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Application Proof of

Wenzhou Kangning Hospital Co., Ltd. 溫州康寧醫院股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

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Wenzhou Kangning Hospital Co., Ltd. 溫州康寧醫院股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED] : [REDACTED] H Shares (subject to adjustment and the [REDACTED])
Number of [REDACTED] : [REDACTED] H Shares (subject to adjustment)
Number of [REDACTED] : [REDACTED] H Shares (subject to adjustment and the [REDACTED])
Maximum [REDACTED] : [REDACTED] per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)
Nominal value : RMB[1.00] per H Share
[REDACTED]

Joint Sponsors

(in alphabetical order)



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

[REDACTED]

[REDACTED]

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Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this [REDACTED] including the risk factors set out in the section headed “Risk Factors” in this [REDACTED].

Our Company is incorporated, and our operations are primarily located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections entitled “Risk Factors”, “Appendix III — Taxation and Foreign Exchange”, “Appendix IV — Summary of Principal Legal and Regulatory Provisions” and “Appendix V — Summary of the Articles of Association of our Company” in this [REDACTED].

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[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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IMPORTANT NOTE TO INVESTORS

We have issued this [REDACTED] solely in connection with the [REDACTED] and the [REDACTED], and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED] offered by this [REDACTED] pursuant to the [REDACTED]. This [REDACTED] may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this [REDACTED] in any jurisdiction other than Hong Kong. The distribution of this [REDACTED] and the offering and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this [REDACTED] and the [REDACTED] to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this [REDACTED]. Any information or representation not made in this [REDACTED] must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, any of the Underwriters, any of their respective directors, agents, employees or advisers, or any other person or party involved in the [REDACTED]. Information contained on the website at www.kn120.com does not form part of this [REDACTED].

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SUMMARY

This summary aims to give you an overview of the information contained in this [REDACTED]. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this [REDACTED]. You should read this [REDACTED] in its entirety before you decide to invest in the H Shares.

There are risks associated with any investment. We set out some of the particular risks involved in investing in the H Shares in the section headed "Risk Factors" in this [REDACTED]. You should read that section carefully before you decide to invest in the H Shares.

OVERVIEW

We are the largest private psychiatric healthcare group in China as measured by revenue in 2014, and the second largest in the overall psychiatric healthcare market in China by the same metric, according to the Frost & Sullivan Report. We operate and manage a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care. As of December 31, 2014, we had six healthcare facilities in operation, including the only privately-owned Grade A Class III psychiatric specialty hospital in China, with a total of 1,900 beds in operation across our network.

We operate in a rapidly-growing market with a strong demand for our services. According to the Frost & Sullivan Report, currently over 180 million people in China suffer from psychiatric disorders. However, much of this demand is unmet. According to the Frost & Sullivan Report, China has significantly lower ratios of psychiatrists and psychiatric beds per 10,000 persons compared to the median ratio of G7 countries, as well as significantly lower healthcare spending per capita and as a percentage of GDP, despite being the second largest economy in the world. As a result, the PRC psychiatric healthcare market is expected to have ample room to grow for years to come, particularly in light of the PRC government's efforts to ramp up healthcare infrastructure and expand the availability of public medical insurance. According to the Frost & Sullivan Report, the total revenue of healthcare institutions in China grew from RMB1,186.2 billion in 2009 to RMB2,314.7 billion in 2013, representing a CAGR of 18.2%, and is projected to reach RMB5,171.5 billion in 2018, representing a CAGR of 17.4% from 2013 to 2018. In line with the growth of the overall PRC healthcare market, the PRC private psychiatric healthcare market, in which we are the leading participant by revenue in 2014, grew from RMB2.2 billion in 2010 to RMB5.1 billion in 2014, representing a CAGR of 23.8%, and is projected to further grow from an estimated RMB6.2 billion in 2015 to RMB13.6 billion in 2019, representing a CAGR of 21.8%.

We believe we are well-positioned to capture significant opportunities in the high-growth PRC psychiatric healthcare market, and have a successful track record of utilizing a highly-flexible expansion strategy to rapidly enter and ramp up psychiatric healthcare facilities in new markets across China. We established our first healthcare facility, Wenzhou Kangning Hospital, in 1996, and have developed it into the only privately-owned psychiatric specialty hospital in China to achieve a Grade A Class III rating, which is the highest attainable classification for all PRC hospitals. Subsequently, we expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize management agreements to manage third party hospitals or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We

SUMMARY

believe that our multi-pronged expansion model allows us to accelerate expansion plans efficiently by limiting upfront capital investments, lowering risks and shortening the development period and path to profitability for new healthcare facilities. Our healthcare facilities established under these business expansion models have typically become operational within one year after commencing development.

Under our diverse expansion models, we have rapidly grown our network presence from the city of Wenzhou to across Zhejiang Province, one of the wealthiest provinces in China, and further to key population centers in other major economic regions in the PRC, including the Bohai Economic Rim and the Southwest China region. In the process, we expanded our network from three healthcare facilities in early 2012 to eight as of the Latest Practicable Date, consisting of five psychiatric specialty hospitals that we own and operate and three healthcare facilities that we manage through management agreements with third parties. In line with our network expansion, we nearly doubled our operational capacity from 1,090 beds as of January 1, 2012 to 1,900 beds as of December 31, 2014. We have pipeline healthcare facilities in Beijing, the Pearl River Delta Economic Region and the Yangtze Delta Economic Region.

We believe we have preeminent industry standing and experience, which together with our pioneer status, enable us to play a leading role in the development of the PRC psychiatric healthcare market. We are recognized for our market-leading medical expertise across the full spectrum of psychiatric disorders, as well as for our service quality and research and teaching capabilities. As a top-rated hospital, Wenzhou Kangning Hospital has received distinguished designations, such as being the only privately-owned psychiatric specialty hospital to be accredited as a Key National Hospital for Specialized Clinical Psychiatry (國家臨床重點專科建設單位(精神科)) by the NHFPC. We attribute much of our success to the skill and experience of our management and medical professionals, whom we augment with highly-standardized training, teaching and research programs in order to further improve our clinical patient outcomes and service quality. As a result, we believe we are well-positioned to strengthen our reputation as an industry leader that not only provides quality, compassionate and outcomes-focused healthcare to our patients, but also offers appealing learning and career development opportunities to our medical professionals.

We grew significantly during the Track Record Period. Our revenue increased from RMB170.8 million in 2012 to RMB226.4 million in 2013 and further to RMB296.3 million in 2014, representing a CAGR of 31.7%. Our net profit increased from RMB13.2 million to RMB36.2 million and further to RMB51.2 million over the same period, respectively, representing a CAGR of 96.9%. During the Track Record Period, we derived the majority of our revenue from treatment and general healthcare services, which amounted to RMB108.9 million in 2012, RMB150.1 million in 2013 and RMB206.8 million in 2014, respectively, representing 63.8%, 66.3% and 69.8% of our total revenue in the same years, respectively. Reflecting the nature of the psychiatric healthcare industry, we primarily focus on treatment and general healthcare services as the core aspect of our operations and expect this trend to continue going forward.

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OUR BUSINESS MODEL

Our Healthcare Facility Network

As of the Latest Practicable Date, our network of psychiatric healthcare facilities includes: (i) five owned psychiatric specialty hospitals, comprising Wenzhou Kangning Hospital, Qingtian Kangning Hospital, Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital and (ii) three healthcare facilities managed by us under management agreements, comprising Yanjiao Furen Hospital, Pingyang Changgeng Ward and Chengdu Jihong Ward. We also have four pipeline healthcare facilities as of the Latest Practicable Date, of which three are planned to be psychiatric specialty hospitals owned by us and one is planned to be a psychiatric specialty hospital managed by us, in which we hold a 49% equity interest.

The map below sets out the locations of our healthcare facilities in operation and planned as of the Latest Practicable Date:



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The table below sets forth, for the years indicated, our revenue by healthcare facility:

Revenue	Year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Wenzhou Kangning Hospital	152,113	89.1	175,787	77.7	215,918	72.9
Qingtian Kangning Hospital	7,575	4.4	11,026	4.9	13,895	4.7
Cangnan Kangning Hospital	5,100	3.0	20,651	9.1	31,039	10.5
Yongjia Kangning Hospital	–	–	11,012	4.8	18,178	6.1
Yueqing Kangning Hospital	–	–	252	0.1	6,972	2.3
Pingyang Changgeng Ward ⁽¹⁾	6,025	3.5	7,635	3.4	10,294	3.5
Total revenue	170,813	100.0	226,363	100.0	296,296	100.0

Note:

- (1) A healthcare facility that we manage in accordance with the management agreement with Pingyang Changgeng Hospital. See “Business — Our Business Operations — Our Psychiatric Healthcare Facility Network — Our Managed Healthcare Facilities.”

Our Expansion Plans

We carefully research and review expansion opportunities and undertake comprehensive vetting of potential targets. The table below sets forth certain key information on our pipeline hospitals upon commencement of their operations:

Healthcare Facility	Expected Number of Beds in Operation	Total Expected Number of Medical Staff	Expected Date of Commencement of Operations
Beijing Yining Hospital	38	20	2015
Linhai Kangning Hospital	80	35	2015
Hangzhou Yining Hospital	100	45	2016
Shenzhen Yining Hospital	100	45	2016
Total	318	145	

SUMMARY

Our Psychiatric Healthcare Services

Our business primarily focuses on providing psychiatric medical treatment at our psychiatric healthcare facilities. We advocate compassionate, patient-centric values in our business practices, which we incorporate into our day-to-day operations. We believe that achieving the most favorable psychiatric treatment results begins with offering an optimal treatment experience to our patients.

Due to our broad range of services in the psychiatric healthcare field, we organize our medical services at our healthcare facilities under various departments based on the type of facility and scope of services provided. The largest department in our network is the psychiatry department, which provides comprehensive psychiatric healthcare with the aim to achieve a speedy recovery and return to society for patients, while utilizing best practices in our industry that emphasize patient safety and quality of service. At Wenzhou Kangning Hospital, our flagship healthcare facility, the psychiatry department is further subdivided into the general psychiatry, geriatric psychiatry, behavioral medicine, psychosomatic disorder and clinical psychology subdepartment. Wenzhou Kangning Hospital also operates a rehabilitation department, a judicial appraisal institution and various other departments that provide complementary medical functions to support our psychiatric operations.

Quality and Standardization

We believe our long history and experience in operating our healthcare facility network and our pool of experienced hospital administrators and doctors allow us to have an in-depth understanding of patient needs and market trends. As a pioneer in the private psychiatric healthcare sector in China, we are a market-leader in implementing well-developed operating protocols and quality controls. Over years of prudent and comprehensive testing and refinement, we have formulated highly-standardized diagnosis, treatment, follow-up and internal review procedures to focus on patient outcomes and service quality, as well as achieve economies of scale through consistent, high-quality service and management efficiency. To ensure the high-quality of our services, we standardize our treatment services and operating protocol across all of our psychiatric healthcare facilities.

We augment our staff capabilities and ensure our continued market-leading expertise with comprehensive teaching, training and research programs. In addition, we maintain a dedicated research budget and encourage all of our doctors to participate in active research studies. Our Wenzhou Kangning Hospital has close cooperation and teaching relationships with selected medical colleges in the PRC, and we have a significant annual intake of medical students for training and internship purposes. We believe our culture of fostering teaching and research activities has produced significant benefits for not only the training and development of our workforce, but also for strengthening our reputation and industry recognition as a specialized psychiatry hub, which has enabled us to attract top quality talent in the psychiatric healthcare industry. In addition, through our teaching and training programs, we have been able to cultivate relationships with a promising next generation of doctors at an early stage of their professional development, creating a proprietary pipeline of clinical talent for future recruitment. We believe the strength of our standardized protocols has been instrumental in our ability to recruit and develop skilled medical personnel. The value we placed on continuous training and research instills a culture of dedication to psychiatric healthcare.

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Marketing, Pricing and Payments

We utilize a disciplined and prudent approach to marketing and generally only engage in limited marketing activities. We primarily rely on our reputation as a top-tier psychiatric healthcare facility network in China and word-of-mouth to attract patients. We are generally entitled to set fees for our medical services and pharmaceutical products at our own discretion. However, to maintain our market position, compete effectively with public hospitals and benefit from enhanced reimbursement coverage from public medical insurance programs, we price our services and products based on the pricing policies of public hospitals, which are generally subject to national and local pricing regulations. Our customers settle medical bills through multiple sources, including government medical insurance, out-of-pocket payments and other channels. During the Track Record Period, payments from government medical insurance constituted an increasing percentage of the total payments received for our medical fees, reflecting the efforts of the PRC government to establish universal insurance coverage for essential psychiatric healthcare services, which is a key component of the ongoing development of the private psychiatric healthcare industry in China.

Our Customers and Suppliers

During the Track Record Period, our largest customer was Pingyang Changgeng Ward, from which we derived management service fee revenue. Other than Pingyang Changgeng Ward, all of our other customers during the Track Record Period were individual patients, of whom each of the five largest customers contributed to less than 1% of our total revenue in each year. We primarily rely on our suppliers for (i) various pharmaceutical products, medical equipment and medical consumables and (ii) construction and renovation services with respect to our healthcare facilities. In 2012, 2013 and 2014, our five largest suppliers together accounted for 63.8%, 73.1% and 83.6% of our total purchases, respectively, and our single largest supplier accounted for 33.4%, 32.9% and 34.2% of our total purchases during the same periods, respectively.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have enabled us to achieve our leading position in the psychiatric healthcare market in China and to differentiate ourselves from our competitors:

- Significant unmet demand and growth potential in the private psychiatric healthcare market in China
- The largest private psychiatric hospital operator in China
- Highly-scalable business model backed by our standardized operating platform
- High-quality workforce augmented by our strong teaching, training and research capabilities and collaboration with leading industry specialists and institutions
- Experienced management team with industry-leading expertise and reputation

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OUR BUSINESS STRATEGIES

We aim to further solidify our leading position in the psychiatric healthcare market in China and to proactively enhance our service quality and research capabilities. To accomplish these goals, we plan to implement the following strategies:

- Strengthen our market-leading position by continuing to ramp up and expand our healthcare facility network across China to meet unmet demand for psychiatric healthcare
- Target the premium psychiatric healthcare market in China by upgrading our healthcare facilities and enhancing our premium service capacity
- Continue to attract, develop and retain a highly-skilled workforce to support our network expansion
- Continue to enhance the quality of our medical treatments and service throughout our network by strengthening our research and training programs
- Continue to enhance information technology infrastructure

KEY OPERATING DATA

The table below sets forth, as of December 31, 2014, certain key information on our hospitals:

	Number of Beds in Operation	Total Number of Medical Staff	Date of Commencement of Operations
Wenzhou Kangning Hospital . . .	1,000	463	February 1996
Qingtian Kangning Hospital . . .	140	23	April 2011
Cangnan Kangning Hospital . . .	320	44	June 2012
Yongjia Kangning Hospital	200	26	December 2012
Yueqing Kangning Hospital	100	21	September 2013
Total	1,760	577	

The table below sets forth, as of the Latest Practicable Date, certain key information on our managed healthcare facilities:

	Number of Beds in Operation	Total Number of Medical Staff	Date of Management Agreement
Pingyang Changgeng Ward	140	23	September 2010
Chengdu Jihong Ward	10	8	September 2014
Yanjiao Furen Hospital	100	44	March 2015
Total	250	75	

SUMMARY

Each of our healthcare facilities specializes in providing psychiatric healthcare, in particular through treatment and general healthcare services and pharmaceutical sales. The table below sets forth, for the years indicated, certain operating data on our inpatients and outpatients at our owned psychiatric specialty hospitals:

	For the year ended December 31,		
	2012	2013	2014
Inpatients			
Total inpatient bed-days	442,791	514,174	615,242
Average inpatient spending per day per bed			
Treatment and general healthcare services			
(RMB)	217	264	312
Pharmaceutical sales (RMB)	50	54	57
Total (RMB)	267	318	369
Outpatients			
Number of outpatient visits	103,928	114,293	119,425
Average outpatient spending per visit			
Treatment and general healthcare services			
(RMB)	126	124	126
Pharmaceutical sales (RMB)	320	343	356
Total (RMB)	446	467	482

The table below sets forth, for the years indicated, certain information with respect to our inpatient capability at our owned psychiatric specialty hospitals:

	For the year ended December 31,		
	2012	2013	2014
Effective annual service capacity ⁽¹⁾	464,920	558,020	642,695
Inpatient bed-days ⁽²⁾	442,791	514,174	615,242
Utilization rate ⁽³⁾ (%)	95.2%	92.1%	95.7%

Notes:

- (1) Represents the number of beds available at the beginning of each month of the year multiplied by the number of days in such month and aggregated over the course of the year in terms of bed-days.
- (2) Represents the actual number of beds occupied by our inpatients on each day aggregated over the course of the relevant period.
- (3) Calculated as inpatient bed-days divided by effective annual service capacity, multiplied by 100%.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below set forth, for the years indicated, selected financial information as of and for the years ended December 31, 2012, 2013 and 2014, and should be read in conjunction with the section headed “Financial Information” and the Accountant’s Report in Appendix I to this [REDACTED]. The summary financial information has been prepared in accordance with IFRS.

