries was 25% (2017: 25%) for the year ended December 31, 2018.

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 Autonomous Region (西藏自治區企業所得稅政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

(iv) Withholding Tax

The withholding tax rate of New Pride, Bliss Success and Impeccable Success Limited ('Impeccable Success') was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future, respectively.

13 LOSSES PER SHARE

(i) Basic losses per share

Basic losses per share is calculated by dividing:

- The losses 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,	
	2018	2017
(Loss)/Profit attributable to the owners of the Company (RMB'000)		
From continuing operations (RMB'000)	**(50,490)**	(24,055)
From discontinued operations (RMB'000)	**—**	10,306
	(50,490)	(13,749)
Weighted average number of ordinary shares in issue (in thousands)	**137,242**	127,165
Basic (losses)/earnings per share		
From continuing operations	**(0.368)**	(0.189)
From discontinued operations	**—**	0.081
	(0.368)	(0.108)

(ii) Diluted losses per share

The Group had potential dilutive shares during the year ended December 31, 2018 related to the shares held for share based payment scheme. Due to the Group's negative financial results during the year ended December 31, 2018, shares held for share based payment scheme has anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share is equivalent to the basic losses per share.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and vehicles RMB'000	Total RMB'000
At January 1, 2017					
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	—	(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
At December 31, 2018					
Opening net amount	17,764	20	—	599	18,383
Additions	—	—	6,536	970	7,506
Business combination (Note 37)	101,990	313	17,982	6,760	127,045
Depreciation charge	(4,076)	(99)	(3,199)	(1,620)	(8,994)
Closing net amount	115,678	234	21,319	6,709	143,940
At December 31, 2018					
Cost	125,245	2,957	24,518	8,855	161,575
Accumulated depreciation	(9,567)	(2,723)	(3,199)	(2,146)	(17,635)
Net amount	115,678	234	21,319	6,709	143,940

14 PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation expense of RMB6,276,000 (2017: RMB2,261,000) was charged in 'cost of revenue', and RMB2,718,000 (2017: RMB631,000) in 'administrative expenses' for the year ended December 31, 2018. There is no depreciation expense (2017: RMB450,000) classified as expense from discontinued operation in 2018.

Some land and buildings of the Group 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 to 50 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.

15 INTANGIBLE ASSETS

	Goodwill	Contractual rights to provide management services	Licenses	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017					
Cost	958,864	116,000	15,000	180	1,090,044
Accumulated amortisation	—	(5,381)	(2,589)	(3)	(7,973)
Net amount	958,864	110,619	12,411	177	1,082,071
Year ended December 31, 2017					
Net book value					
Opening amount as at January 1, 2017	958,864	110,619	12,411	177	1,082,071
Additions	—	—	—	35	35
Amortisation	—	(2,306)	(767)	(39)	(3,112)
Disposal of subsidiary	(7,948)	—	(11,644)	—	(19,592)
Closing amount as at December 31, 2017	950,916	108,313	—	173	1,059,402
At December 31,2017					
Cost	950,916	116,000	—	215	1,067,131
Accumulated amortisation	—	(7,687)	—	(42)	(7,729)
Net amount	950,916	108,313	—	173	1,059,402
Year ended December 31, 2018					
Net book value					
Opening amount as at January 1, 2018	950,916	108,313	—	173	1,059,402
Additions	—	—	—	1,462	1,462
Business combination (Note 37)	666,851	1,042,200	186,900	136	1,896,087
Amortisation	—	(13,360)	(6,853)	(199)	(20,412)
Closing amount as at December 31, 2018	1,617,767	1,137,153	180,047	1,572	2,936,539
At December 31,2018					
Cost	1,617,767	1,158,200	186,900	1,813	2,964,680
Accumulated amortisation	—	(21,047)	(6,853)	(241)	(28,141)
Net amount	1,617,767	1,137,153	180,047	1,572	2,936,539

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill

Goodwill of RMB1,617,767,000 is mainly resulted from the acquisitions of subsidiaries, among which RMB950,916,000 was arising from the acquisition of Shanghai Weikang on Sptember 30, 2014, RMB308,854,000 was arising from the acquisition of Jiande Hexu on Juanary 11, 2018, RMB166,613,000 was arising from the acquisition of Cixi Hongai on March 14, 2018, RMB188,977,000 was arising from the acquisition of Oriental Ally on August 7, 2018, RMB2,407,000 was arising from the acquisition of Xinlin Pharmacy on August 31, 2018.

Management reviews the business performance and monitors goodwill resulted from each acquisition on operating segment level respectively. Goodwill arising from the acquisition of Shanghai Weikang was allocated to general hospital services segment and hospital management 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. Goodwill arising from the acquisition of Jiande Hexu was allocated to general hospital services segment and wholesale of pharmaceutical products. Goodwill arising from the acquisition of Cixi Hongai and Oriental Ally was fully allocated to hospital management services segment. And Goodwill arising from the acquisition of Xinlin Pharmacy was allocated to general hospital services segment.

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

	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Disposal RMB'000	Closing RMB'000
Year ended December 31, 2018					
General hospital services segment	—	301,995	—	—	301,995
Hospital management services segment	950,916	355,590	—	—	1,306,506
Wholesale of pharmaceutical products segment	—	9,266	—	—	9,266
	950,916	666,851	—	—	1,617,767

	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Disposal RMB'000	Closing 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

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

As at December 31, 2018, the management of the Group had set up a cash flow forecasts including future restructurings, reorganizations or investments covering an eight-year period based on reasonable and supportable assumptions. These assumptions and estimates are considered reliable and are supported by statistics and research information provided by an independent industry consultant. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below.

The management consider that the eight-year-forecast-period financial budget that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. According to the information provided by the industry consultant, it is shown that as driven by the Chinese government's measures to stimulate private capital investing in healthcare services, non-public hospital market and the market of wholesale of pharmaceutical is projected to maintain a high-speed growth from 2019 to 2026. As a result, taking into account the transitional development stage and the steady and above-industry-average historical growth rate, the management of the Group is confident that the operating performance of each CGU will maintain high growth rates in the eight-year forecast period and will not enter into the relatively low long-term growth stage until after the forecast period.

Based on the forecast and assumptions approved by management, the recoverable amount of each segment as at December 31, 2018 was determined by assessing the fair value less cost of disposal (FVLCOD) of the underlying assets with reference to a valuation report issued by an independent valuer. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. No impairment was identified.

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(a) Goodwill arising from the acquisition of Shanghai Weikang

Hospital Management Service Segment

As at December 31, 2018, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Hospital management services segment 2018
Revenue (% compound growth rate)	**8.69%**
Long term growth rate	**3.00%**
Post-tax discount rate	**13.00%**
Recoverable amount of operating segment (RMB'000)	**1,658,000**

As at December 31, 2017, the recoverable amount of hospital management services segment was determined based on value-in-use. The key assumptions used were as follows:

	Hospital management services segment 2017
Revenue (% compound growth rate)	8.01%
Long term growth rate	3.00%
Pre-tax discount rate	14.80%
Recoverable amount of operating segment (RMB'000)	1,443,540

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(a) Goodwill arising from the acquisition of Shanghai Weikang – 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, 2018	
	Key assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**8.69%**	7.08%
Percentage of the post-tax discount rate	**13.00%**	13.90%

	Year ended December 31, 2017	
	Key assumption	Breakeven point
Percentage of the compound growth rate of revenue	8.01%	7.43%
Percentage of the pre-tax discount rate	14.80%	15.14%

No impairment was charged for Shanghai Weikang and Honghe Ruixin operating CGU during the year ended December 31, 2018 (2017: nil).

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(b) Goodwill arising from the acquisition of Jiande Hexu

General Hospital Services Segment

As at December 31, 2018, the recoverable amount of general hospital services segment was determined based on FVLCOD. The key assumptions used were as follows:

	General hospital services segment 2018
Revenue (% compound growth rate)	15.72%
Long term growth rate	3.00%
Post-tax discount rate	14.50%
Recoverable amount of operating segment (RMB'000)	687,000

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

	Year ended December 31, 2018	
	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	15.72%	15.05%
Percentage of the post-tax discount rate	14.50%	14.90%

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(b) Goodwill arising from the acquisition of Jiande Hexu – continued

Wholesale of Pharmaceutical Products Segment

As at December 31, 2018, the recoverable amount of wholesale of pharmaceutical products segment was determined based on FVLCOD. The key assumptions used were as follows:

	Wholesale of pharmaceutical products segment 2018
Revenue (% compound growth rate)	71.24%
Long term growth rate	3.00%
Post-tax discount rate	14.50%
Recoverable amount of operating segment (RMB'000)	29,000

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

	Year ended December 31, 2018	
	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	71.24%	69.41%
Percentage of the post-tax discount rate	14.50%	15.08%

No impairment was charged for Jiande Hospital operating CGU and DJ Medicine operating CGU during the year ended December 31, 2018.

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(c) Goodwill arising from the acquisition of Cixi Hongai

Hospital Management Service Segment

As at December 31, 2018, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Hospital management services segment 2018
Revenue (% compound growth rate)	21.96%
Long term growth rate	3.00%
Post-tax discount rate	13.50%
Recoverable amount of operating segment (RMB'000)	505,000

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

	Year ended December 31, 2018	
	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	21.96%	21.21%
Percentage of the post-tax discount rate	13.50%	14.27%

No impairment was charged for Cixi Honghe operating CGU during the year ended December 31, 2018.

15 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(d) Goodwill arising from the acquisition of Oriental Ally

Hospital Management Service Segment

As at December 31, 2018, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Hospital management services segment 2018
Revenue (% compound growth rate)	14.74%
Long term growth rate	3.00%
Post-tax discount rate	13.50%
Recoverable amount of operating segment (RMB'000)	887,000

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

	Year ended December 31, 2018	
	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	14.74%	14.06%
Percentage of the post-tax discount rate	13.50%	13.87%

No impairment was charged for Guangsha Medical operating CGU during the year ended December 31, 2018.

16 LAND USE RIGHT

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
In the PRC, held on leases of 40 years	19,204	—
In the PRC, held on leases of 50 years	20,283	—
	39,487	—
Opening balance	—	—
Business combinations (Note 37)	40,430	—
Amortisation	(943)	—
Closing balance	39,487	—

The amortisation expense of RMB417,000 (2017: nil) was charged in 'cost of revenue', and RMB526,000 (2017: nil) in 'administrative expenses' for the year ended December 31, 2018.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets As at December 31,	
	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	33,822	—
Other receivables and deposits	2,089	80,708
Amounts due from related parties	191,040	45,840
Cash and cash equivalents	195,521	260,787
Available-for-sale financial assets	—	17,396
Financial assets at FVPL		
Call option to acquire subsidiaries' remaining interest	1,200	—
Monetary funds with floating rates	248,567	—
	672,239	404,731

17 FINANCIAL INSTRUMENTS BY CATEGORY – *continued*

	Financial liabilities As at December 31,	
	2018	2017
	RMB'000	RMB'000
Financial liabilities		
Liabilities at amortised cost		
Borrowing	263,615	238,464
Trade payables	16,885	—
Accruals and other payables (excluding accrued employee benefits, share-based payments, other tax liabilities and advance from third parties)	78,427	43,972
Amounts due to related parties	40,136	3,186
Financial liability at amortised cost	221,800	—
Financial liabilities at FVPL		
Convertible bonds	1,073,856	—
	1,694,719	285,622

18 TRADE RECEIVABLES

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Trade receivables	34,822	—
Less: provision for impairment of trade receivables (Note 3.1(i))	(1,000)	—
Trade receivables – net	33,822	—

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

As at December 31, 2018 and 2017, the aging analysis based on invoice date of the trade receivables was as follows:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
1 - 90 days	28,843	—
91 - 180 days	2,150	—
181 days – 1 year	2,795	—
Over 1 year	1,034	—
	34,822	—

19 INVENTORY

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Pharmaceuticals	7,626	—
Medical consumables	1,038	—
	8,664	—

The cost of inventories recognised as expense and included in 'cost of revenue' during the year ended December 31, 2018 amounted to RMB90,958,000 (2017: included in 'profit from discontinued operation' amounted to RMB14,614,000).