Summary Consolidated Statements of Comprehensive Income

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	RMB’000	%	RMB’000	%	RMB’000	%
Revenue	170,813	100.0	226,363	100.0	296,296	100.0
Cost of revenue	(111,673)	(65.4)	(139,512)	(61.6)	(181,313)	(61.2)
Gross profit	59,140	34.6	86,851	38.4	114,983	38.8
Other income	1,065	0.6	4,692	2.1	689	0.2
Other gains/losses	(188)	(0.1)	274	0.1	(151)	(0.1)
Selling expenses	(2,607)	(1.5)	(4,879)	(2.2)	(2,092)	(0.7)
Administrative expenses . .	(29,076)	(17.0)	(34,875)	(15.4)	(45,611)	(15.4)
Operating profit	28,334	16.6	52,063	23.0	67,818	22.8
Finance income	1,282	0.8	430	0.2	749	0.3
Finance expenses	(11,652)	(6.8)	(4,917)	(2.2)	–	–
Profit before income tax . .	17,964	10.6	47,576	21.0	68,567	23.1
Income tax expenses	(4,733)	(2.8)	(11,383)	(5.0)	(17,369)	(5.9)
Net profit	13,231	7.8	36,193	16.0	51,198	17.2
Attributable to Equity holders of the Company	13,231	7.8	36,193	16.0	51,198	17.2

SUMMARY

Revenue by Owned Hospital

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Wenzhou Kangning Hospital						
Treatment and general healthcare services . . .	98,744	59.9	114,873	52.5	150,578	52.6
Pharmaceutical sales . . .	52,836	32.1	59,368	27.2	63,520	22.2
Ancillary hospital services	533	0.3	1,546	0.7	1,820	0.6
Subtotal	152,113	92.3	175,787	80.4	215,918	75.4
Qingtian Kangning Hospital						
Treatment and general healthcare services . . .	5,863	3.6	8,752	4.0	11,118	3.9
Pharmaceutical sales . . .	1,698	1.0	2,257	1.0	2,769	1.0
Ancillary hospital services	14	0.0	17	0.0	8	0.0
Subtotal	7,575	4.6	11,026	5.0	13,895	4.9
Cangnan Kangning Hospital						
Treatment and general healthcare services . . .	4,324	2.6	17,146	7.9	24,672	8.6
Pharmaceutical sales . . .	775	0.5	3,501	1.6	6,367	2.2
Ancillary hospital services	1	0.0	4	0.0	–	–
Subtotal	5,100	3.1	20,651	9.5	31,039	10.8
Yongjia Kangning Hospital						
Treatment and general healthcare services . . .	–	–	9,075	4.1	14,752	5.2
Pharmaceutical sales . . .	–	–	1,937	0.9	3,426	1.2
Ancillary hospital services	–	–	–	–	–	–
Subtotal	–	–	11,012	5.0	18,178	6.4
Yueqing Kangning Hospital						
Treatment and general healthcare services . . .	–	–	216	0.1	5,670	2.0
Pharmaceutical sales . . .	–	–	36	0.0	1,302	0.5
Ancillary hospital services	–	–	–	–	–	–
Subtotal	–	–	252	0.1	6,972	2.5
Total revenue⁽¹⁾	164,788	100.0	218,728	100.0	286,002	100.0

Note:

(1) Does not include revenue from management service fees attributable to Pingyang Changgeng Ward.

SUMMARY

Gross Profit and Gross Profit Margin

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000 except percentages	%	RMB'000 except percentages	%	RMB'000 except percentages	%
Gross profit						
Treatment and general						
healthcare services . . .	39,517	66.8	63,112	72.7	93,046	80.9
Pharmaceutical sales . . .	14,659	24.8	16,872	19.4	13,194	11.5
Ancillary hospital						
services	328	0.6	903	1.0	996	0.9
Management service fees	4,636	7.8	5,964	6.9	7,747	6.7
Total	59,140	100.0	86,851	100.0	114,983	100.0
Gross profit margin						
Treatment and general						
healthcare services . . .	36.3%		42.1%		45.0%	
Pharmaceutical sales . . .	26.5%		25.1%		17.1%	
Ancillary hospital						
services	59.9%		57.6%		54.5%	
Management service fees	76.9%		78.1%		75.3%	
Overall	34.6%		38.4%		38.8%	

Summary Consolidated Balance Sheets

	As of December 31,		
	2012	2013	2014
	RMB'000		
Non-current assets	100,438	140,676	201,783
Current assets	126,229	165,003	170,556
Current liabilities	195,037	69,772	84,405
Net current (liabilities)/assets	(68,808)	95,231	86,151
Total assets less current liabilities	31,630	235,907	287,934
Non-current liabilities	7,564	27,046	26,844
Total equity	24,066	208,861	261,090

SUMMARY

Summary of Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2012	2013	2014
		RMB'000	
Net cash from operating activities	22,608	37,078	33,328
Net cash used in investing activities	(39,315)	(12,885)	(60,663)
Net cash from/used in financing activities	18,007	23,751	(2,977)
Cash and cash equivalents at beginning of the year	18,339	19,639	67,583
Net increase/decrease in cash and cash equivalents	1,300	47,944	(30,312)
Cash and cash equivalents at the end of the year	19,639	67,583	37,271

Key Financial Ratios

	As of and for the year ended December 31,		
	2012	2013	2014
Current ratio ⁽¹⁾	0.65	2.36	2.02
Gearing ratio ⁽²⁾	4.23	N/A	N/A
Return on equity ⁽³⁾	55.0%	17.3%	19.6%
Return on total assets ⁽⁴⁾	5.8%	11.8%	13.8%

Notes:

- (1) Calculated as current assets divided by current liabilities as of the end of the year.
- (2) Calculated as total interest-bearing bank and other borrowings, net of cash and cash equivalents, divided by equity attributable to owners of the Company. We did not have interest-bearing bank and other borrowings as of December 31, 2013 and 2014.
- (3) Calculated as net profit for the year divided by total equity, multiplied by 100%.
- (4) Calculated as net profit for the year divided by total assets, multiplied by 100%.

RISK FACTORS

Our business is subject to a number of risks as set forth in the “Risk Factors” section in this [REDACTED]. You should read the “Risk Factors” section in its entirety before you decide to invest in the H Shares. Some of the major risk factors we face include, among others: (i) we conduct our business in a heavily regulated industry, in particular with respect to Grade A Class III hospitals such as our Wenzhou Kangning Hospital, and cannot assure you that we will be able to obtain or renew the various licenses, permits, approvals and certificates required for our operations; (ii) certain of our medical services and pharmaceuticals are effectively subject to regulatory price controls due to medical insurance reimbursement caps and our policies to voluntarily participate in restrictive pricing policies, which may reduce our profitability; (iii) changes in China’s regulatory regime for the healthcare industry, particularly with respect to public medical insurance programs or healthcare reform policies, could have a material adverse effect on our business; (iv) our development and ramp-up schedule of new healthcare facilities could contribute to the fluctuations of our financial results and new healthcare facilities may not achieve timely profitability as anticipated, or at all; (v) we derive a significant portion of our revenue from services and products provided to patients covered in part by public medical insurance, and any non-payment or delayed

SUMMARY

payment from insurance programs as a result of disputes, changes in insurance policies or any other reason may adversely affect our earnings and cash flow; and (vi) our performance depends on our ability to recruit and retain quality doctors and other medical staff, and competition for such professionals may be intense and adversely affect our labor costs.

REGULATORY COMPLIANCE AND MEDICAL INCIDENTS

We have historically had incidents of non-compliance with PRC laws and regulations. For example, two of our hospitals were not in compliance with applicable environmental protection verification and fire safety verification requirements prior to the commencement of operations, and we were not in full compliance with social insurance and housing provident funds contributions for our employees. See “Business — Legal Compliance and Proceedings.”

Due to the nature of the healthcare industry and the inherent risks in treating patients, especially psychiatric patients, with varying degrees of general medical conditions, we have experienced certain material instances of medical incidents at our healthcare facilities involving patient death or resulting in monetary compensation of RMB50,000 or above. Based on a written confirmation issued by the Wenzhou branch of the NHFPC, during the Track Record Period, (i) we had not been involved in any significant medical incidents in which we were found to be primarily responsible for the incident and (ii) we had not been subject to any administrative penalty from the Wenzhou branch of the NHFPC. In addition, during the Track Record Period and up to the Latest Practicable Date, none of our doctors were involved in any disciplinary proceedings or otherwise determined to be liable for any medical malpractice incidents. See “Business – Medical Incidents.”

SHAREHOLDER INFORMATION

Our Controlling Shareholders

Our Controlling Shareholders are Mr. Guan and Ms. Wang. Immediately following completion of the [REDACTED] (without taking into account any H Shares which may be allotted and issued upon any exercise of the [REDACTED]), Mr. Guan and Ms. Wang will directly hold approximately [REDACTED]% and [REDACTED]% of our issued share capital, respectively. Accordingly, Mr. Guan and Ms. Wang, will be deemed to control together more than 30% of our issued share capital, and hence, for the purpose of the Listing Rules, they will continue to be our Controlling Shareholders following the [REDACTED].

[REDACTED] Investments

We received (i) from Defu Fund, RMB140.5 million in May 2013 and RMB55.1 million in March 2015, (ii) from Beijing CDH Weixin, RMB35.1 million in May 2013 and RMB13.7 million in March 2015 and (iii) from Beijing CDH Weisen, RMB24.4 million in May 2013 and RMB9.6 million in March 2015. Following the above [REDACTED] Investments, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen held 29.14%, 7.27% and 5.05% equity interest in our Company, respectively. We used the proceeds from the [REDACTED] Investments primarily for capital expenditure, repayment of our bank and other borrowings and general working capital purposes. See “Our History and Corporate Structure — [REDACTED] Investments.”

SUMMARY

DIVIDENDS AND DIVIDEND POLICY

We did not pay any dividends in the three years ended December 31, 2012, 2013 and 2014. We declared a dividend of RMB18.5 million on May 11, 2015, which we intend to pay prior to the [REDACTED]. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon various factors, such as our future operations and earnings, capital requirements and surplus, general financial condition, debt covenants and other factors that our Directors deem relevant. See “Financial Information — Dividends and Dividend Policy.”

[REDACTED] STATISTICS

[REDACTED] size: [REDACTED] million H Shares

[REDACTED] structure: 10% [REDACTED] (subject to adjustment) and 90% [REDACTED] (subject to adjustment and the [REDACTED])

[REDACTED]: up to 15% of the number of [REDACTED] initially available under the [REDACTED]

[REDACTED] for H Share: HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]

	Based on an [REDACTED] of HK\$[REDACTED]	Based on an [REDACTED] of HK\$[REDACTED]
	HK\$[REDACTED]	HK\$[REDACTED]
Market capitalization ⁽¹⁾	million	million
Unaudited Pro forma adjusted net tangible assets per H Share ⁽²⁾⁽³⁾	[REDACTED]	[REDACTED]

Notes:

- (1) Calculation based on [REDACTED] H Shares expected to be issued and outstanding following the [REDACTED].
- (2) The Pro forma adjusted net tangible assets per H Share is calculated after the adjustments referred to in the section headed “Financial Information — Unaudited [REDACTED] Statement of Adjusted Net Tangible Assets of Our Group.”
- (3) No adjustment has been made to reflect any transactions we entered into subsequent to December 31, 2014.

[REDACTED] EXPENSES

The total estimated [REDACTED] expenses in relation to the [REDACTED] are expected to be RMB[REDACTED] million (based on the mid-point of our indicative price range for the [REDACTED] and assuming that the [REDACTED] is not exercised), of which RMB[REDACTED] million will be deducted from gross proceeds from the [REDACTED] and accounted for as a deduction from equity and RMB[REDACTED] million will be recorded in our consolidated statement of comprehensive income for the year ending December 31, 2015.

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the [REDACTED] of approximately HK\$[REDACTED] million (assuming the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the proposed [REDACTED] range stated in this [REDACTED]), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the [REDACTED]. We intend to use these net proceeds for the following purposes:

- Approximately [REDACTED]% or HK\$[REDACTED] million will be used to expand and ramp up our healthcare facility network and operating capacity by leveraging our diversified expansion model in regions with underserved demand for psychiatric healthcare services. As of the Latest Practicable Date, with respect to the proceeds expected to be received from the [REDACTED], we had not identified any geographic location for the purposes of establishing or investing in new hospitals, nor had we identified any third party hospitals for entering into management agreements;
- Approximately [REDACTED]% or HK\$[REDACTED] million will be used to finance renovation and upgrades for Wenzhou Kangning Hospital in order to expand its operating capacity and premium service capability;
- Approximately [REDACTED]% or HK\$[REDACTED] million will be used for research, teaching and personnel training purposes, including expanding our collaboration with selected psychiatric healthcare institutions and universities both in the PRC and abroad;
- Approximately [REDACTED]% or HK\$[REDACTED] million will be used to develop our mobile and online platforms for medical consultation and upgrade our information technology infrastructure, which we believe will further strengthen our brand awareness and patient outreach capability; and
- Approximately [REDACTED]% or HK\$[REDACTED] million will be used for working capital and other general corporate purposes.

See "Future Plans and Use of Proceeds."

RECENT DEVELOPMENTS

Following the Track Record Period, we have continued to expand and scale up our network of healthcare facilities. We commenced operations at two healthcare facilities in April 2015, the Yanjiao Furen Hospital and the Chengdu Jihong Ward, both of which we manage under management agreements with third party private hospitals. As of the Latest Practicable Date, the two recently opened healthcare facilities have expanded the total operating capacity of our network by 110 beds.

Our Directors confirm that there has been no material adverse change in our business, financial, operating or trading condition since December 31, 2014, being the most recent date of our audited financial statements, and up to the date of this [REDACTED].