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Prepayments for purchase of equipments	3,243	—
Deposits for rental	539	506
Advances to employees	516	7
Receivables from social security bureau	303	—
Prepayments for acquisition of subsidiaries	—	483,000
Deposits on acquisition of subsidiaries	—	80,000
Other prepayments	806	—
Others receivables	731	195
	6,138	563,708
Less: non-current portion	3,243	483,506
Current portion	2,895	80,202

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

21 BALANCES WITH RELATED PARTIES

As at December 31, 2018 and 2017, the balances with related parties are unsecured, interest free, receivable/payable on demand and are denominated in RMB.

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	97,858	—
Yangsi Hospital	32,456	42,304
Cixi Hospital	226	—
– Others		
Dongyang Guangfu Hospital	37,356	3,000
Jinhua Hospital	21,102	—
Hony Capital Fund VIII	1,573	—
Vanguard Glory Limited	360	343
Yangsi Hospital	56	152
Midpoint Honour Limited	36	25
Grand Roc Holdings Limited	9	8
Han Prestige Limited	8	8
	191,040	45,840

As at December 31, 2018 and 2017, the ageing analysis based on trading date of the amount due from related parties was as follows:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Within 30 days	39,677	42,304
30 to 90 days	10,048	—
90 to 180 days	14,319	—
Over 180 days	66,496	—
	130,540	42,304

21 BALANCES WITH RELATED PARTIES – *continued*

As at December 31, 2018, none of the trade receivables was individually determined to be impaired (2017: nil).

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Amounts due to related parties		
– Trade in nature		
Dajia Medical Equipment Co., Ltd.	4,207	—
– Others		
Dajia Group Co., Ltd.	25,000	—
Zhejiang Xinxiangli Investment Co., Ltd.	4,000	—
Yangsi Hospital	2,268	2,986
Cixi Hospital	17	—
Jinhua Hospital	3,152	—
Vanguard Glory Limited	1,492	200
Total	40,136	3,186

Their carrying values due as at December 31, 2018 and 2017, approximate their fair values.

As at December 31, 2018 and 2017, the ageing analysis based on trading date of the trade payables was as follows:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Within 30 days	385	—
30 to 90 days	1,236	—
90 to 180 days	2,517	—
Over 180 days	69	—
	4,207	—

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Group classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI, and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Current assets		
Monetary funds with floating rates	248,567	—
Call option to acquire subsidiaries' remaining interests	1,200	—
	249,767	—

See Note 2.2 for explanations regarding the change in accounting policy and the reclassification of certain investments from available-for-sale to financial assets at FVPL following the adoption of IFRS 9, and Note 2.13 for the remaining relevant accounting policies.

(ii) Amounts recognised in profit or loss

During the year, the following gains were recognised in profit or loss:

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Fair value gains on monetary funds with floating rates recognised in other gains	5,545	—
Fair value loss on call option recognised in other losses	(500)	—
	5,045	—

(iii) Risk exposure and fair value measurements

For information about the methods and assumptions used in determining fair value please refer to Note 3.3.

23 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Cash at banks	102,388	160,786
Cash on hand	71	1
Deposits held at call with financial institutions	93,062	100,000
	195,521	260,787

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

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
US dollars	8,541	111,213
Hong Kong dollars	93,371	4,721
RMB	93,609	144,853
	195,521	260,787

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, cash on hand 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.

24 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of shares	Nominal value of shares HKD
Authorised		
Ordinary shares	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	(9,986)	(65)	2	—	(63)
Issuance of ordinary shares to then shareholders	9,986	—*	—*	—	—*
Capitalization Issue	99,850,014	89	(3)	(86)	—
Issuance of ordinary shares upon global offering	33,334,000	30	—	378,294	378,324
Issuance of ordinary shares upon exercise of over-allotment option	5,000,000	4	—	56,533	56,537
Share issuance costs	—	—	—	(30,720)	(30,720)
As at December 31, 2017	138,194,000	123	(3)	404,021	404,141
As at January 1, 2018	138,194,000	123	(3)	404,021	404,141
Vesting of shares under management subscription scheme (Note 25(i))	—	—	3	28,972	28,975
As at December 31, 2018	138,194,000	123	—*	432,993	433,116

* The balance stated above was less than RMB 500.

25 SHARE-BASED PAYMENTS

(i) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the 'Share Subscription Agreement') with certain members of the management (collectively, the 'Management Subscribers'), their respective investment holding companies, Midpoint Honour Limited (a shareholder of the Company, which was collectively owned by the investment holding companies of the Management Subscribers) ('Midpoint Honour'), Hony Capital 2008 Management Limited ('Hony Management'), a management company established by Hony Capital, and Vanguard Glory, the immediate parent company of the Company.

The Share Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017, respectively (the 'Amendment Agreements').

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new shares to Midpoint Honour (the 'Subscription Shares'), representing 3% of the Company's then issued ordinary shares for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HKD1,787,000 and subsequently cancelled these shares. Pursuant to the Amendment Agreements, the Subscription Shares with par value amounting to RMB2,000 were treated as treasury shares. On March 16, 2017, the remaining 286 Subscription Shares were divided into 2,860,000 shares of a par value of HKD0.001 each upon the capitalization issue.

Pursuant to the Share Subscription Agreement and the Amendment Agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the Subscription Shares to the Company, when a Management Subscribers resigns with the Company's consent, with a consideration equal to the subscription consideration plus interests where available (the "Put Back Consideration"). As a result, it is accounted as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. Options are conditional on the employees completing the first year and second year's services, which are 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. The exercise price of the granted options is equal to the Put Back Consideration. The granted share options were considered as equity-settled share-based payment to the subscriber.

On March 15, 2018, pursuant to the Share Subscription Agreement and the Amendment Agreements, the First Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. On May 23, 2018, one of the Management Subscriptions resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

The share-based compensation expense related to the Share Subscription Agreement of RMB2,549,000 (2017: RMB4,445,000) were recognized as 'cost of revenue' for the year ended December 31, 2018.

25 SHARE-BASED PAYMENTS – *continued*

(ii) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the Board of the Company approved a share appreciation rights scheme prior to the initial public offering (the "Pre-IPO SARs Scheme") which enables the Company to grant share appreciation rights certain members of management. (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 from June 30, 2016.

The fair value of the notional shares granted to the Pre-IPO SARs Grantee as at December 31, 2018, as determined by a professional valuation firm was RMB16,213,000. The significant inputs in the valuation model were listed as below:

	As at December 31, 2018			
	First Batch Share Options	Second Batch Share Options	Third Batch Share Options	Fourth Batch Share Options
Volatility	27.10%	27.10%	27.10%	27.10%
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	1.85%	1.85%	1.85%	1.85%

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.

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, which is 25% of the total notional shares were free to be vested. On May 23, 2018, one of the Pre-IPO SARs Grantees resigned and remaining 75% locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

In January 2019, one of the Pre-IPO SARs Grantees exercised the 25% of the total notional shares that were free to be vested.

Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB1,055,000 was recognized as 'cost of revenue' for the year ended December 31, 2018 (2017: RMB2,808,000).

25 SHARE-BASED PAYMENTS – *continued*

(iii) Service Contract with Mr. Lu Wenzuo

Pursuant to a service contract between New Pride and Mr. Lu Wenzuo (the "Service Contract"), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(a) 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; and

(b) 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;

On May 30, 2018, pursuant to an exercise notification from Mr. Lu Wenzuo to New Pride, Mr. Lu Wenzuo confirmed that he chose to settle the Share Awards in shares rather than in cash. Pursuant to the Service Contract, the fair value of the debt component of the Share Awards amounting to RMB40,500,000 was recognised as capital reserve upon the date of the exercise notification.

Pursuant to the Service Contract, the fair value of the Mr. Lu's SARs as at December 31, 2018 was RMB13,900,000. As at December 31, 2018, the amounts of Mr. Lu's SARs hadn't been settled.

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

	As at December 31, 2018
Volatility	36.5%
Length of the vesting period (month)	18
Annual risk-free interest rate	1.715%
Expected exercise date	March 31, 2019

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 Mr. Lu's SARs of RMB7,200,000 was recognized as 'cost of revenue' for the year ended December 31, 2018 (2017: RMB3,833,000).

25 SHARE-BASED PAYMENTS – *continued*

(iv) Share Incentive Scheme

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the "Share Incentive Scheme") with certain members of management (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 shares held by Vanguard Glory at the exercise price of HKD14.35 per share, subject to certain lock-up restrictions.

On May 23, 2018, one of the Share Incentive Grantees resigned and the Company agreed that all of the share awards granted by Vanguard Glory to him would remain in effect after his resignation with an accelerated vesting schedule.

On August 31, 2018, another member of the Share Incentive Grantees entered into a termination agreement with the Company. As agreed by the Company, 25% of the share awards granted by Vanguard Glory to her would be free to be vested after her resignation, the remaining 75% locked-up notional shares granted to her lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantees for the year ended December 31, 2018 was recognised as capital reserve upon her resignation.

Share-based compensation expenses related to the Share Incentive Scheme of RMB11,855,000 was recognized as 'cost of revenue' for the year ended December 31, 2018 (2017: nil).

26 RESERVES

	Capital reserve RMB'000	Other reserve RMB'000	Total RMB'000
At January 1, 2017	1,041,933	16,483	1,058,416
Transfer of reserves	—	7,504	7,504
Share-based payments	4,645	—	4,645
Repurchase and cancellation of ordinary shares	63	—	63
At December 31, 2017	1,046,641	23,987	1,070,628
At January 1, 2018	**1,046,641**	**23,987**	**1,070,628**
Transfer of reserves (a)	—	**8,026**	**8,026**
Financial liability at amortised cost (Note 37(iii))	**(223,100)**	—	**(223,100)**
Share-based payments – share awards (Note 25(iii))	**40,500**	—	**40,500**
Share-based payments – share subscription agreement (Note 25(i))	**2,549**	—	**2,549**
Share-based payments – share incentive scheme (Note 25(iv))	**11,855**	—	**11,855**
At December 31, 2018	**878,445**	**32,013**	**910,458**

(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.

27 (ACCUMULATED LOSSES)/RETAINED EARNINGS

	RMB'000
At January 1, 2017	60,597
Loss for the year	(13,749)
Transfer of reserve	(7,504)
At December 31, 2017	39,344
At January 1, 2018	**39,344**
Loss for the year	**(50,490)**
Transfer of reserve	**(8,026)**
At December 31, 2018	**(19,172)**

28 TRADE PAYABLES

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

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Less than 90 days	**10,474**	—
91 to 180 days	**4,807**	—
181 days to 1 year	**713**	—
Over 1 year	**891**	—
	16,885	—

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

29 BORROWINGS

	As at December 31, 2018			As at December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowing						
Secured but unguaranteed (a)	49,692	173,923	223,615	—	—	—
Secured and guaranteed (b)	30,000	—	30,000	—	—	—
Unsecured but guaranteed (c)	10,000	—	10,000	23,846	214,618	238,464
	89,692	173,923	263,615	23,846	214,618	238,464

(a) On December 11, 2017, the Company entered into a long-term 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.

The bank loan commencing from December 12, 2017 will mature until 2022 and bear a floating interest rate with reference to Hong Kong Interbank Offer Rate plus 360 basis points per annum. The bank loan was secured by the 100% equity interest of Jiande Hexu and Jiande Heyue and 70% equity interest of Jiande Hospital, DJ Pharmaceutical Technology and DJ Medicines.

(b) On August 14, 2018, Jiande Hospital entered into a loan agreement with Agricultural Bank of China Jiande Branch, the proceed of which amounting to RMB30,000,000. The bank loan will mature on February 13, 2019 and bear a fixed interest rate of 4.79%. The bank loan was secured by certain receivable of Jiande Hospital, and guaranteed by Dajia Group Co., Ltd..

(c) On January 16, 2018, Jiande Hospital entered into a short-term loan agreement with Industrial and Commercial Bank of China Jiande Branch, the proceed of which amounting to RMB10,000,000. The bank loan will mature on January 10, 2019 and bear a floating interest rate with reference to monthly loan prime rate plus 92 basis points per month. The bank loan was guaranteed by Zhejiang Xinxiangli Investment Co., Ltd., Mr. Hong Jiangxin, the minority shareholder, and Mrs. Yang Huixue, Mr. Hong Jiangxin's spouse.