DEFINITIONS

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

“affiliate” any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person

[REDACTED]

“Articles of Association” the articles of association of our Company, conditionally adopted on May 11, 2015 to take effect on the [REDACTED] Date, as amended or supplemented from time to time

“associate(s)” has the meaning ascribed thereto under the Listing Rules

“bed-day(s)” with respect to any given period, refers to the actual number of beds occupied by our inpatients on each day aggregated over the course of the relevant period

“Beijing CDH Weisen” Beijing CDH Weisen Venture Capital L.P. (北京鼎暉維森創業投資中心(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on August 6, 2010, holding approximately 7.27% in our Company as of the Latest Practicable Date. Its general partner is CDH Huatai Investment Management (Beijing) Co., Ltd (鼎暉華泰投資管理(北京)有限公司)

“Beijing CDH Weixin” Beijing CDH Weixin Venture Capital L.P. (北京鼎暉維鑫創業投資中心(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on May 19, 2010, holding approximately 5.05% in our Company as of the Latest Practicable Date. Its general partner is CDH Huatai Investment Management (Beijing) Co., Ltd (鼎暉華泰投資管理(北京)有限公司)

“Beijing Yining” or “Beijing Yining Hospital” Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), an associate company to be established in the PRC by the Company and will be held as to 49% by the Company and 51% by Beijing Jialikang Hospital Management Consulting Co., Ltd. (北京嘉利康醫院管理諮詢有限公司), an independent third party

DEFINITIONS

“Business Day”	any day (other than Saturday, Sunday and public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compound annual growth rate
“Cangnan Kangning” or “Cangnan Kangning Hospital”	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC on June 15, 2012, one of our wholly-owned subsidiaries
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chengdu Jihong Hospital”	Chengdu Jihong Hospital Company Limited (成都濟宏醫院有限公司), established in the PRC on June 29, 2010, an independent third party
“Chengdu Jihong Ward”	the psychiatric healthcare department of Chengdu Jihong Hospital
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this [REDACTED] only, Hong Kong, the Macau Special Administrative Region and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which came into effect on March 3, 2014 as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”, “our Company”, “the Company”, “we” or “us”	Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司), previously known as Wenzhou Kangning Mental Convalescent Hospital (溫州市康寧精神康復醫院), which was established as a joint stock cooperative enterprise on February 7, 1996 and subsequently converted into a limited liability company in December 2011. On October 15, 2014, it was converted into a joint stock company established under the laws of the PRC with limited liability, and if the context requires, it also includes its predecessor
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed under the Listing Rules and in this context, refers to Mr. Guan Weili and Ms. Wang Lianyue
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated June 3, 2015 entered into by our Controlling Shareholders in favor of our Company
“Defu Fund”	Guangzhou GL Capital Investment Fund L.P. (廣州德福股權投資基金合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on January 23, 2013, holding approximately 29.14% in our Company as of the Latest Practicable Date. Its general partner is Guangzhou GL Capital GP L.P. (廣州德福投資諮詢合夥企業(有限合夥))
“Director(s)”	the director(s) of our Company
“Domestic Shares”	ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“EIT Law”	PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) adopted by the National People’s Congress on March 16, 2007, and became effective on January 1, 2008
“Enci Kangning”	Ningbo Enci Kangning Investment Management L.P. (寧波恩慈康寧投資管理合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on July 18, 2014. As of the Latest Practicable Date, it was held by 27 Supervisors, employees and external consultants of our Group

DEFINITIONS

“Founder(s)”	Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue
“Frost & Sullivan Report”	an industry report dated [June 17], 2015 commissioned by us for a fee of RMB880,000, issued by Frost & Sullivan, a private independent research firm
“G7 countries”	A governmental forum of leading developed economies in the world, consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP)
“GFA”	gross floor area
	[REDACTED]
“Group” or “our Group”	our Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and [REDACTED] on the Stock Exchange
“H Share Registrar”	[REDACTED]
“healthcare facilities”	our psychiatric healthcare institutions, which include our owned psychiatric specialty hospitals and our psychiatric wards and hospitals that we manage under management agreements with third party hospitals
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

[REDACTED]

- “Hong Kong Underwriters” the group of underwriters of the [REDACTED] listed in the section headed “Underwriting — Hong Kong Underwriters” in this [REDACTED]
- “Hong Kong Underwriting Agreement” the underwriting agreement dated [•], 2015 relating to the [REDACTED] entered into between, among others, the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and us as further described in “Underwriting — Underwriting Arrangements and Expenses — [REDACTED] — Hong Kong Underwriting Agreement” in this [REDACTED]
- “IFRS” the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
- “independent third party(ies)” an individual or a company who is not connected with (within the meaning of the Listing Rules) any Directors, Supervisors, chief executive or Substantial Shareholders of our Company, its subsidiaries or any of their respective associates

[REDACTED]

DEFINITIONS

“International Underwriters”	the group of international underwriters expected to enter into the International Underwriting Agreement to underwrite the [REDACTED]
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or about [REDACTED] by, among others, the Joint Global Coordinators, the Joint Bookrunners, the International Underwriters and us in respect of the [REDACTED], as further described in “Underwriting — Underwriting Arrangements and Expenses — [REDACTED]”
“Joint Bookrunners” and “Joint Lead Managers”	[REDACTED]
“Joint Global Coordinators”	[REDACTED]
“Joint Sponsors”	Citigroup Global Markets Asia Limited and CITIC CLSA Capital Markets Limited
“Judicial Appraisal Institution”	Wenzhou Kangning Judicial Appraisal Institution (溫州康寧司法鑒定所), an institution established in the PRC on June 16, 2006, which is wholly sponsored by our Company
“Latest Practicable Date”	June 12, 2015, being the latest practicable date for the inclusion of certain information in this [REDACTED] prior to its publication
“Linhai Kangning” or “Linhai Kangning Hospital”	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC on February 2, 2015, our non-wholly owned subsidiary, and was held as to 80% by the Company and 20% by Mr. QU Kaisheng, an independent third party [REDACTED]
“Listing Committee”	the Listing Committee of the Stock Exchange [REDACTED]

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Louqiao Medical Area”	an expansion of Wenzhou Kangning Hospital under development in Wenzhou’s Ouhai District (甌海區) that is expected to commence operations in 2016
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Commission and other PRC government departments on August 27, 1994
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NBSC”	National Bureau of Statistics of China (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NHFPC”	The National Health and Family Planning Commission of the PRC (中華人民共和國衛生和計劃生育委員會), which was reorganized from the former Ministry of Health and the National Population and Family Planning Commission in March 2013 and includes such predecessor regulatory bodies for the purpose of this [REDACTED]
“Non-PRC Resident Enterprise”	as defined under the EIT Law, companies established pursuant to non-PRC law with their de facto management conducted outside the PRC, but which have established organizations or premises in the PRC, or which have generated income within the PRC without having established organizations or premises in the PRC
“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NRCMIS”	New Rural Cooperative Medical Insurance Scheme (新型農村合作醫療保險)

DEFINITIONS

[REDACTED]

“outpatient visit” one instance of outpatient registration at one of our healthcare facilities

[REDACTED]

“PBOC” the People’s Bank of China (中國人民銀行)

“Pingyang Changgeng Hospital” Pingyang Changgeng Hospital Company Limited (平陽縣長庚醫院有限責任公司), a company established in the PRC on December 13, 2005, an independent third party.

“Pingyang Changgeng Ward” the psychiatric healthcare department of Pingyang Changgeng Hospital Company Limited (平陽縣長庚醫院有限責任公司)

“PRC Company Law” or “Companies Law” the Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress of the PRC on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 to take effect on March 1, 2014

“PRC GAAP” generally accepted accounting principles in the PRC

DEFINITIONS

“PRC Government” or “State” the government of the PRC, including government departments at all levels (including provincial, municipal and other regional or local governmental agencies)

“PRC Securities Law” the Securities Law of the PRC (中華人民共和國證券法), which was enacted by the Standing Committee of the National People’s Congress on December 29, 1998 and became effective on July 1, 1999, as amended from time to time, which was further amended on August 31, 2014 to take effect on August 31, 2014

[REDACTED]

“Promoters” the promoters of our Company, namely Mr. Guan Weili, Ms. Wang Hongyue, Ms. Wang Lianyue, Defu Fund, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning

[REDACTED]

“Qingtian Kangning” or “Qingtian Kangning Hospital” Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC on April 1, 2011, one of our wholly-owned subsidiaries

“Qualified Institutional Buyers” or “QIBs” qualified institutional buyers within the meaning of Rule 144A

“Regulation S” Regulation S under the U.S. Securities Act

“Renai Kangning” Ningbo Renai Kangning Investment Management L.P. (寧波仁愛康寧投資管理合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on July 17, 2014. As of the Latest Practicable Date, it was held by 41 employees of our Group

“RMB” or “Renminbi” the lawful currency of the PRC

“Rule 144A” Rule 144A under the U.S. Securities Act

“SAFE” State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

“SAIC” State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

DEFINITIONS

“SAT” or “State Administration of Taxation”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, including our Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of our Share(s)
“Shenzhen Yining” or “Shenzhen Yining Hospital”	Shenzhen Yining Hospital Co., Ltd. (深圳市怡寧醫院有限公司), a company established in the PRC on September 22, 2014, our non-wholly owned subsidiary, and was held as to 70% by the Company and 30% by Shenzhenshi Yidi Investment Co., Ltd (深圳市醫的投資有限公司), an independent third party
“Special Regulations”	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定)
	[REDACTED]
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited (香港聯合交易所有限公司)
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	one (or all) of our Company’s supervisors
“Supervisory Board”	the supervisory board of our Company
“Track Record Period”	the three years ended December 31, 2012, 2013 and 2014
“UEBMIS”	Urban Employee Basic Medical Insurance Schedule (城鎮職工基本醫療保險)
“Underwriters”	the Hong Kong Underwriters and the International Underwriters

DEFINITIONS

“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“United States dollars” or “US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“URBMIS”	Urban Resident Basic Medical Insurance Scheme (城鎮居民基本醫療保險)
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated under it
“Wenzhou Kangning Hospital”	Wenzhou Kangning Hospital (溫州康寧醫院), a healthcare facility operating under the Company

[REDACTED]

“Xinshi Kangning”	Ningbo Xinshi Kangning Investment Management L.P. (寧波信實康寧投資管理合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on July 16, 2014. As of the Latest Practicable Date, it was held by 38 Director, Supervisors, senior management, employees and external consultant of our Group
“Yanjiao Furen Hospital”	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under our operation and management in accordance with an entrustment management agreement entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and our Company dated March 26, 2015
“Yongjia Kangning” or “Yongjia Kangning Hospital”	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC on December 12, 2012, one of our wholly-owned subsidiaries

DEFINITIONS

“Yueqing Kangning” or “Yueqing Kangning Hospital” Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC on September 3, 2013, one of our wholly-owned subsidiaries

In this [REDACTED]:

The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translation and/or transliteration of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations and/or transliterations, the Chinese names shall prevail.

FORWARD-LOOKING STATEMENTS

This [REDACTED] contains certain statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe(s)”, “aim(s)”, “estimate(s)”, “plan(s)”, “project(s)”, “anticipate(s)”, “expect(s)”, “intend(s)”, “may”, “seek(s)”, “can”, “could”, “ought to”, “potential”, “will” or “should” or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to “estimate(s)” only refer to the situations whereby best estimation was adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this [REDACTED] and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this [REDACTED]. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this [REDACTED], those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- Our operation and business prospect;
- Our ability to maintain and enhance our market position;
- The effects of domestic and overseas competition in the industries or markets we operate and its potential impact on our business;
- Developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the PRC psychiatric healthcare industry;
- General political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC Government to manage economic growth;
- Our ability to successfully implement any of our business strategies, plans, objectives and goals;
- Our ability to expand and manage our business and to open new healthcare facilities;

FORWARD-LOOKING STATEMENTS

- Our ability to obtain or extend the terms of the licenses necessary for the operation of our business;
- Changes to our expansion plans and estimated capital expenditure;
- Adverse changes or developments in the industries in which we operate;
- Fluctuations in inflation, interest rates and exchange rates;
- Changes in the availability of, or new requirements for financing;
- Our dividend policy; and
- Our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this [REDACTED] reflect our management’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specifically consider the factors identified in this [REDACTED], which could cause actual results to differ, before making any investment decision. Subject to the requirements of the Listing Rules and except as may be required by applicable law, we undertake no obligation to revise any forward-looking statements that appear in this [REDACTED] to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this [REDACTED]. All forward-looking statements in this [REDACTED] are qualified by reference to this cautionary statement.

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You should carefully read and consider all of the information in this [REDACTED], including the material risks and uncertainties described below before making any investment in our H Shares. You should pay particular attention to the fact that we are incorporated in the PRC and that all of our operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from that prevailing in other countries. Our business, financial condition or results of operations could be materially and adversely affected by any of these material risks and uncertainties. The trading price of our H Shares could decline due to any of these material risks and uncertainties and you may lose all or part of your investment as a result.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We conduct our business in a heavily regulated industry, in particular with respect to Grade A Class III hospitals such as our Wenzhou Kangning Hospital, and cannot assure you that we will be able to obtain or renew the various licenses, permits, approvals and certificates required for our operations.

The operations of our healthcare facilities are subject to various laws and regulations at the national, regional and local levels. Such laws and regulations relate mainly to (i) the quality and use of medical facilities, equipment, supplies and services, (ii) the pricing, procurement and usage of pharmaceuticals and medical consumables, (iii) the licensing and number of healthcare facilities, hospital beds and medical professionals, (iv) the discharge and disposal of pollutants and medical, radioactive and other hazardous waste, (v) anti-corruption and anti-bribery and (vi) the maintenance and security of confidential patient medical records. See “Regulatory Overview — Regulatory Supervision of Healthcare Sector in China.” Accordingly, our healthcare facilities are subject to periodic licensing renewal requirements and inspections by various government agencies and departments at the provincial and municipal level. We are also exposed to potential legal liabilities in the course of our operations arising from medical incident-related claims, whether with or without merit. In addition, any changes in laws and regulations could broaden the scope of medical incident-related liability, require us to obtain additional licenses, permits, approvals or certificates, increase our operational expenses or result in the invalidation of our currently owned licenses. Moreover, our Wenzhou Kangning Hospital is subject to particularly stringent regulations due to its rating as a Grade A Class III hospital, the highest rating attainable by hospitals in the PRC. For example, Grade A Class III hospitals are required to implement and maintain meticulous operational controls and risk management systems, and must fulfill various teaching, research and publication and social responsibilities. We cannot assure you that Wenzhou Kangning Hospital will always be able to meet all of the enhanced regulatory obligations of Grade A Class III hospitals, including any additional requirements imposed in the future on hospitals of its grade.

If we fail to obtain or renew any necessary licenses, permits, approvals and certificates or are found to be non-compliant with any of these laws or regulations, we may face financial and administrative penalties, suspension of operations or even revocation of operating licenses, depending on the nature and severity of the findings. Furthermore, in the future, it is possible that different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require

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us to make changes in our facilities, equipment, personnel or services or increase capital expenditure and operating expenses. Any of the above developments could materially and adversely affect our business, financial condition and results of operations.

Certain of our medical services and pharmaceuticals are effectively subject to regulatory price controls due to medical insurance reimbursement caps and our policies to voluntarily participate in restrictive pricing policies, which may reduce our profitability.

PRC government laws and regulations at the national and regional levels impose price controls and price ceilings on various services and products provided by medical healthcare institutions. See "Regulatory Overview — Regulatory Supervision of Healthcare Sector in China — Reform on Price of Medicine and Medical Services." While as a private, for-profit hospital operator, we are not directly subject to the pricing regulations that public hospitals and clinics must abide by, in order to maintain our market position and compete effectively with public hospitals in the areas where we operate, and in light of government medical insurance reimbursement limits, we voluntarily implement price-matching policies for certain services and products. As a result, government policies that impose price ceilings, reduce profit margins or restrict insurance reimbursement amounts may in turn negatively impact our profitability.

For example, in 2013, our Wenzhou Kangning Hospital voluntarily joined a government-led program aimed to reform the pricing mechanism of medical products and services in Wenzhou. As part of the program, in order to be permitted to implement up to a 30% price increase on certain of our medical services covered by public medical insurance, our Wenzhou Kangning Hospital must sell pharmaceuticals at the procurement bidding price of public hospitals without any mark-up. In addition, the higher priced services are only eligible for reimbursement through such program if the pricing of our services and products remain compliant with the pricing guidance adopted under such programs. Largely as a result of our election to join the pricing regime, our gross profit margin on pharmaceutical sales declined from 26.5% in 2012 to 25.1% in 2013 and further to 17.1% in 2014. Going forward, we may expand our election to join such pricing regimes for our other healthcare facilities, which may exert further downward pressure on our gross profit margin on pharmaceutical sales.

We cannot predict if the PRC government will change the retail price ceilings in the future, if additional medical services and pharmaceutical products may become subject to price controls and/or more stringent insurance reimbursement limits or that we will continue to receive higher reimbursement for treatment services in exchange for voluntarily participating in government-led pricing regimes to sell pharmaceuticals at lower prices. As we continue to monitor the pricing policies of public hospitals and other market participants, we may continue to adjust our own pricing policy where appropriate in order to continue to maintain our competitiveness with them while growing our business and acquiring market share, which may reduce our gross profit and gross profit margins with respect to the affected services and products and materially and adversely affect our business, financial condition and results of operations. To bolster our profitability, we will need to identify and capture opportunities, such as expanding high-margin offerings and scaling up our operational efficiency, which we may not be able to successfully execute.

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Changes in China's regulatory regime for the healthcare industry, particularly with respect to public medical insurance programs or healthcare reform policies, could have a material adverse effect on our business.

In recent years, the PRC government unveiled a new healthcare reform plan with the aim to ensure that every citizen has access to affordable basic healthcare. In pursuit of these objectives, the PRC government has issued extensive policy reforms to address the affordability, accessibility and quality of healthcare services and medical insurance coverage, and has called for additional government spending on healthcare. The PRC government aims to expand the public insurance programs to cover 100% of the population by 2020, and accordingly, funding for such programs has increased from RMB367.0 billion in 2008 to RMB1,122.1 billion in 2013, representing a CAGR of 25.1%, according to the Frost & Sullivan Report.

A substantial portion of our business operations and future expansion plans are affected by government policies, which may change significantly in the future and are beyond our control. Depending on the priorities determined by the PRC government, the economic and political climate at any given time and the continued development of the Chinese healthcare system, future legislative changes may affect the healthcare reform process in a number of ways, including, not but limited to, (i) reducing coverage or reimbursement rates, or lengthening the payment processing cycle, for publicly insured services and products, (ii) limiting private or foreign investment in healthcare services, (iii) implementing additional price controls on pharmaceuticals and (iv) imposing certain caps on treatment fees permitted to be charged, any of which may materially and adversely affect our business, financial condition and results of operation.

We derive a significant portion of our revenue from services and products provided to patients covered in part by public medical insurance, and any non-payment or delayed payment from insurance programs as a result of disputes, changes in insurance policies, administrative obstacles or any other reason may adversely affect our earnings and cash flow.

We receive a significant portion of payments for our medical bills from the PRC government, principally by way of public medical insurance provided through social insurance programs. According to the Frost & Sullivan Report, as of the end of 2012, public medical insurance for urban residents in China covered approximately 95% of the total registered urban population, while public medical insurance for rural residents covered approximately 98% of the total registered rural population. Under these programs, patients are required to pay hospitals only a portion of their medical expenses upfront and hospitals will seek payment of the balance from the government. The government only reimburses medical expenses for certain approved services and pharmaceuticals, and reimbursement percentages and caps for covered medical expenses may vary widely depending on the region, hospital rating, type of illness and treatment and pharmaceuticals provided.

In line with the expansion of funding and expenditure for the PRC public medical insurance programs, during the Track Record Period, our medical bill payments received from public medical insurance grew significantly. Such payments amounted to RMB53.3 million, RMB81.5 million and RMB134.2 million in 2012, 2013 and 2014, respectively, representing 31.5%, 42.1% and 51.0% of our total payments received in the same years, respectively. In

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addition, as a result of our election for Wenzhou Kangning Hospital, Pingyang Changgeng Ward, Yongjia Kangning Hospital and Cangnan Kangning Hospital to join a government-led pricing regime that allows for higher pricing of reimbursable services, we expect to continue to receive a significant portion of our total medical bill payments from public medical insurance. Any dispute or late or delinquent reimbursement payment may cause our accounts receivables to increase and result in provisions. In addition, any prolonging of our average receivables settlement days due to a slowdown in payments from insurance or other sources may have an adverse effect on our cash inflow from operations. Healthcare insurers may also change their reimbursement policies and coverage plans in the future such that (i) certain services and products we provide may no longer be covered or (ii) more stringent thresholds on existing coverage may be imposed, such as reducing the admissions and lengths of stay for inpatients, for whom treatment is generally more costly than outpatients. Any reduction in the rates paid or the scope of services covered by insurance providers may reduce patients' accessibility to our healthcare facilities and may, in turn, lead to reduced patient flow or require us to lower the prices we charge, either of which could have a material adverse effect on our business, financial position and results of operations.

We experience a long collection cycle on our trade receivables due to our reliance on public medical insurance to settle a significant portion of our medical bill payments, and face collection risks with respect to uninsured and underinsured patients, both of which may exert pressure on our cash flow.

Collection of our trade receivables, which primarily relate to the unpaid portion of the medical bills we issue, is critical to our operating performance. The balance of our trade receivables was RMB52.0 million, RMB63.1 million and RMB84.5 million as of December 31, 2012, 2013 and 2014, respectively. We do not hold any collateral or other credit enhancements over these balances. Typically, government medical insurance programs settle accounts receivable with us at approximately one to six months following the billing date. Settlement from supplemental civil administration funds for low-income patients, which comprise a smaller source of total payments to us, may require one to two years. As a result, we have had average trade receivables turnover days of 101 days, 93 days and 91 days in 2012, 2013 and 2014. By comparison, in the same years, our average inventory turnover days were 25 days, 19 days and 15 days, respectively, and our average trade payables turnover days were 73 days, 69 days and 49 days, respectively. Our trade receivables cycle may expose us to cash flow shortages or liquidity gaps in our operations, which would require us to obtain working capital from other sources, such as external borrowings, in order to meet our obligations, which we may not be able to do on commercially acceptable terms or at all.

We also face impairment risk with respect to our trade receivables. As of December 31, 2012, 2013 and 2014, our provision for impairment of trade receivables, which primarily represented receivables attributable to uninsured and underinsured patients for whom we deem the amounts to irrecoverable, and thus have decided to make provisions for, amounted to RMB3.0 million, RMB3.7 million and RMB5.0 million, respectively, representing 5.4%, 5.5%, and 5.6% of our balance of trade receivables as of such dates, respectively. Impairment loss represented 0.4%, 0.5%, 0.9% of our total revenue in 2012, 2013, 2014, respectively. We expect to continue to face collection risk with respect to uninsured and underinsured patients going

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forward, especially as we continue to scale up our operations. Any adverse developments in our ability to timely settle our trade receivables may have a material adverse effect on our business, financial condition and results of operations.

Our performance depends on our ability to recruit and retain quality doctors and other medical staff, and competition for such professionals may be intense and adversely affect our labor costs.

Our success and competitive advantage relies, in part, on the number and quality of the psychiatric doctors and other medical staff of our healthcare facilities. Our future success will depend significantly on our ability to identify, hire and retain highly qualified professionals of all areas of our healthcare facilities. Competition for such qualified professionals is intense. According to the Frost & Sullivan Report, in 2013, certified psychiatrists represented only 1.9% of all certified doctors in China, and the substantial majority of such psychiatrists are employed by public hospitals, which often impose restrictions on their ability to practice in private healthcare institutions. As a result, our healthcare facilities may not always have the resources to effectively compete with other hospitals and clinics, whether public or otherwise. If we do not succeed in attracting and retaining an appropriate level of motivated and qualified hospital administrators, doctors, nurses and other staff, our service quality and consistency and our ability to execute our business strategy may suffer. A shortage of skilled professionals could also require us to increase salaries, wages and benefits, which would reduce our profits and have a material and adverse effect on our operating results and financial performance. Moreover, certain of our healthcare facilities required specific levels of medical staffing to be maintained. To the extent we cannot meet such levels, we may be required to limit or draw back on the services provided at such healthcare facilities, which could in turn adversely affect our revenue and reputation.

In addition, as we expand the scale of our business operations, it may become increasingly difficult for us to attract and retain an adequate number of doctors and other medical staff to practice in our new healthcare facilities that are currently under development. We cannot predict the degree to which we may be affected by the future availability or cost of attracting and retaining talented doctors and other medical staff. Furthermore, if our general labor and related expenses increase, we may not be able to raise our medical treatment rates correspondingly. Our failure to recruit or retain doctors and other medical staff to our existing and future healthcare facilities, or the loss of or increased costs in retaining such medical professionals in such facilities, would have a material adverse effect on our business, financial condition and results of operations.

We are exposed to inherent risks of medical incidents and legal proceedings arising from our operations, and resolving such incidents and proceedings could result in significant costs and materially and adversely affect our reputation and business.

We rely on our doctors and other medical staff in our healthcare facilities to make informed decisions regarding the appropriate treatment and evaluation of our patients. However, any incorrect decisions on the part of doctors and other medical staff, or any failure by us to effectively manage the treatment protocols of our healthcare facilities, may result in unsuccessful or unsatisfactory treatment outcomes, patient injury to themselves or others and

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in extreme cases, death. Serious incidents may arise at any point in the patient intake, treatment and follow-up processes, including violence or threats of violence committed by patients against themselves, other patients or our doctors and staff.

For the three years ended December 31, 2012, 2013 and 2014, and for the five months ended May 31, 2015, we had certain material instances of medical incidents at our healthcare facilities involving patient death or resulting in monetary compensation of RMB50,000 or above. See "Business — Medical Incidents." We may continue to experience incidents of patient death or injury at our healthcare facilities in the future. Due to the nature of providing healthcare treatment to patients, especially psychiatric patients, with varying degrees of general medical conditions, we are exposed to inherent risks in our operations even in cases in which we believe we were fully compliant with best practices in our field, and such risks cannot be eliminated entirely. We are also susceptible to complaints from patients or their relatives associated with our services from time to time. Any medical incidents occurring at our healthcare facilities may result in a claim or legal proceeding against us, which, regardless of merit or settlement status, could adversely affect our industry reputation, divert management resources and cause us to incur significant costs, such as legal fees. Furthermore, we may not be adequately insured against losses and liabilities arising from such claims or proceedings. A settlement or successful claim against us can result in significant costs, damages, compensation and reputational damage to us and adversely affect our business, results of operations and financial condition.

We are not in material compliance with certain regulatory requirements with respect to two hospitals that utilize leased properties.

As of the Latest Practicable Date, we leased 16 properties with an aggregate GFA of 121,380 sq.m. Two of our hospitals, namely Qingtian Kangning Hospital and Cangnan Kangning Hospital, utilizing leased properties with an aggregate GFA of 15,828 sq.m., are not in material compliance with certain PRC laws and regulations. In particular, we have not conducted environmental protection verification prior to the opening of Qingtian Kangning Hospital, and the underlying land of the property used for the hospital is zoned for industrial use rather than hospital use, which also resulted in our failure to complete fire safety verification for the property. Such non-compliance matters with respect to Qingtian Kangning Hospital may subject us to fines with an aggregate amount of RMB800,000 and we may be requested to cease operations. In addition, we have not completed the fire safety verification for Cangnan Kangning Hospital and the landlord of the property we leased for the hospital does not hold valid property ownership certificate for such property. As a result, with respect to Cangnan Kangning Hospital, we may be subject to fines with an aggregate amount of RMB300,000 and we may be requested to cease operations. See "Business — Legal Compliance and Proceedings — Non-compliance Incidents."

We have obtained certain confirmations from the competent regulatory authorities administering relevant laws and have developed contingency plans to temporarily or permanently relocate our operations at Qingtian Kangning Hospital and Cangnan Kangning Hospital should the relevant authorities request that we relocate. However, there is no assurance that we will be able to carry out our contingency plans as anticipated, in which case

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we may be subject to business disruptions at these hospitals until we identify proper replacement property and complete the relocation. Any such negative development may have a material and adverse effect on our business, financial condition and results of operations.

A majority of our operations are located in Zhejiang Province, which renders us especially sensitive to local conditions and changes, such as with respect to laws and regulations, force majeure events, natural disasters or outbreaks of contagious diseases.

A majority of our healthcare facilities and beds in operation are located in Zhejiang Province, primarily in and around Wenzhou. As of December 31, 2014, all of our six healthcare facilities in operation were located in Zhejiang Province. As a result, we are highly sensitive to the regulatory, economic, public health, environmental and competitive conditions in this region. In particular, significant changes in laws and regulations governing the healthcare industry in Zhejiang may materially affect our business. In addition, we may be adversely impacted by any recurrence of past outbreaks or epidemics in the PRC, such as Severe Acute Respiratory Syndrome, or SARS in 2003, the H1N1 virus, or swine flu, in 2009, and the H7N9 virus in the first half of 2013, as people may choose to avoid crowds and hospitals in order to minimize the risk of contagion. Any future epidemic outbreaks could significantly disrupt our operations. Furthermore, natural disaster or other catastrophic events that may occur in Zhejiang Province, such as earthquakes, fire, drought, typhoons, flood, outage of critical utilities, disruption to transportation systems or terrorist attacks, may damage or limit our ability to operate our healthcare facilities and require significant repair, which could prevent us from effectively serving our patients. Any such developments in Zhejiang Province may have a material adverse effect on our business, financial condition and results of operations.

We currently derive a majority of our revenue from Wenzhou Kangning Hospital, and may be particularly sensitive to adverse developments with respect to such hospital.

Wenzhou Kangning Hospital is our flagship hospital and the first healthcare facility of our network to be established. As the largest healthcare facility in our network in terms of revenue, bed count and employees, we concentrate a significant portion of our network resources at Wenzhou Kangning Hospital, including much of our training, teaching and research programs as well as our core management team. Revenue from Wenzhou Kangning Hospital amounted to RMB152.1 million, RMB175.8 million and RMB215.9 million in 2012, 2013 and 2014, representing 89.1%, 77.7% and 72.9% of our total revenue in the same years, respectively, and is expected to continue to account for a significant portion, if not the majority, of our revenue going forward. As a result, any events with respect to Wenzhou Kangning Hospital that would negatively impact, among other things, its ability to generate revenue would have a material adverse effect on our business, financial condition and results of operation.

We may not be able to execute our growth strategy or manage our growth in a timely and cost-effective manner.