29 BORROWINGS – *continued*

As at December 31, 2018, the Group's borrowings were repayable as follows:

	Bank borrowings	
	2018	2017
	RMB'000	RMB'000
Within 1 year	89,692	23,846
Between 1 and 2 years	74,538	47,693
Between 2 and 5 years	99,385	166,925
	263,615	238,464

The fair value of the bank loans approximated the carrying amounts since the interest rates of the loans are close to current market rate.

30 ACCRUALS AND OTHER PAYABLES

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Payments due to Zhejiang Guangsha Holdings Group Ltd.	59,173	—
Accrued employee benefits	21,987	10,277
Share-based payments	20,538	52,783
Duty and tax payables other than corporate income tax	9,158	2,786
Other payables to suppliers for purchase of plant and equipment	6,950	—
Accrued professional service fee	3,551	6,985
Other payables of medical allowance	2,312	—
Payables to Management Subscribers (Note25(i))	2,281	30,951
Payable to the shareholders of the target company for acquisition	—	5,261
Accrued professional service fee in respect of the listing	—	189
Others	13,352	7,741
	139,302	116,973
Less: non-current portion	1,466	3,311
Current portion	137,836	113,662

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

31 DEFERRED INCOME TAX

	As at December 31, 2018 RMB'000	2017 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	933	—
	933	—
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(329,042)	(35,056)
– Deferred income tax liabilities to be settled within 12 months	(21,470)	(577)
	(350,512)	(35,633)
Deferred income tax liabilities – net	(349,579)	(35,633)

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Unrealized profit RMB'000	Total RMB'000
Balance at January 1, 2017	276	—	—	276
Credited to profit or loss	(10)	—	—	(10)
Disposal of a subsidiary	(266)			(266)
Balance at December 31, 2017	—	—	—	—
Balance at January 1, 2018	—	—	—	—
Business combination	472	—	—	472
Credited to profit or loss	222	173	66	461
Balance at December 31, 2018	694	173	66	933

31 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities

	Intangible assets RMB'000	Withholding tax RMB'000	Changes in fair value RMB'000	Interest capitalization RMB'000	Total RMB'000
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
Balance at December 31, 2017	(27,078)	(8,555)	—	—	(35,633)
Balance at January 1, 2018	**(27,078)**	**(8,555)**	—	—	**(35,633)**
Business combination	**(312,784)**	—	—	**(485)**	**(313,269)**
Credited/(charged) to profit or loss	**4,342**	**(4,851)**	**(1,126)**	**25**	**(1,610)**
Balance at December 31, 2018	**(335,520)**	**(13,406)**	**(1,126)**	**(460)**	**(350,512)**

Deferred income tax asset is recognised for provision for impairment of trade receivables, changes in fair value of financial assets at FVPL and unrealized profit resulted from internal transaction 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 RMB2,000,000 (2017: RMB70,000) in respect of losses amounting to RMB13,332,000 (2017: RMB775,000) that can be carried forward against future taxable income for the year ended December 31, 2018.

The unrecognised deferred income tax assets of DJ Pharmaceutical Technology was RMB1,141,000 (2017: nil) in respect of losses amounting to RMB4,564,000 (2017: nil) that can be carried forward against future taxable income for the year ended December 31, 2018.

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 RMB13,517,000 (2017: RMB8,555,000) as at the year ended December 31, 2018, 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 RMB135,169,000 (RMB85,552,000), as it was considered probable that these profits would be distributed in the foreseeable future.

32 CONVERTIBLE BONDS

The movement of the convertible bonds are as follows:

	Convertible bonds issued at		
	March 5, 2018	August 7, 2018	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2018	—	—	—
Issuance of convertible bonds during the period	378,706	630,000	1,008,706
Difference between fair value and principal amount at initial recognition	2,318	(7,633)	(5,315)
Fair value change resulting from change in convertible bonds value	50,893	14,251	65,144
Aggregate difference yet to be recognised in loss at December 31, 2018	(1,676)	6,997	5,321
As at December 31, 2018	430,241	643,615	1,073,856

(i) Convertible bonds issued on March 5, 2018

On March 5, 2018, the Company issued convertible bonds in an aggregate principal amount of HKD468,000,000 (equivalent to approximately RMB378,706,000) in registered form in the denomination of HKD1,000,000 each. The convertible bonds do not bear any interest. The convertible bonds may be converted into ordinary shares of the Company, at the option of holder thereof, at any time on or after March 5, 2018, the issue date, up to the close of business on March 5, 2021, the maturity date, or if such convertible bonds shall have been called or put for redemption at any time on or after the issue date then up to the close of business on a date no later than five business days prior to the date fixed for redemption thereof. The initial conversion price was HKD18.00 and is subject to adjustment for consolidation and subdivision or reclassification of shares, capitalization of profits or reserves, capital distribution, dividends, right issues, modification of rights of conversion and certain other dilutive events.

The convertible bonds are designated as financial liabilities at FVPL. The fair value of the convertible bonds on March 5, 2018 was HKD470,864,000, which is determined by an independent qualified valuer and approximated its principal amount.

Financial liabilities at fair value through profit or loss are measured at fair value at initial recognition with transaction cost charge to the profit or loss accounts. Subsequently, the fair values are remeasured, gains and losses from changes therein are recognised in the profit or loss account.

32 CONVERTIBLE BONDS – *continued*

(i) Convertible bonds issued on March 5, 2018 – *continued*

None of convertible bonds were converted into ordinary shares of the Company as at December 31, 2018.

As at December 31, 2018, the fair value of the convertible bonds is approximately HKD492,942,000, equivalent to approximately RMB431,917,000, which is determined by an independent qualified valuer and the aggregate difference yet to be recognised in loss was HKD1,913,000, equivalent to approximately RMB1,676,000.