We have grown our healthcare facility network from three healthcare facilities as of January 1, 2012 to six as of December 31, 2014, in the process nearly doubling our bed capacity from 1,090 to 1,900 as of the same dates, respectively. We began operating our first

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healthcare facility beyond Zhejiang Province in April 2015, and have four additional healthcare facilities under development in various locations in the PRC. To achieve further business growth, we will need to continue to seek expansion opportunities in other geographic areas, including those where we have limited experience. Accomplishing our growth strategy depends partly on timely and cost-effective execution of our expansion efforts, which will require us to face and overcome new market, technological, regulatory and operational risks and challenges with which we have limited experience. Moreover, our expansion strategies may require significant time commitments from our management and other personnel, as well as substantial operational, financial and other resources. The success of our expansion efforts depends on many factors, including, among others, our ability to:

- accurately identify suitable geographic markets for the type of services we offer, including evaluating the target markets' ability to support such expansion with respect to their population densities and income levels;
- identify local demand and preferences;
- address local market competition;
- negotiate acceptable lease agreements and renew them on commercially acceptable terms;
- hire, train and retain a sufficient workforce of qualified doctors and other personnel, as well as maintain a reliable pipeline of future recruits, to meet our growth demands;
- successfully integrate new healthcare facilities into our existing control structure and operations, including with respect to implementation of our high-standardized operating protocols, in order to provide consistently high levels of service throughout our network;
- maintain stable relationships with our suppliers;
- provide consistent, high-quality service throughout our network in order to strengthen our reputation and attract more patients; and
- secure financing or maintain sufficient capital to invest in healthcare facilities.

Due to our relatively limited track record in operating healthcare facilities other than Wenzhou Kangning Hospital, we cannot assure you that we will be able to do so in future or that we will be able to effectively ramp up and maintain profitable operations at each such healthcare facility. We may also be unable to successfully leverage our experience operating such facilities for our future growth plans. We cannot assure you that we will be able to successfully commence and ramp up our new healthcare facilities in a timely and cost-effective manner, or at all, and if we fail to do so, our overall business growth strategy and prospects could be materially and adversely affected.

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We may be unable to identify or execute expansion opportunities, and businesses that we expand our operations to may have unknown or contingent liabilities, which may materially and adversely affect our business, financial condition, results of operations and prospects.

Historically, we have expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize management agreements to manage third party hospitals or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We may not be able to identify suitable business targets to expand our business operations to, or be able to negotiate commercially acceptable terms for such expansion. Our ability to procure opportunities for expansion also depends on our reputation, which we believe is a significant factor for prospective business partners who approach us for potential opportunities. Even if we are able to identify suitable targets, such expansion can be difficult, time consuming and costly and we may not be able to secure necessary financing for such expansion. With respect to any such expansion strategy, we may encounter unknown or contingent liabilities, including those incurred for non-compliance with relevant laws, rules and regulations, such as failure to obtain requisite licenses, permits and title certificates to land or failure to register leases, which may result in financial penalties as well as being required to relocate our facilities. We cannot assure you that our due diligence conducted in connection with expansion plans will uncover all material unknown or contingent liabilities or other negative developments with respect to the counterparty, such as bankruptcy, insolvency, liquidation or dissolution, or that the business opportunities will be viable. In the event that such liabilities or negative developments arise, we may not be able to fully cover such losses through indemnity provisions or other means of mitigation, which we may not be able to successfully enforce.

Furthermore, our future expansion and subsequent ramping up and integration efforts will require significant attention from our management and could result in a diversion of resources from our existing healthcare facilities, which in turn could have an adverse effect on our business operations. If we are not able to identify, capture or execute opportunities to expand our operations successfully, or if we suffer reputational or financial harm caused by unknown or contingent liabilities of the properties that we expand to, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our development and ramp-up schedule of new healthcare facilities could contribute to the fluctuations of our financial results and new healthcare facilities may not achieve timely profitability as anticipated, or at all.

We generally incur a material amount of capital expenditure to open new healthcare facilities, typically consisting of associated capital contribution or commitment as well as investments for decoration and renovation of the property, recruitment and requisite medical and other equipment. As a result, relevant costs and expenses, such as amortization of related leasehold improvements, depreciation of property, plant and equipment, staff expenses and rental expenses, begin to accrue in this early stage ramp-up period. Depending on the scale, geographic location and nature and legal structure of the new healthcare facility, the amount of related expenditure and accrued costs in this initial stage varies. As we continue to explore developing healthcare facilities in other geographic regions in China, especially first tier cities such as Shenzhen where we are currently developing a hospital through Shenzhen Yining, we expect the amount of required initial investment to be significantly affected by general market

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conditions in the respective local areas, including the level of rental charges and labor costs. In addition, based on our management agreement to operate Yanjiao Furen Hospital, we agree to meet a predetermined schedule of annual minimum performance targets. Consequently, in April 2015 when we started to manage the hospital, we started to accrue expenses in relation to the intangible assets we recognized on our balance sheet reflecting the committed minimum performance targets upon. We expect that our schedule of developing and ramping up new healthcare facilities will continue to affect our financial condition and results of operations, and may lead to period-to-period fluctuations in the future.

Our ramp-up schedule may also be affected for regulatory reasons as we are generally required to undergo certain regulatory review and approval processes from various authorities in PRC, including health authorities. We cannot assure you that we will be able to obtain all the required approvals, permits or licenses for establishing and operating healthcare facilities in a timely manner or at all. Furthermore, we may not be able to fully ramp up new healthcare facilities in line with their respective anticipated timetables due to, among other reasons: (i) any failure or material delay in obtaining the required approvals, permits or licenses, (ii) any substantial increase in costs to ramp up operations and utilization, (iii) achieving weaker market reception than expected and (iv) difficulty recruiting sufficient doctors and other medical staff to work at such facilities. The operating results generated at new healthcare facilities may not be comparable to the operating results generated at any of our existing healthcare facilities, particularly Wenzhou Kangning Hospital, and may even operate at a loss. We cannot assure you that our future healthcare facilities will achieve the level of profitability of our existing healthcare facilities, if at all. Any of the above conditions could materially and adversely affect our business, financial condition and results of operations.

We may not be able to obtain adequate or timely financing for existing and future investments for our expansion plans, and our projects under development may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results.

To finance our continued growth or future developments, including investments in new healthcare facilities and upgrades for our existing healthcare facilities that we may decide to undertake, we will require additional cash resources. The amount and timing of such additional financing needs will vary depending on the timing of our new healthcare facility openings, investments in acquired healthcare facilities, labor costs and the amount of cash flow from our operations. If our internally-generated resources are insufficient to satisfy our cash requirements, we may seek additional financing. To the extent that we raise additional financing by selling additional equity, our shareholders may experience dilution.

To the extent we engage in debt financing, the incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service any particular debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations, which could trigger a default of other debt obligations and materially and adversely affect our liquidity and financial condition. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, some of which are beyond our control, including general economic and capital market

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conditions, credit availability from banks or other lenders, receipt of necessary PRC government approvals, investors' confidence in us, the performance of the psychiatric healthcare industry in general, and our operating and financial performance in particular. We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. In the event that financing is not available or is not available on terms acceptable to us, our business, results of operations and growth prospects may be adversely affected.

Any early termination of our leases, failure to renew leases or substantial increases in rent prices may adversely affect our business and financial performance.

We lease the properties and underlying land for a number of our healthcare facilities, including a portion of Wenzhou Kangning Hospital and all of our self-operated hospitals, for which the lease agreements typically have a term of eight to 15 years. However, our landlords may exercise early termination of our leases, or may refuse to renew our leases on favorable terms following expiration. As there has been a general increase in rental prices for commercial properties in the PRC in recent years, and as all of our healthcare facilities are located on premises leased from independent third parties in populous locations, we cannot assure you that we will be able to enter into replacement leases or renew our leases on similar or favorable terms (including, without limitation, similar tenure and on similar rental charges) in the future, if at all. The availability of commercially attractive locations in sufficiently populous regions is important to our profitability and business expansion. If we are unable to maintain operations in such locations, our business, financial position and results of operations may be materially and adversely affected.

We rely on major suppliers for a significant portion of our pharmaceutical procurement and construction services with respect to our healthcare facility network.

As a healthcare provider, we depend substantially on our ability to provide pharmaceuticals to patients as part of our comprehensive treatment services, as well as our ability to develop and scale up psychiatric healthcare facilities to expand our network and operational capacity. In 2013, we entered into a supply agreement with Sinopharm with the aim to consolidate our procurement needs and achieve economies of scale. Subsequently, our procurement from Sinopharm amounted to RMB13.9 million in 2013 and RMB43.5 million in 2014, accounting for 20.7% and 34.2% of our total purchases in such years, respectively. In addition, our efforts to expand and scale up our network of healthcare facilities require substantial construction and renovation services, which we primarily procured from Kunpeng Construction Group Co., Ltd. in 2014. Such purchases amounted to RMB40.8 million in 2014, representing 32.0% of our total purchases in such year.

Going forward, we may continue to rely significantly on certain major suppliers to meet our procurement needs with respect to both products and services. If our major suppliers become unwilling or unable provide us with sufficient supplies to meet our operating needs or business expansion plans, we would have to find replacement suppliers who can provide us with such amounts and services, which we may not be able to do on commercially acceptable terms or at all. Such events would have a material adverse effect on our business, financial condition and results of operations.

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We are not in full compliance with social insurance and housing provident funds contributions.

Under PRC laws and regulations, we are required to make social insurance and housing provident funds contributions for the benefit of our employees. During the Track Record Period, we have not made social insurance and housing provident funds contributions in full for all of our employees. The outstanding amount of social insurance and housing provident funds accrued during the Track Record Period was approximately RMB5.1 million and RMB0.7 million, respectively. Under the relevant PRC laws and regulations, we may be ordered by the relevant authorities to pay the outstanding social insurance or housing provident funds contributions within a prescribed period, along with possible surcharges or penalties for overdue payments. We cannot assure you that such authorities will not enforce such payments, surcharges and penalties against us. See “Business — Legal Compliance and Proceedings — Non-compliance Incidents.”

We depend on the services of certain key members of our senior management.

We are dependent on certain key members of our senior management team, some of whom have been with us since our inception, to manage our current operations and meet future business challenges. In particular, we rely significantly on the expertise, experience and leadership of Mr. Guan, our chairman. We do not maintain key personnel insurance. The loss of any key members of our senior management team could materially disrupt our operations and delay the implementation of our business strategies. In addition, we may not be able to hire suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely limit our business and growth. We have entered into employment agreements, confidentiality and non-compete agreements with all of the key members of our management team. We cannot assure you, however, as to the extent to which any of these agreements will be enforceable under the applicable laws.

We operate in a competitive industry, and if we do not compete successfully against new or existing competitors, we may be unable to increase or maintain our market share, which would adversely affect our profitability.

We compete with both public hospitals and private hospitals and clinics in the psychiatric healthcare industry, in particular those located in close geographical proximity to our existing healthcare facilities, as well as those near our future facilities under development. We will also compete with future market entrants as the growth of the psychiatric healthcare market in the PRC may attract more domestic or international players to enter or to expand their existing operations. Some of our existing and potential competitors may have competitive advantages, such as greater financial, marketing or other resources, and may be able to adopt and implement innovations on our business model. We compete for patients primarily on the basis of the range and the quality of services that we offer, our reputation, quality of facilities, location and price. We cannot assure you that we will be able to successfully compete against new or existing competitors, which could prevent us from increasing or maintaining our market share and result in a material adverse effect on our business, financial position and results of operations.

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We may be adversely affected by unfavorable market perceptions of, or negative developments and news regarding, the psychiatric healthcare industry as a whole.

Recognition of the importance and value of psychiatric healthcare has grown significantly in the PRC in recent years. According to the Frost & Sullivan Report, the number of psychiatric outpatient visits in the PRC increased from 24.9 million in 2010 to 38.8 million in 2014, representing a CAGR of 11.7%, while the number of psychiatric inpatients increased from 1.2 million to 2.1 million in the same years, respectively, representing a CAGR of 15.3%. However, psychiatric healthcare remains less well-known among the general populace compared with other fields of medicine. As a result, many prospective patients and their families may carry misconceptions and skepticism about the merits of our industry, and may be particularly susceptible to, among other things, media influences, social stigma, peer perceptions and reports alleging potential adverse health effects of psychiatric healthcare procedures, any of which may have adverse consequences for the market perception of psychiatric healthcare and in turn, lead to less demand for services such as ours. In addition, if any news report or allegation surfaces in the traditional media, social media or other sources of any accident, ineffectiveness of treatment, poor service standards or mishandling of sensitive personal information by any operator of psychiatric healthcare services, the psychiatric healthcare industry as a whole may suffer reputational harm. Furthermore, with respect to our psychiatric wards operated under management agreements with third party hospitals, allegations or actual medical incidents that occurred within other departments of such hospitals may be improperly attributed to our psychiatric wards and in turn, our psychiatric healthcare facility network as a whole. As we focus a substantial majority of our operations on psychiatric healthcare, any of the above developments may have a material adverse effect on our business, financial condition and results of operations.

If we have major disputes with our business partners for our healthcare facilities that we manage under management agreements, or if they decide to terminate or not renew such management agreements, our business and reputation may suffer.

For our managed facilities, our management agreements set forth certain events that may grant the relevant parties the right to early termination. In particular, the counterparty may unilaterally terminate the agreement if we fail to reach certain performance targets or incur significant losses in the course of our management of the operations of the relevant healthcare facility. In addition, if we have material disputes with our hospital partners or otherwise fail to maintain sound relationships with them, they may elect to exercise early termination or refuse to renew agreements with us after expiration. Moreover, our hospital partners may have business or economic interests that differ from ours, enter into disputes with us, or take action that is inconsistent with our interests, objectives or instructions, where applicable. We cannot assure you that we will be able to resolve any disputes or disagreements in our favor, if at all, or that our hospital partners will not exercise early termination rights of the relevant agreements or take other adverse actions against our interests. We may also be unable to find suitable replacements for our terminated healthcare facilities. Furthermore, any material dispute or termination of such partnerships may harm our industry reputation, which may result in difficulties identifying and securing new partners for our future growth plans. Any of the above events may materially and adversely affect our business, financial condition and results of operations.

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We may not carry adequate insurance for the professional and other liabilities which may arise in our business.

We are exposed to potential liabilities that are inherent to the provision of healthcare services, which we address by maintaining medical liability insurance for each of our psychiatric specialty hospitals. We believe this is in line with typical practices in the psychiatric healthcare industry. However, we may face liabilities that exceed our available insurance coverage or which arise from claims outside the scope of our insurance coverage. We may also experience gaps in coverage when seeking to renew our insurance policies or seeking to change insurance providers. We cannot assure you that we will be able to renew our insurance coverage at a reasonable cost, if at all, or that we will not incur uninsured losses and liabilities. Insurers may also dispute or refuse to honor our claims for a variety of unforeseen reasons beyond our control. Furthermore, we may experience business disruption arising from litigation, natural disaster or other reasons, which may not be fully covered by our insurance policies. Any significant uninsured loss could have material and adverse effect on our business, financial condition and results of operations.

We have limited or no control over the quality of the pharmaceuticals, medical equipment, medical consumables and other supplies we use in our operations, and cannot guarantee that none of the products we use are counterfeit.

We utilize a variety of pharmaceuticals, medical equipment, consumables and other supplies in our operations, all of which we procure from third party suppliers. As we do not engage in the direct manufacture of such supplies, we cannot assure you that such supplies are free of defects and meet the relevant quality standards or, in the case of imported supplies, verify the origin of such products. In addition, counterfeit pharmaceutical products manufactured without proper licenses or approvals or fraudulently mislabeled with respect to their content or manufacturer, or both, have appeared in China's pharmaceutical market. In some cases these products are very similar in appearance to the authentic products. Our quality control checks and processes may not be able to identify all counterfeit pharmaceutical products in our inventory. Any sale of such products by us, regardless of our knowledge as to their authenticity, may subject the relevant pharmaceutical manufacturer and us to negative publicity, reputational damage, administrative sanctions or civil claims. We cannot assure you that we will be able to successfully claim full indemnity from such manufacturer.

We also cannot assure you that we will not encounter incidents relating to defective products used by us going forward, or that such incidents will not materially and adversely affect us. If the products provided by our suppliers are defective, of poor quality or are otherwise unsafe or ineffective, we could be subject to liability claims, complaints or adverse publicity, any of which may adversely affect our results of operations and reputation. We may also need to find suitable replacement suppliers, if any, which may cause supply shortages that could lower our profit margins and result in delays in our operations.

Our suppliers are also subject to extensive laws and regulations. If our suppliers violate applicable laws and regulations, our reputation or procurement may be materially and adversely affected. In addition, we may be exposed to reputational damages or even liabilities for defective goods provided by our suppliers or negative publicity associated with our suppliers, and our results of operations could suffer as a result.

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Failure to comply with China's anti-corruption laws could subject us to investigations, sanctions or fines, which may harm our reputation and materially and adversely affect our business, financial condition, results of operations and prospects.

We have adopted policies and procedures designed to ensure that we and the doctors, staff and hospital administrators at our healthcare facilities comply with China's anti-corruption laws. However, the healthcare sector in China generally poses elevated risks of violations of anti-corruption laws, in particular with respect to improper payments received by doctors, staff and hospital administrators to facilitate providing preferential treatment with respect to services and drugs. The PRC government has recently increased its anti-bribery efforts to address and mitigate such payments, and such measures are particularly strict on Grade A Class III hospitals, such as our Wenzhou Kangning Hospital. We cannot assure you that our doctors, staff and hospital administrators will fully comply with anti-corruption regulations at all times, or that our management will be able to detect and identify all instances of bribery involving our healthcare facilities. In the event of any bribery incidents involving our employees, we may be subject to investigations, sanctions or fines, and our reputation could be significantly harmed by any negative publicity stemming from such incidents, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We could be exposed to risks related to our management of our patients' medical data.

As part of our routine operations, our healthcare facilities collect and maintain medical data and psychiatric treatment records and other personal details of our patients. PRC laws and regulations generally require medical institutions and their medical personnel to protect the privacy of their patients and prohibit unauthorized disclosure of personal information. Such medical institutions and their medical personnel will be liable for damage caused by divulging the patients' private or medical records without consent.

We have taken measures to maintain the confidentiality of our patients' medical records and personal data, including encrypting such information in our information technology system so that it cannot be viewed without proper authorization, and setting internal rules requiring our employees to maintain the confidentiality of our patients' medical records. However, these measures may not be always effective in protecting our patients' medical records. Our information technology systems could be breached through hacking activities. Personal information could be leaked due to any theft or misuse of personal information arising from misconduct or negligence. In addition, as Wenzhou Kangning Hospital also operates as a teaching and research hospital, we frequently host medical students and professionals from third party institutions working on-site with our staff and patients. We cannot ensure that such persons will always comply with our data privacy measures. Furthermore, any change in such laws and regulations could affect our ability to use medical data and subject us to liability for the use of such data for current permitted purposes. Failure to protect the confidentiality of patient medical records and personal data, or any restriction on or liability as a result of, our use of medical data, could have a material adverse effect on our business and operations.

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The proper functioning of our computer network infrastructure and centralized information systems is essential to our business operation, and any technological failure, security breach or other challenges may significantly disrupt our business.

Our computer network infrastructure and information systems help us to operate and monitor the operational performance of our in-network hospitals and clinics, such as billing, financial and budgeting data, patient records and inventory. We regularly maintain, upgrade and enhance the capabilities of our information systems to meet operational needs. Any technical failures associated with our information systems, including those caused by power loss, natural disasters, computer viruses or hackers, network failures or other unauthorized tampering, may cause interruptions in our ability to provide services to our patients, keep accurate records and maintain proper business operations. In particular, if the information system relating to our billing and public medical insurance reimbursements were to malfunction and lose related records, we might not timely receive full payments on our accounts receivable, which may result in a material adverse impact to our business and operations. In addition, we may be subject to liability as a result of any theft or misuse of personal information stored on our systems due to willful misconduct or gross negligence.

We depend on the strength of our reputation, including the prestige conferred by the Grade A Class III hospital rating achieved by Wenzhou Kangning Hospital, and any damage to our reputation could materially and adversely impact our business and results of operations.

Our reputation is critical to our success in China's rapidly-growing psychiatric healthcare industry. We believe that our success and continued growth depend on the public perception of our reputation and our ability to protect and promote it. In particular, the Grade A Class III rating that we have achieved for our Wenzhou Kangning Hospital carries significant competitive advantages, but also requires substantial effort and cost to maintain. We cannot assure you that we will always be able to maintain the highest rating for Wenzhou Kangning Hospital or that our other healthcare facilities will be able to elevate or maintain their respective ratings.

Many factors which are important to help maintain and enhance our image are beyond our control and may have a negative impact on our name and reputation. Such factors include, among others:

- our ability to effectively control the quality and consistency of the services performed by our doctors and other medical staff, and to monitor the service performance of such personnel as we continue to expand;
- our ability to offer a comfortable, convenient and consistently reliable patient experience as we expand our service offerings; and
- our ability to enhance our reputation among existing and potential patients through various marketing, promotional and community outreach activities.

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Any failure to continuously develop, maintain and enhance our reputation may materially and adversely affect the level of market recognition of, and trust in, our services, which could result in stagnant or negative growth and have a material adverse effect on our business, financial condition and results of operations.

We may be subject to intellectual property rights infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.

We may be exposed to intellectual property rights infringement or misappropriation claims by third parties during the course of our operations. We may also be subject to litigation involving claims of trademark infringement or violation of other intellectual property rights of third parties. Defending against any of these or other claims, with or without merit, would be both costly and time-consuming, and could significantly divert the efforts and resources of our management and other personnel. An adverse determination against us in any such litigation or proceedings could subject us to significant liability to third parties, require us to seek costly licenses for use, pay ongoing royalties or prohibit us from operating under our historical trade names. Protracted litigation or an adverse determination against us could also harm our ability to provide the full scope of our services to our patients, which may harm our relationships with our patients and in turn, our reputation. Any such negative events may materially and adversely affect our business, financial condition and results of operations.

Our historical financial and operating results may not be indicative of future performance, and we may not be able to achieve and sustain our historical levels of revenue and profitability.

Our historical results may not be indicative of future performance, especially in light of our relatively short track record of operating healthcare facilities other than our Wenzhou Kangning Hospital. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our H Shares to decline. Our revenue, cost, expenses and operating results may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, new trends in the psychiatric healthcare market and our ability to control costs and operating expenses. Our historical operations largely depended on our ability to successfully treat patients and leveraging our success and reputation to attract new patients. To maintain our growth and profitability, we will need to continue to bolster our reputation, attract top-quality talent, adopt innovative technologies and treatment processes, increase name awareness through marketing, promotional activities and favorable word-of-mouth and take advantage of any growth in demand or shortage of supply in the markets in which we operate or intend to operate. We will also need to successfully establish and ramp up operations in geographic locations where we have limited operating experience. We cannot assure you that we will achieve any of the above in the future. As a result, we believe that period-to-period comparisons of our operating results during the Track Record Period may not be indicative of our future performance and you should not rely on them to predict the future performance of our operating results or H Shares.

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RISKS RELATING TO DOING BUSINESS IN THE PRC

We are subject to political, economic and social developments as well as the laws, rules, regulations and licensing requirements in the PRC.

All of our businesses, assets, operations and revenue are located in or derived from our operations in the PRC, and as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. The PRC government has, in recent years, implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, however a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency denominated liabilities, setting monetary policy and providing preferential treatment to particular industries or enterprises.

Our performance has been and will continue to be affected by the PRC economy, which in turn is influenced by the global economy. The global economic slowdown and the turmoil in the global financial markets that began in the second half of 2008, continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively added downward pressure to economic growth in the PRC.

Any of the above factors may materially and adversely affect our business, financial condition and results of operations. We are unable to accurately predict the precise nature of all the risks and uncertainties that we face as a result of current economic, political, social and regulatory conditions and many of these risks are beyond our control.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are conducted in the PRC and governed principally by the PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation, finance, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China, or may be unclear or inconsistent.

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In particular, since PRC healthcare industry is experiencing ongoing reform, the laws and regulations relating to this industry are unspecific and may be incomprehensive. Because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of PRC laws and regulations involve uncertainties and can be inconsistent, and such difficulties may be exacerbated by contradictory provincial or local regulations. Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management's attention. We cannot predict future developments in the PRC legal system or the effects of such developments, and the materialization of all or any of these uncertainties could have a material adverse effect on our financial position and results of operations.

Our business, financial condition and results of operations could be adversely affected by PRC labor laws and regulations.

On June 29 2007, the National People's Congress promulgated the Labor Contract Law of the PRC (the "**Labor Contract Law**"), effective January 1, 2008. On September 18, 2008, the State Council passed the relevant implementation regulations. The Labor Contract Law is aimed to provide employees greater protections with respect to establishing and terminating employment relationships. For example, the Labor Contract Law and its implementation regulations require employers to enter into written contracts with their employees, and if an employer fails to enter into a written contract with an employee within one month after commencement of employment, the employer is required to pay the employee double its salary every month until a written contract is entered into. In addition, the Labor Contract Law calls for implementation of open-ended contracts rather than fixed-term contracts under certain circumstances. In particular, an employer cannot enter into a one-year or short-term contract with an employee upon the third consecutive renewal of the employment contract unless otherwise requested by the employee. As a result, the Labor Contract Law limits our discretion in the hiring and termination processes and could in turn affect our labor costs and our profitability.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

All of our assets are situated in the PRC. Most of our Directors and officers reside within the PRC, and substantially all of their respective assets are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon us or most of our Directors and officers, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Furthermore, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or

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Hong Kong of judgments of a court obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

Under the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland and Hong Kong SAR Pursuant to Agreed Jurisdiction by Parties Concerned (the "Arrangement") effective on August 1, 2008, in the case of an enforceable final judgment made by a PRC court or Hong Kong court concerning a civil and commercial case under a written agreement on jurisdiction, in which payment must be made, the party concerned may, under the Arrangement, apply to a PRC court or a Hong Kong court for recognition and enforcement. The term "written agreement on jurisdiction" as mentioned in the present Arrangement refers to agreements clearly stipulated in written form by parties concerned that a PRC court or Hong Kong court has sole jurisdiction as to the effectiveness of the Arrangement, so as to settle disputes relevant to a certain legal relationship that has either arisen or might arise. In addition, the Arrangement contains specific definitions of the terms "enforceable final judgment," "certain legal relationship" and "written form." Final judgments that are not compliant with the Arrangement may not be recognized or enforced by a PRC court. Moreover, we cannot assure you that all final judgments that are compliant with the Arrangement will be recognized and effectively enforced by a PRC court.

Governmental control of currency conversion may adversely affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of foreign currency out of the PRC. We receive all of our revenue in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. Further, the PRC government may also restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

Fluctuations in exchange rates could have an adverse effect upon our business.

The value of the Renminbi against the U.S. dollar, Hong Kong dollars and other currencies may fluctuate and is affected by, among other things, the political situation as well as economic policies and conditions. On July 21, 2005, the PRC government changed its decade old policy of pegging its currency to the U.S. currency. Under that policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximate 21% appreciation of the Renminbi against the U.S. dollar between 2005 and 2008. From July 2008 to June 2010, the Renminbi traded within a narrow range against the U.S. dollar. In June 2010,

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the PRC government indicated that it would make the foreign exchange rate of the RMB more flexible, which increases the possibility of sharp fluctuations of the RMB’s value in the near future and the unpredictability associated with the RMB’s exchange rate. On April 16, 2012, the PRC government widened the daily trading band to 1%. On March 17, 2014 the PRC government further widened the daily trading band to 2% in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand.

The PBOC has also introduced a series of measures to facilitate the reform of the Renminbi exchange rate regime, including the introduction of financial derivative products such as currency swaps, the relaxation on Renminbi trading by non-financial institutions and the introduction of market makers, comprising both domestic and foreign banks, for the trading of Renminbi. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in more significant appreciation of the Renminbi against foreign currencies.

Substantially all of our revenue and operating expenses are denominated in Renminbi. In addition, the proceeds from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our foreign currency denominated assets and our proceeds from the [REDACTED]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. We cannot assure you that we will be able to reduce our foreign currency risk exposure relating to our foreign currency-dominated assets.

Furthermore, we are also currently required to obtain the SAFE’s approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

Gains on the sales of H Shares and dividends on the H Shares may be subject to PRC income taxes.

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares of our Company (“**non-PRC resident individual holders**”) are subject to PRC individual income tax on dividends received from us. The tax on dividends must be withheld at source. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) dated June 28, 2011 issued by the SAT, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares varies from 5% to 20% (usually 10%), depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides. Non-PRC resident individual holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20%

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withholding tax on dividends received from us. See “Appendix III — Taxation and Foreign Exchange — 1. Taxation in the PRC.” In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a rate of 20% on gains realized upon sale or other disposition of H Shares. However, pursuant to the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the MOF and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. To our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities had not sought to collect individual income tax on such gains. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to a Notice promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities’ approval. There are uncertainties as to the interpretation and implementation of the EIT Law and its implementation rules by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC enterprise holders’ investments in H Shares may be materially and adversely affected.

Failure to comply with PRC regulations relating to the registration of share options that belong to our employees who are PRC citizens may subject such employees or us to legal or administrative sanctions.

In January 2007, SAFE issued the Implementing Rules for the Administrative Measures of Foreign Exchange Matters for Individuals (個人外匯管理辦法實施細則), which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen’s participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. In addition, the Notice on Relevant Issues Concerning the Administration of Foreign Exchange in respect of Domestic Individuals’ Participating in the Share Incentive Schemes of Overseas-Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知), or Circular 7, was promulgated by SAFE on February 15, 2012.

RISK FACTORS

In accordance with Circular 7, PRC residents who are granted shares or share options by an overseas publicly listed company under a share incentive scheme are required, through the PRC subsidiary of the overseas publicly listed company, to entrust a PRC agent to register with SAFE or its local counterpart and complete certain procedures relating to the share incentive schemes. We and our PRC employees who participate in the stock option plan will be subject to these regulations upon the [REDACTED], and we will require our PRC employees to obtain approval from SAFE or its local branches when joining the share incentive scheme in order to comply with relevant rules. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to a maximum fine of RMB300,000 and other legal or administrative sanctions.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our H Shares.

Prior to the [REDACTED], there was no public market for our H Shares. The initial [REDACTED] for our H Shares to the public was the result of negotiations between us and the Sole Global Coordinator on behalf of the Underwriters, and the [REDACTED] may differ significantly from the market price for our H Shares following the [REDACTED]. We have applied for [REDACTED] of, and permission to deal in, our H Shares on the Stock Exchange. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop, or if it does develop, will be sustained following the [REDACTED] or that the market price of our H Shares will not decline following the [REDACTED].

The trading volume and market price of our H Shares may be volatile, which may result in substantial losses for investors subscribing for or purchasing our H Shares pursuant to the [REDACTED].