The significant inputs in the valuation model related to convertible bonds issued on March 5, 2018 were listed as below:

	As at March 5, 2018
Volatility	25.0%
Time to expiration (years)	3.00
Risk free rate of interest	1.48%
Dividend yield	0.00%

	As at December 31, 2018
Volatility	**30.0%**
Time to expiration (years)	**2.18**
Risk free rate of interest	**1.83%**
Dividend yield	**0.00%**

32 CONVERTIBLE BONDS – *continued*

(ii) Convertible bonds issued on August 7, 2018

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. (the 'Vendor') entered into a shares purchase agreement (the 'Share Purchase Agreement') in relation to the sale and purchase of the entire equity interest in Oriental Ally with a cash consideration of RMB630,000,000 (equivalent to approximately HKD773,879,717).

The consideration was satisfied by the issuance of the convertible bonds in the aggregate principal amount of HKD773,879,717 by the Company to the Vendor on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the convertible bonds were issued in registered form in the denomination of HKD1.00 each provided that in no event shall any bonds be transferred, exchanged, converted or purchased in an aggregate principal amount that is less than HKD1.00. The convertible bonds do not bear any interest. The convertible bonds will be matured in five years from the issue at its principal amount or can be converted into ordinary shares of the Company at the holder's option upon conversion at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price).

The fair value of the convertible bonds on August 7, 2018 was HKD764,504,000, which is determined by an independent qualified valuer and approximated its principal amount.

The convertible bonds are designated as financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value at initial recognition with transaction cost charged to the profit or loss accounts. Subsequently, the fair values are remeasured, gains and losses from changes therein are recognised in the profit or loss account.

None of convertible bonds were converted into ordinary shares of the Company as at December 31, 2018.

As at December 31, 2018, the fair value of the convertible bonds is approximately HKD726,568,000, equivalent to approximately RMB636,618,000, which is determined by an independent qualified valuer and the aggregate difference yet to be recognised in gain was HKD7,986,000, equivalent to approximately RMB6,997,000.

32 CONVERTIBLE BONDS – *continued*

(ii) Convertible bonds issued on August 7, 2018 – *continued*

The significant inputs in the valuation model related to convertible bonds issued on August 7, 2018 were listed as below:

	As at August 7, 2018
Volatility	30.0%
Time to expiration (years)	5.00
Risk free rate of interest	1.97%
Dividend yield	0.00%

	As at December 31, 2018
Volatility	**30.0%**
Time to expiration (years)	**4.60**
Risk free rate of interest	**1.77%**
Dividend yield	**0.00%**

33 DIVIDENDS

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on August 31, 2018, a dividend, including withholding tax, of RMB41,523,000 to its majority shareholders and RMB10,380,000 to its minority shareholders was declared. The dividend to its minority shareholders had been settled before November 30, 2018.

Pursuant to a resolution of the board of directors' meeting of Honghe Ruixin on August 31, 2018, a dividend, including withholding tax, of RMB56,372,000 to its majority shareholders and RMB14,092,000 to its minority shareholders was declared. The dividend to its majority shareholders and minority shareholders had been settled before October 31, 2018.

34 CASH GENERATED FROM OPERATIONS

(i) Cash flow information

	As at December 31,	
	2018	2017
	RMB'000	RMB'000
Profit before income tax from		
Continuing operations	17,883	19,228
Discontinued operations	—	17,619
Profit before income tax including discontinued operations	17,883	36,847
Adjustments for:		
–Foreign exchange loss	3,530	6,428
–Interest paid/(received) – net	14,585	(2,706)
–Finance income related to financial liability at amortised cost	(1,300)	—
–Provision for impairment of trade receivables	390	(38)
–Depreciation and amortisation	30,349	6,004
–Share-based compensation expenses	16,010	4,645
–Fair value losses on convertible bonds (Note 7)	65,150	—
–Fair value losses on call option (Note 7)	500	—
–Fair value gains on financial assets at fair value through profit or loss (Note 7)	(4,961)	—
–Gains on disposal of financial assets at fair value through profit or loss (Note 7)	(584)	(90)
–Gain on disposal of available-for-sale financial asset	—	(1,141)
–Gain on sale of the subsidiary	—	(18,194)
Change in operating assets and liabilities, net of effects from purchase of controlled entity and sale of engineering division:		
–Decrease in inventories	1,332	77
–Increase in trade receivables	(6,204)	(392)
–Decrease in other receivables, deposits and prepayments	450	2,730
–Increase in amounts due from related parties	(16,882)	(4,129)
–Increase in amounts due to related parties	3,645	—
–Increase/(decrease) in trade payables	361	(1,762)
–Increase in accruals, other payables and provision	28,311	34,806
Cash generated from operations	152,565	63,085

34 CASH GENERATED FROM OPERATIONS – *continued*

(ii) 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, 2018 RMB'000	Year ended December 31, 2017 RMB'000
Cash and cash equivalents	**195,521**	260,787
Borrowings-repayable within one year	**(129,828)**	(27,032)
Borrowings-repayable after one year	**(1,247,779)**	(214,618)
Net debt	**(1,182,086)**	19,137
Cash and cash equivalents	**195,521**	260,787
Gross debt-interest free rates	**(1,113,992)**	(3,186)
Gross debt-variable interest rates	**(263,615)**	(238,464)
Net debt	**(1,182,086)**	19,137

	Cash RMB'000	Bank Borrowings due within 1 year RMB'000	Bank Borrowings due after 1 year RMB'000	Amount due to related parties due within 1 year RMB'000	Convertible bonds due after 1 year RMB'000	Total RMB'000
Net debt as at January 1, 2017	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
Cash flows	(103,110)	(97,056)	(199,696)	(72,220)	(378,706)	(850,788)
Business combination	32,725	—	—	(102,863)	—	(70,138)
Foreign exchange adjustment	5,119	7,012	24,543	—	31,298	67,972
Other changes	—	24,198	215,848	138,133	(726,448)	(348,269)
Net debt as at December 31, 2018	195,521	(89,692)	(173,923)	(40,136)	(1,073,856)	(1,182,086)

35 CONTINGENCIES

As of December 31, 2018, there was no material outstanding lawsuit of the Group and no significant lawsuit provision has been made based on directors' assessment.