The price and trading volume of our H Shares may be highly volatile as a result of various factors. Some of these factors are beyond our control, including:

- actual or anticipated fluctuations in our results of operations (including variations arising from foreign exchange rate fluctuations);
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- changes in general economic conditions or other developments affecting us or our industry;

RISK FACTORS

- price movements on international stock markets, the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of additional Shares by us, the Controlling Shareholders or other Shareholders.

In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our H Shares.

Future issues, offers or sales of our H Shares may adversely affect the prevailing market price of our H Shares.

Future issues of the H Shares by our Company or the disposal of the H Shares by any of our Shareholders or the perception that such issues or sale may occur, may negatively affect the prevailing market price of the H Shares. Moreover, future sales or perceived sales of a substantial amount of our H Shares or other securities relating to our H Shares in the public market may cause a decrease in the market price of our H Shares, or adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. Our Shareholders may experience dilution in their holdings in the event we issue additional securities in future offerings. The H Shares held by the Controlling Shareholders are subject to certain lock-up undertakings for a period of up to six months after the [REDACTED] Date. See “Underwriting — Underwriting Arrangements and Expenses.” We cannot assure you that they will not dispose of their Shares they may own now or in the future.

You will incur immediate and significant dilution and may experience further dilution if we issue additional H Shares in the future.

The [REDACTED] for our H Shares is higher than the net tangible assets book value per Share initially issued to our Shareholders prior to the [REDACTED]. Consequently, purchasers of our H Shares in the [REDACTED] will experience an immediate dilution in the pro forma combined net tangible assets book value of RMB13.65 (HK\$17.30) per H Share based on the maximum [REDACTED] of HK\$[REDACTED], and our Shareholders prior to the [REDACTED] will experience an increase in the pro forma combined net tangible assets book value per H Share of their H Shares.

The market price of our H Shares when trading begins could be lower than the [REDACTED].

The [REDACTED] will be determined on the [REDACTED]. However, the [REDACTED] will not commence trading on the Stock Exchange until they are delivered, which is expected to be on the fifth Business Day after the [REDACTED]. As a result, investors may not be able to sell or otherwise deal in the [REDACTED] during that period. Accordingly, holders of the [REDACTED] are subject to the risk that the price of the [REDACTED] when trading begins

RISK FACTORS

could be lower than the [REDACTED] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

We cannot assure you that the H Shares will remain [REDACTED] on the Stock Exchange.

Although it is currently intended that the H Shares will remain [REDACTED] on the Stock Exchange, there is no guarantee of the continued [REDACTED] of the H Shares. Among other factors, the Company may not continue to satisfy the [REDACTED] requirements of the Stock Exchange. Holders of H Shares would not be able to sell their H Shares through trading on the Stock Exchange if the H Shares were no longer [REDACTED] on the Stock Exchange.

Our Controlling Shareholders have substantial control over the Company and their interests may not be aligned with the interests of the other Shareholders.

Prior to and immediately following the completion of the [REDACTED], our Controlling Shareholders will remain having substantial control over our Company. Subject to the Articles of Association, the Companies Ordinance and the PRC Company Law, the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interest of the Controlling Shareholders may differ from the interests of other Shareholders and they are free to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

Certain facts and other statistics with respect to the PRC, the PRC economy and the PRC healthcare industry in this [REDACTED] may not be fully reliable.

Certain facts and other statistics in this [REDACTED] relating to the PRC, the PRC economy and the PRC healthcare industry have been derived from various official government publications and other publicly available data. However, we cannot guarantee the quality or reliability of these sources. They have not been prepared or independently verified by us or any of our affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies. As a result, prospective investors should consider carefully how much weight or importance they should attach to or place on such facts or statistics.

Investors should read the entire [REDACTED] carefully and should not consider any particular statements in published media reports without carefully considering the risks and other information contained in this [REDACTED].

There may be coverage in the media regarding the [REDACTED] and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media

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is inconsistent or conflicts with the information contained in this [REDACTED], we disclaim it. Accordingly, prospective investors should read the entire [REDACTED] carefully and should not rely on any of the information in press articles or other media coverage. Prospective investors should only rely on the information contained in this [REDACTED] and the [REDACTED] to make investment decisions about us.

We may not declare dividends on our H Shares in the future.

The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial position, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, the Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since our core business and operations, principal clients and assets are primarily located in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong, for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, all of our executive Directors and members of senior management reside in the PRC.

Accordingly, we have applied to the Stock Exchange for, [and the Stock Exchange has granted,] a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. We have made arrangements to maintain effective communication between the Stock Exchange and us as follows:

- (i) Both of the authorized representatives of the Company (appointed in accordance with Rule 3.05), Ms. Wang Hongyue and Ms. Ng Wing Shan (the “**Authorized Representatives**”), will act as the Company’s principal channel of communication with the Stock Exchange. Ms. Wang Hongyue resides in Zhejiang, PRC and Ms. Ng Wing Shan resides in Hong Kong, they are and will be readily contactable by phone, facsimile and/or email to deal promptly with enquiries from the Stock Exchange. In addition, Ms. Wang Hongyue possesses valid travel documents and can apply for visas to visit Hong Kong within a reasonably short period of time. Accordingly, they will be able to meet with the relevant members of the Stock Exchange on short notice;
- (ii) Our Company will ensure that the Authorized Representatives will have all necessary means for contacting all the Directors (including the independent non-executive Directors) and members of the senior management of the Company promptly at all times as and when the Stock Exchange wishes to contact them on any matter;
- (iii) Each of the Directors has provided his contact numbers (including mobile and office numbers), e-mail address and fax number to the Authorized Representatives and the Stock Exchange and in the event that any Director expects to travel or otherwise be out of office, he/she will provide the phone number of the place of his/her accommodation to the Authorized Representatives;
- (iv) Our Company has confirmed that each Director who is not ordinarily resident in Hong Kong possesses valid travel documents and/or can apply for visas to visit Hong Kong within a reasonably short period of time. Accordingly, each Director will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time;
- (v) We have appointed REORIENT Financial Markets Limited as our compliance adviser (the “**Compliance Adviser**”) in compliance with Rules 3A.19 and 19A.05 of the Listing Rules, who will act as the Company’s additional channel of

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

communication with the Stock Exchange, during the period from the [REDACTED] Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the [REDACTED] Date. The Compliance Adviser will be available to answer enquiries from the Stock Exchange and will act as the Company’s principal channel of communication with the Stock Exchange when the Authorized Representatives are not available;

- (vi) Our Company will appoint a legal adviser as to the laws of Hong Kong after the [REDACTED] to provide advice to us on our continuing compliance with the Hong Kong Listing Rules and other applicable laws and regulations in Hong Kong, or any modification, supplement and other matters; and
- (vii) Our Company has appointed two independent non-executive Directors, Mr. Wong Raymond Fook Lam and Mr. Chong Yat Keung, who ordinarily reside in Hong Kong. These two independent non-executive Directors are able to contact all other Directors, who are not ordinarily resident in Hong Kong, by telephone, facsimile or email at any time.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Rule 8.17

According to Rule 8.17 of the Listing Rules, the issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules.

Rule 3.28

According to Rule 3.28 of the Listing Rules, the secretary of the Company must be a person who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) A member of The Hong Kong Institute of Chartered Secretaries;
- (b) A solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) A certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) Length of employment with the issuer and other issuers and the roles he played;
- (b) Familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”);

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (c) Relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) Professional qualifications in other jurisdictions.

Our Company has appointed Mr. Wang Jian as one of the joint company secretaries. Mr. Wang Jian joined our Company in July 2014 and has been the secretary to the Board since then. For details, see the section headed "Directors, Supervisors and Senior Management." Since Mr. Wang Jian does not possess the acceptable professional or academic qualifications as stipulated in Rule 3.28 of the Listing Rules, our Company has appointed Ms. Ng Wing Shan, an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom, as one of our joint company secretaries. Over a period of three years from the [REDACTED] Date, we propose to implement the following measures to assist Mr. Wang Jian to become a company secretary with the requisite qualifications or relevant experience as required under the Listing Rules:

- (i) Mr. Wang Jian will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organized by our Company's legal adviser as to the laws of Hong Kong and seminars organized by the Stock Exchange for PRC issuers from time to time, in addition to the 15 hours minimum requirement under Rule 3.29 of the Listing Rules.
- (ii) We have appointed Ms. Ng Wing Shan, who meets the requirements under Rule 3.28 of the Listing Rules, as a joint company secretary to guide and assist Mr. Wang Jian to enable Mr. Wang Jian to acquire the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules and other relevant laws and regulations. Given Ms. Ng Wing Shan's relevant experience as a company secretary, she will be able to provide necessary guidance, direction and support to Mr. Wang Jian from time to time by way of training and to explain to both Mr. Wang Jian and the Company the relevant provisions and requirements under the Listing Rules and other applicable Hong Kong laws and regulations. Ms. Ng Wing Shan is expected to work closely with Mr. Wang Jian and will maintain regular contact with Mr. Wang Jian and the directors and senior management of the Company.
- (iii) Our Company has appointed a compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Listing Rules, which will act as the Company's additional channel of communication with the Stock Exchange, and provide professional guidance and advice to the Company and its joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations.
- (iv) Upon the expiry of the three-year period of Ms. Ng Wing Shan's appointment as a joint company secretary of the Company, the qualifications or experience of Mr. Wang Jian will be evaluated to determine if he has acquired the qualifications or experience required under Rule 3.28 of the Listing Rules or if he would require on-going guidance in which case Ms. Ng Wing Shan's tenure may be extended or another qualified person may be appointed as joint company secretary.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

We have applied to the Stock Exchange for, [and the Stock Exchange has granted to us], a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver will be revoked immediately if Ms. Ng Wing Shan ceases to provide assistance and guidance to Mr. Wang Jian. In the event that Mr. Wang Jian has obtained relevant experience under Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement will no longer be required by the Company.

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
Mr. GUAN Weili (管偉立)	Room 1002 Building 1 Dongming Lu Zhongrui Manhattan Wuma Road Lucheng District Wenzhou, Zhejiang Province PRC	Chinese
Ms. WANG Lianyue (王蓮月)	Room 1002 Building 1 Dongming Lu Zhongrui Manhattan Wuma Road Lucheng District Wenzhou, Zhejiang Province PRC	Chinese
Ms. WANG Hongyue (王紅月)	Room 103 Building 12 Nanpu Chunhui Nanpu Street Lucheng District Wenzhou, Zhejiang Province PRC	Chinese
Non-executive Directors		
Mr. YANG Yang (楊揚)	Room 2107, 5 Chun Fai Road Hong Kong	Hong Kong
Ms. HE Xin (何欣)	No. 2, Xiangjiang Garden No. 1 of Xiangjiang North Road Chaoyang District, Beijing PRC	Chinese
Independent Non-executive Directors		
Mr. CHONG Yat Keung (莊一強)	Room 1204, Block B Kornhill Quarry Bay Hong Kong	Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
Mr. HUANG Zhi (黃智)	Room 604, Building No. 9 No. 133 of Linping Road Hongkou District, Shanghai PRC	Chinese
Mr. WONG Raymond Fook Lam (黃福霖)	F2, 11th Floor, Beverly Hill 6 Broadwood Road, Happy Valley Hong Kong	Hong Kong

SUPERVISORS

Name	Address	Nationality
Mr. SUN Fangjun (孫方俊)	No. 16, Tianlei Valley, Lianchi Street Lucheng District Wenzhou, Zhejiang Province PRC	Chinese
Ms. HUANG Jingou (黃靖歐)	Room 1302, Door 1, Building 8 Fifth Community of Hepingli Dongcheng District, Beijing PRC	Chinese
Mr. XIE Tiefan (謝鐵凡)	Room 402, Building 3 Yushili Community, Wuma Street Wenzhou, Zhejiang Province PRC	Chinese

See “Directors, Supervisors and Senior Management” for further details of our Directors and Supervisors.

OTHER PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Citigroup Global Markets Asia Limited
50/F Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

CITIC CLSA Capital Markets Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Joint Global Coordinators

[REDACTED]

**Joint Bookrunners and Joint Lead
Managers**

[REDACTED]

Legal Advisers to our Company

As to Hong Kong and US Laws
Kirkland & Ellis
26th Floor, Gloucester Tower
The Landmark
15 Queen’s Road Central
Hong Kong

As to PRC Law
Tian Yuan Law Firm
10/F, CPIC PLAZA
28 Fengsheng Lane
Xicheng District
Beijing
PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisers to the Underwriters [REDACTED]

Auditors and Reporting Accountants PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Industry Consultant Frost & Sullivan
Room 2802–2803, 28th Floor, Tower A
Dawning Center
500 Hongbaoshi Road
Changning District
Shanghai, PRC

Property Valuer Jones Lang LaSalle Corporate Appraisal and
Advisory Limited
6/F Three Pacific Place
1 Queen's Road East, Admiralty
Hong Kong

Compliance Adviser REORIENT Financial Markets Limited
1102–03, 11/F, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

[REDACTED]

CORPORATE INFORMATION

Registered Office	Shengjin Road Huanglong Residential District Wenzhou, Zhejiang PRC
Head Offices in the PRC	Shengjin Road Huanglong Residential District Wenzhou, Zhejiang PRC
Principal Place of Business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Company's Website	<u>www.kn120.com</u> (information contained on this website do not form part of this [REDACTED])
Joint Company Secretaries	Ms. Ng Wing Shan (吳詠珊) 18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong (an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom) Mr. Wang Jian (王健) Shengjin Road Huanglong Residential District Wenzhou, Zhejiang PRC
Authorized Representatives	Ms. Wang Hongyue (王紅月) Ms. Ng Wing Shan (吳詠珊)
Audit Committee	Mr. Huang Zhi (黃智) (<i>Chairman</i>) Mr. Wong Raymond Fook Lam (黃福霖) Ms. He Xin (何欣)
Nomination Committee	Mr. Guan Weili (管偉立) (<i>Chairman</i>) Mr. Chong Yat Keung (莊一強) Mr. Wong Raymond Fook Lam (黃福霖)
Remuneration Committee	Mr. Chong Yat Keung (莊一強) (<i>Chairman</i>) Mr. Huang Zhi (黃智) Mr. Yang Yang (楊揚)

CORPORATE INFORMATION

**Strategic and Risk Management
Committee**

Mr. Wong Raymond Fook Lam
(黃福霖) (*Chairman*)
Mr. Huang Zhi (黃智)
Mr. Yang Yang (楊揚)

H Share Registrar

[REDACTED]

Principal Banker

Guoding Branch of Wenzhou Bank
1/F, Guoding Building
No. 42 Xiaonan Road
Lucheng District
Wenzhou
Zhejiang, China

INDUSTRY OVERVIEW

This section contains information and statistics relating to the PRC economy and the industry in which we operate. We have derived such information and data partly from publicly available government and other third-party sources, which have not been independently verified by us, the Joint Sponsors, any of our or their respective directors, officers, representatives or affiliates, or any other party involved in the [REDACTED] and no representation is given as to its accuracy. Our Directors have taken reasonable care in the reproduction of such information, which may not be consistent with other information compiled within or outside the PRC. We commissioned Frost & Sullivan, an independent market research firm, as an industry consultant to prepare the Frost & Sullivan Report. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading.