36 COMMITMENTS

(i) Operating lease commitments

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

	Year ended December 31, 2018 RMB'000	Year ended December 31, 2017 RMB'000
Not later than one year	**705**	2,190
Later than one year and not later than five years	**907**	596
	1,612	2,786

37 BUSINESS COMBINATION

(i) Acquisition of Jiande Hexu

On January 11, 2018, New Pride acquired the 100% equity interests in Jiande Hexu from Mr. Hong Jiangxin and Mr. Hong Yang, the then controlling shareholder, at a consideration of RMB483,000,000, and thereafter has indirectly obtained the 100% equity interests in Jiande Heyue and 70% equity interests in Jiande Chinese Medicine Hospital, DJ Medicines and DJ Pharmaceutical Technology.

As a result of the acquisition, the Group is expected to increase its presence in healthcare industry. The goodwill of RMB308,854,000 arising from the acquisition is attributable to entering into the healthcare industry, regional advantages and possible profitability in general hospital services business and wholesale of pharmaceutical products services in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

37 BUSINESS COMBINATION – *continued*

(i) Acquisition of Jiande Hexu – *continued*

The following table summarises the consideration paid for Jiande Hexu, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Consideration	
Cash	483,000
Call option to acquire the remaining interest	(1,700)
Total consideration transferred for acquiring the business of the Jiande Hexu	481,300

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Cash and cash equivalents	26,942
Property, plant and equipment	127,007
Land use right	40,430
Intangible assets – hospital licenses	185,800
Intangible assets – GSP licenses	1,100
Other intangible assets	92
Inventories	9,996
Trade receivables	28,008
Other receivables, deposits and prepayments	2,933
Amounts due to related parties	(67,621)
Trade payables	(16,484)
Accruals, other payables and provision	(36,732)
Current income tax liabilities	(2,873)
Deferred income tax assets	472
Deferred income tax liabilities	(52,719)
Net identifiable assets acquired	246,351
Less: non-controlling interests	(73,905)
Add: goodwill	308,854
Net assets acquired	481,300

37 BUSINESS COMBINATION – *continued*

(ii) Acquisition of Cixi Hongai

On March 14, 2018, New Pride acquired the 100% equity interests in Cixi Hongai from Mrs. Mi Yuehua and Mr. Chen Yuegen, the then controlling shareholder, at a consideration of RMB336,000,000, and thereafter has indirectly obtained the 70% equity interests in Cixi Honghe, the subsidiary of Cixi Hongai.

As a result of the acquisition, the Group is expected to increase its presence in healthcare industry. The goodwill of RMB166,613,000 arising from the acquisition is attributable to entering into the healthcare industry, regional advantages and the management team and management process which can be replicated in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for Cixi Hongai, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Consideration	
Cash paid or payable	336,000
Total consideration transferred for acquiring the business of the Cixi Hongai	336,000

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Cash and cash equivalents	1
Intangible assets – management contract	322,900
Amounts due to related parties	(14)
Accruals and other payables	(181)
Deferred income tax liabilities	(80,725)
Net identifiable assets acquired	241,981
Less: non-controlling interests	(72,594)
Add: goodwill	166,613
Net assets acquired	336,000

37 BUSINESS COMBINATION – *continued*

(iii) Acquisition of Oriental Ally

As described in Note 32(ii), on May 29, 2018, the Company entered into a shares purchase agreement in relation to purchase the entire equity interest in Oriental Ally with a consideration of RMB630,000,000. In August 2018, the acquisition was completed and the Company directly hold 100% of equity interest in Oriental Ally. Through Oriental Ally, the Company indirectly hold 100% equity interest in Impeccable Success and 75% equity interest in Guangsha Medical and the remaining 25% equity interest (the 'Remaining Interest') held by Hony Kangshou shall be recognized as non-controlling interests.

As a result of the acquisition, the Group is expected to increase its presence in healthcare industry. The goodwill of RMB188,977,000 arising from the acquisition is attributable to entering into the healthcare industry, regional advantages, potential business opportunities and the management team and management process which can be replicated in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

Pursuant to an undertaking letter signed by the Company and Hony Kangshou, the Company granted Hony Kangshou a put option to sell and the Company undertakes to acquire the remaining interest at the consideration which shall be no less than an amount calculated in accordance with an agreed formula. Hony Kangshou may exercise the put option at any time during the period commencing from the completion date of the acquisition and ending on the date falling on the third anniversary of the completion date on the terms and conditions of the undertaking letter.

The directors of the Company have determined the present value of the redemption amount of the put option is RMB223,100,000 as at August 7, 2018 and RMB221,800,000 as at December 31, 2018, respectively with the reference to a valuation report issued by an independent valuer. The variances of the present value of the redemption amount of the put option amounting to RMB1,300,000 is recognised as finance costs during the year of 2018.

37 BUSINESS COMBINATION – *continued*

(iii) Acquisition of Oriental Ally – *continued*

The following table summarises the consideration transferred for acquiring the business of Oriental Ally, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Consideration	
Convertible bonds issued by the Company to the Vendor (Note 32)	630,000
Total consideration transferred for acquiring the business of the Oriental Ally	630,000

The assets and liabilities recognized as a result of acquisition are as follows:

	RMB'000
Cash and cash equivalents	37,175
Intangible assets – management contract	719,300
Other intangible assets	44
Other receivables, deposits and prepayments	82
Amounts due from related parties	124,195
Amounts due to related parties	(35,008)
Accruals and other payables	(64,538)
Current income tax liabilities	(13,928)
Deferred income tax liabilities	(179,825)
Net identifiable assets acquired	587,497
Less: non-controlling interests	(146,474)
Add: goodwill	188,977
Net assets acquired	630,000

37 BUSINESS COMBINATION – *continued*

(iv) Acquisition of Xinlin Pharmacy

On August 31, 2018, Jiande Hospital acquired the 100% equity interests in Xinlin Pharmacy from Mr. Song Shaofan and Mr. Chen Genming, the then controlling shareholders, at a consideration of RMB2,350,000, and thereafter has directly obtained the 100% equity interests in Xinlin Pharmacy.

As a result of the acquisition, the Group is expected to increase its presence in pharmacy retail healthcare industry. The goodwill of RMB2,407,000 arising from the acquisition is attributable to entering into the healthcare pharmacy retail industry, taking advantage of synergy effect with Jiande Hospital and DJ Medicines in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for Xinlin Pharmacy, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Consideration	
Cash	2,350
Total consideration transferred for acquiring the business of the Xinlin Pharmacy	2,350

	RMB'000
Cash and cash equivalents	107
Property, plant and equipment	38
Other receivables, deposits and prepayments	58
Trade payables	(40)
Amount due to a related party	(220)
Net identifiable assets acquired	(57)
Add: goodwill	2,407
Net assets acquired	2,350

38 SIGNIFICANT RELATED PARTY TRANSACTIONS

Name	Relationship with the Group
Shanghai Yangsi Hospital	Certain employees or directors of the Group are Yangsi Hospital's internal governance body members
Vanguard Glory Limited	Parent company
Grand Roc Holdings Limited	Related party which is owned by the then CEO during 2018
Midpoint Honour Limited	Related party which is owned by the Management Subscribers
Han Prestige Limited	Related party of parent company
Cixi Hospital	Certain employees or directors of the Group are Cixi 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
Yongkang Hospital	Certain employees or directors of the Group are Yongkang Hospital's internal governance body members
Zhejiang Xinxiangli Investment Co., Ltd.	Non-controlling shareholder
Dajia Medical Equipment Co., Ltd.	Related party which is owned by Zhejiang Xinxiangli Investment Co., Ltd.
Dajia Group Co., Ltd	Related party which is owned by Zhejiang Xinxiangli Investment Co., Ltd.
Jinhua Hospital	Certain employees or directors of the Group are Jinhua Hospital's internal governance body members

The following significant transactions were carried out between the Group and its related parties for the year ended December 31, 2018 and 2017. 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.

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(i) Significant transactions with related parties

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Management Service fee		
–Yangsi Hospital	**160,747**	147,574
–Cixi Hospital	**13,382**	—
–Jinhua Hospital	**25,003**	—
	199,132	147,574
Purchase of medical equipment		
–Dajia Medical Equipment Co., Ltd	**12,263**	—

(ii) Loans to a related party

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**3,000**	—
Loans advanced	—	3,000
Loan repayments received	**(3,000)**	—
Interest charged	**128**	—
Interest received	**(128)**	—
End of the year	—	3,000

(iii) Guaranteed to related parties borrowings

Except for guaranteed disclosed in borrowing (Note 29), the Group also pledged certain paid-up equity interests of a subsidiary with a maximum amount of RMB412,500,000 to a bank for the loans granted to Jinhua Hospital and provided the bank a joint liability guarantee with a maximum amount of RMB550,000,000, respectively. The pledge contract and guarantee contract were signed by Impeccable Success and Guangsha Medical respectively before the Group signed the Share Purchase Agreement in relation to the acquisition of Oriental Ally.

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(iv) 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 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**19,310**	12,721
Share-based compensation expenses	**18,017**	37,550
Others	**543**	541
Total	**37,870**	50,812

39 EVENTS AFTER THE REPORTING PERIOD

(i) Issuance of convertible bonds

On December 21, 2018 and January 16, 2019, the Company and Leap Wave Limited (the 'Subscriber') entered into a subscription agreement and an amendment agreement, respectively pursuant to which, the Company agreed to issue, and the Subscriber agreed to subscribe for the convertible bonds in the aggregate principal amount of HKD800,000,000 for a total consideration equal to the aggregate principal amount of the convertible bonds (the 'Convertible Bonds'). On February 27, 2018, the Convertible Bonds were issued in registered form in the denomination of HKD1.00 each. The Convertible Bonds will mature five years from the issue at its principal amount added 6% annual interest for each year or can be converted into ordinary shares of the Company at the holder's option upon conversion at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price).

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		1,702,477	1,051,763
Total non-current assets		1,702,477	1,051,763
Current assets			
Amounts due from subsidiaries		873,091	489,855
Cash and cash equivalents		100,315	105,917
Total current assets		973,406	595,772
Total assets		2,675,883	1,647,535
Equity			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		432,993	404,021
Treasury Stock		—	(3)
Reserves	(a)	837,546	1,046,242
Accumulated losses	(a)	(126,852)	(83,723)
Total equity		1,143,810	1,366,660

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

Balance sheet of the Company – *continued*

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Borrowing		173,923	214,618
Convertible Bonds		1,073,856	—
Accruals and other payables		1,466	3,311
Total non-current liabilities		1,249,245	217,929
Current liabilities			
Borrowing		49,692	23,846
Financial liability at amortised cost		221,800	—
Accruals and other payables		9,844	38,899
Amounts due to related parties		1,492	201
Total current liabilities		282,828	62,946
Total liabilities		1,532,073	280,875
Total equity and liabilities		2,675,883	1,647,535

The balance sheet of the Company was approved by the Board of Directors on March 29, 2019 and was signed on its behalf:

Zhao JohnHuan **Shan Guoxin**

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

(a)	Accumulated losses RMB'000	Other reserves RMB'000
At January 1, 2017	(22,090)	1,041,734
Loss for the year	(61,633)	—
Share base payment	—	4,508
At December 31, 2017	(83,723)	1,046,242
At January 1, 2018	(83,723)	1,046,242
Loss for the year	(43,129)	—
Share base payment	—	14,404
Financial liability at amortised cost (Note 37)	—	(233,100)
At December 31, 2018	(126,852)	837,546

41 BENEFITS AND INTERESTS OF DIRECTORS

(i) Directors' and chief executive officer's 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, 2018							
Executive directors							
Mr. Zhang Xiaopeng*	—	6,250	—	22	9,561	28	15,861
Mr. Lu Wenzuo	—	306	3,590	—	7,200	—	11,096
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Ms. Liu Lu	—	—	—	—	—	—	—
Ms. Wang Nan	—	—	—	—	—	—	—
Independent non-executive directors							
Ms. Chen Xiaohong	150	—	—	—	—	—	150
Mr. Shi Luwen	150	—	—	—	—	—	150
Mr. Zhou Xiangliang	150	—	—	—	—	—	150
Chief executive officer							
Mr. Shan Guoxin**	—	937	1,133	17	—	31	2,118
	450	7,493	4,723	39	16,761	59	29,525
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	—	—	—	—	—	—	—
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

* Mr. Zhang Xiaopeng resigned on May 23, 2018.

** Mr. Shan Guoxin was appointed as an executive director as of March 12, 2019.