SOURCES OF INFORMATION

We engaged Frost & Sullivan, a market research consultant, to prepare the Frost & Sullivan Report for use in this [REDACTED]. Frost & Sullivan, founded in 1961, provides market research on a variety of industries, including healthcare. The information from Frost & Sullivan disclosed in the [REDACTED] is extracted from the Frost & Sullivan Report and is disclosed with the consent of Frost & Sullivan. In preparing the Frost & Sullivan Report, Frost & Sullivan collected and reviewed publicly available data such as government-derived information, annual reports, trade and medical journals, industry reports and other available information gathered by not-for-profit organizations. The data collected by Frost & Sullivan was last updated in June 2015 based upon data available up to then. Frost & Sullivan adopts a comprehensive data collection model, which includes primary research with the industry stakeholders, secondary research on the government statistics, industry reports and annual reports of listed companies, and data validation processes with industry key opinion leaders. Frost & Sullivan assumes that the interviewees are not intentionally providing wrong or misleading information and the government statistics do not contain errors. Frost & Sullivan also assumes that no unexpected events such as wars or disasters occurred during the relevant forecasting period.

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

- the social, economic and political environments of the PRC will remain stable during the forecast period, which will ensure a sustainable and steady development of the PRC psychiatric healthcare industry;
- the PRC psychiatric healthcare market will grow as expected due to the rising healthcare demand and supply;
- the PRC government will continue to support healthcare reform; and
- the respective psychiatric healthcare markets where our healthcare facilities are located will grow during the forecast period.

Frost & Sullivan, the Joint Sponsors and we believe that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analyzed the

INDUSTRY OVERVIEW

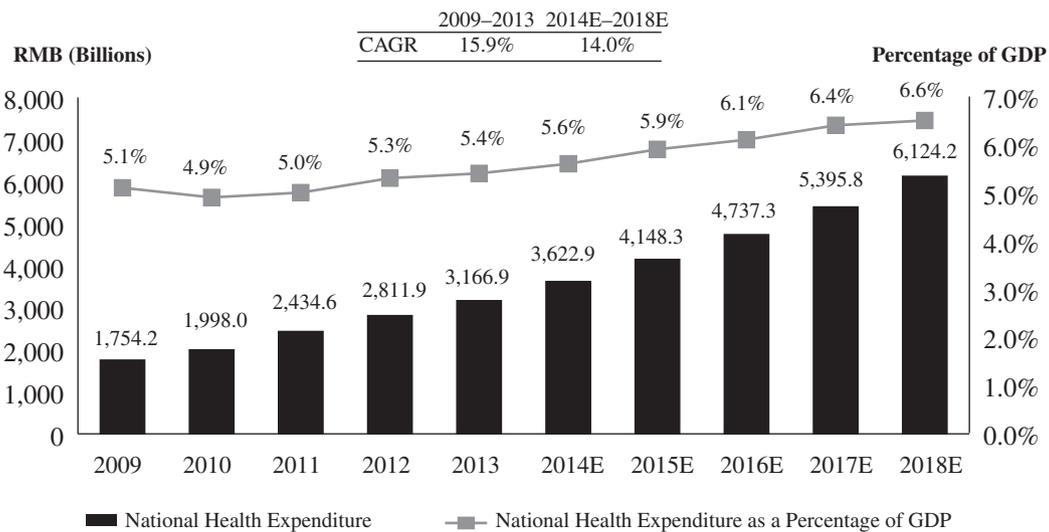
information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. We paid Frost & Sullivan a fee of RMB880,000 for preparation and update of the Frost & Sullivan Report, which is not contingent upon the [REDACTED].

Our Directors confirm that there were no adverse changes in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

PRC HEALTHCARE SERVICES MARKET

Driven by increasing per capita disposable income and public health awareness, the PRC healthcare market has experienced rapid growth in terms of both total and per capita spending, and is projected to maintain double-digit annual growth for years to come. According to the Frost & Sullivan Report, healthcare spending in China grew from RMB1,754.2 billion in 2009 to RMB3,166.9 billion in 2013, representing a CAGR of 15.9%, which was higher than those of other emerging economies as well as industrialized nations during the same period. Healthcare spending in China is projected to further grow from RMB3,622.9 billion in 2014 to RMB6,124.2 billion in 2018, representing a CAGR of 14.0%. The chart below sets forth, for the years indicated, the total actual and estimated healthcare expenditure in China:

Total Healthcare Expenditure in China, 2009–2018E

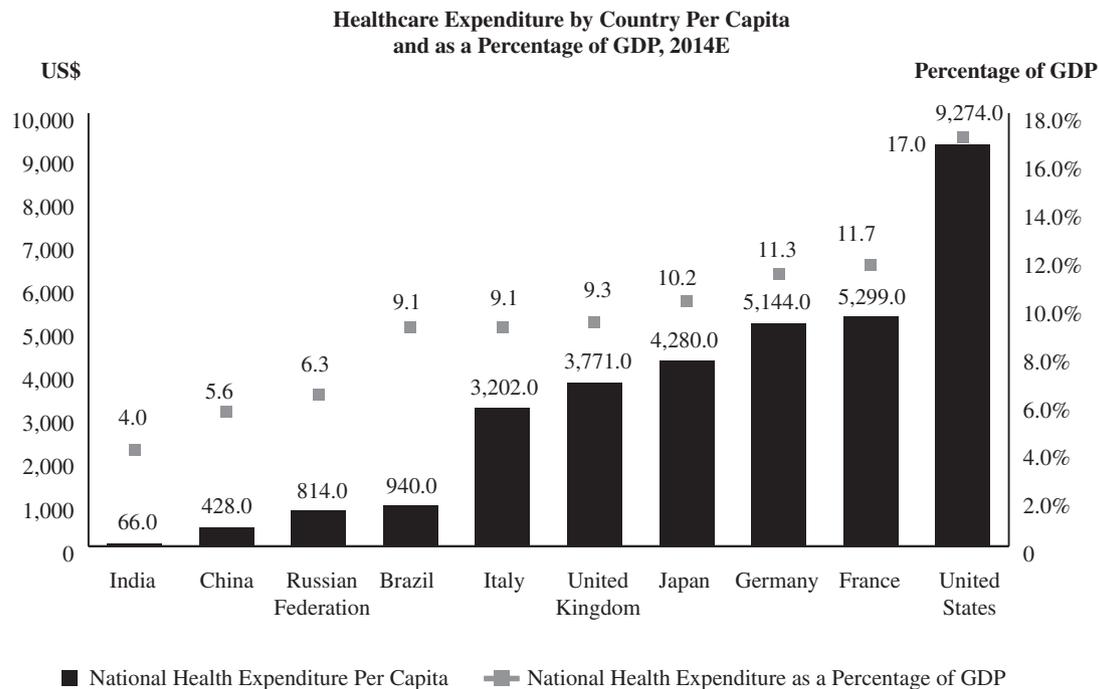


Source: Frost & Sullivan Report

Meanwhile, per capital healthcare spending in China has similarly grown at a CAGR of 15.4% from RMB1,314.3 in 2009 to RMB2,327.4 in 2013, with forecast spending growing at a CAGR of 13.5% from RMB2,649.3 in 2014 to RMB4,390.5 in 2018, according to the Frost & Sullivan Report. Despite the considerable growth in the PRC healthcare market, based on 2014 estimates, healthcare spending as a percentage of GDP and per capita remains low in the PRC compared to most other major economies. The chart below sets forth, for the countries

INDUSTRY OVERVIEW

indicated, the estimated total healthcare expenditure in 2014 per capita and as a percentage of GDP:



Source: Frost & Sullivan Report

Although the PRC has become the world’s second-largest economy, its healthcare spending as a percentage of GDP surpassed only India in 2014 among ten major economies surveyed. From 2009 to 2013, PRC healthcare spending as a percentage of GDP grew from 5.1% to 5.4%, and is expected to reach 6.6% in 2018, which would still be lower than those of most other major economies, according to the Frost & Sullivan Report. Similarly, based on 2014 estimates, per capita spending on healthcare in China is significantly lower than those of most other major economies, and was only around 1/20th of that of the United States. These factors indicate that China’s healthcare market has ample room for further growth in the foreseeable future.

According to the Frost & Sullivan Report, key drivers of the healthcare services market in China include:

- Aging population:* China’s population of people aged 65 and over has grown from 113.1 million by the end of 2009 to 132.0 million by the end of 2013, and is projected to further grow to 156.5 million by the end of 2018. As of the end of 2014, China had the largest over-65 population in the world and was the only country with more than 100 million people over 65. An aging population is expected to lead to an increase in the demand for healthcare services due to more frequent hospital visits, higher demand for diagnosis and treatment, and longer required treatment periods, especially for chronic diseases.

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- *Acceleration of chronic disease prevalence:* China’s increasing economic prosperity and urbanization has changed the epidemiological profiles of Chinese residents, resulting in a major shift from infectious diseases and lifestyle-related complications to chronic diseases in the past decades. As of 2013, almost one in three Chinese people over age 15 suffers from at least one chronic illness, such as hypertension, diabetes and hyperlipidemia. Certain psychiatric disorders for which patients suffer from recurrent episodes over a long-term period are also deemed to be chronic illnesses. The increase in chronic disease prevalence is expected to continue to drive healthcare spending, particularly due to the ongoing treatment demands for chronic diseases.
- *Healthcare reform to increase affordability and accessibility:* the PRC government has dedicated significant effort and resources to increase affordability and accessibility of healthcare services, including investments to construct and upgrade healthcare infrastructure and expanding public insurance coverage and reimbursement rates. See “— PRC Medical Insurance System.”

PRC HOSPITAL MARKET

Overview

China’s healthcare providers consist of (i) hospitals, (ii) primary healthcare institutions, such as community health centers and clinics and (iii) other healthcare institutions, such as centers of disease control and preventive institutions for special diseases. Among these, hospitals play the most important role, serving nearly 40% of total outpatients and over 70% of total inpatients in 2013. Revenue for healthcare providers in China is estimated to reach RMB2,731.7 billion in 2014, of which RMB2,103.8 billion, or 77.0%, was attributable to hospitals. Overall hospital revenue in China grew at a CAGR of 19.9% from RMB859.5 billion in 2009 to 1,774.9 billion in 2013, and is estimated to further grow at a CAGR of 17.7% from RMB2,103.8 in 2014 to RMB4,037.5 in 2018.

By the end of 2013, there were 24,709 hospitals in China. Based on the scope of healthcare services provided, hospitals in China can be classified into general hospitals, specialty hospitals, TCM hospitals and others. Hospitals can also generally be classified as public and private hospitals based on type of ownership. The table below sets forth, by the end of 2013, a breakdown of hospitals in China by such classifications:

	Public		Private	
	Amount	% of total	Amount	% of total
General	8,919	66.6	6,968	61.6
Specialty	1,804	13.5	3,323	29.4
TCM	2,337	17.4	678	6.0
Others	336	2.5	344	3.0
Total	13,396	100.0	11,313	100.0

Source: Frost & Sullivan Report

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Within the PRC healthcare industry, privately-owned hospitals are the fastest growing segment, and represent the majority of specialty hospitals. The number of private hospitals has increased from 7,068 by the end of 2010 to 11,313 by the end of 2013, representing a CAGR of 17.0%. In the same period, the number of public hospitals decreased from 14,051 to 13,396, allowing private hospitals to play a larger role in the healthcare services sector. However, the scale of private hospitals in China remains relatively small compared to public hospitals. The table below sets forth a comparison of private and public hospitals in China in 2013:

	<u>Private Hospitals</u>	<u>Public Hospitals</u>
Number of hospitals	11,313	13,396
Number of physicians	421,618	1,846,176
Number of beds	713,216	3,865,385
Utilization of hospital beds	63.4%	93.5%
Inpatient volume (millions)	16.9	123.2
Outpatient and emergency patient volume (millions) .	280.1	2,398.9
Total revenue (RMB in billions)	131.9	1,643.0

Source: Frost & Sullivan Report

While private hospitals in China are, on average, smaller in scale than public hospitals, they constitute a high-growth market that has outpaced the growth in the overall healthcare services market. Private hospital revenue grew at a CAGR of 30.5% from RMB58.5 billion in 2010 to RMB169.6 billion in 2014, and is expected to further grow at a CAGR of 28.5% from RMB169.6 billion in 2014 to RMB593.7 billion in 2019. By comparison, the CAGR of revenue growth for hospitals in China as a whole was 19.9% from 2009 to 2013 and is estimated to be 17.7% from 2014 to 2018. The chart below sets forth, for the years indicated, the total actual and estimated revenue of private hospitals in China:

Total Revenue of Private Hospitals in China, 2010–2019E

RMB (Billions)

	2010–2014	2014–2019E
CAGR	30.5%	28.5%



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

In order to address the problems of overburdened public hospitals and the shortage of healthcare resources in less populous, underserved regions, the PRC government has enacted a number of policies to encourage the development of the private hospital sector. Policies set forth by the State Council, NDRC and other PRC government bodies have identified private hospital development as a national priority with respect to healthcare reform, and consequently have loosened various restrictions on hospital ownership to encourage private investment.

According to the Frost & Sullivan Report, key drivers of the private hospital sector in China include:

- *Increasing demand for healthcare services:* public hospitals are unable to fully satisfy the rapid growth in demand for healthcare services, requiring private hospitals to play an essential role to address the underserved market.
- *Disproportionate allocation of medical resources:* large public hospitals are generally highly concentrated in the centers of major cities, leaving many areas, including emerging urban and suburban areas as a result of ongoing urbanization trends, underserved in terms of healthcare resources.
- *PRC government incentive policies:* private hospital development was designated as a priority in the 2011 annual government work report and the 12th Five-Year Plan for healthcare development. As a result, the government has gradually reduced regulatory hurdles for establishing and investing in private hospitals and has increased efforts to improve the ability of private hospitals to compete with public hospitals, such as with respect to public insurance reimbursement.
- *Specialization:* compared to public hospitals, private hospitals have more flexibility to specialize, allowing smaller scale private healthcare institutions to avoid direct competition with public hospitals that often have more resources and longer operating track records.
- *Privatization of public hospitals:* the PRC government has encouraged privatization of inefficiently-managed public hospitals, which presents rapid entry opportunities into the PRC healthcare market.

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Investment in Private Hospitals

Under the current PRC legal regime, there are four major permitted investment pathways into the private hospital market, two of which enable clear private ownership and two that involve cooperation with public hospitals. The table below sets forth certain details on the above pathways, which vary in terms of amount of upfront capital investment required, ease of entry, and degree of ownership.

<u>Means of private investment</u>	<u>Ease of entry and scaling up</u>	<u>Upfront capital investment</u>	<u>Degree of ownership</u>
Greenfield development	Long-approval and setup process	High	Clear private ownership
Acquisition of existing private hospital	Rapid entry	High	Clear private ownership
Partial or full privatization of public hospital	Rapid entry but with potential delays due to policy uncertainties	Moderate	Unclear upfront ownership
Trusteeship or public-private partnership	Rapid entry	Low	No ownership

Source: Frost & Sullivan Report

In addition, investments in private hospitals are further segmented with respect to (i) source of capital, (ii) for-profit status and (iii) whether the hospital is a general or specialty hospital. While the PRC government permits the entry of foreign capital to establish hospitals in China, various uncertainties remain which may hinder such investments. Such uncertainties include, among others, insurance reimbursement, speed of administrative approval processes and limitations on multi-site practices of physicians as well as future PRC government laws and regulations regarding foreign investment in specific industries, including healthcare. For-profit hospitals are able to offer dividends to investors and have more pricing flexibility, but face higher capital requirements and longer approval processes. Non-profit hospitals, on the other hand, may benefit from tax exemptions and more favorable public image. General hospitals face higher barriers to entry due to greater upfront investment costs and more difficulty hiring sufficient management and staff across various departments to compete with leading public hospitals.

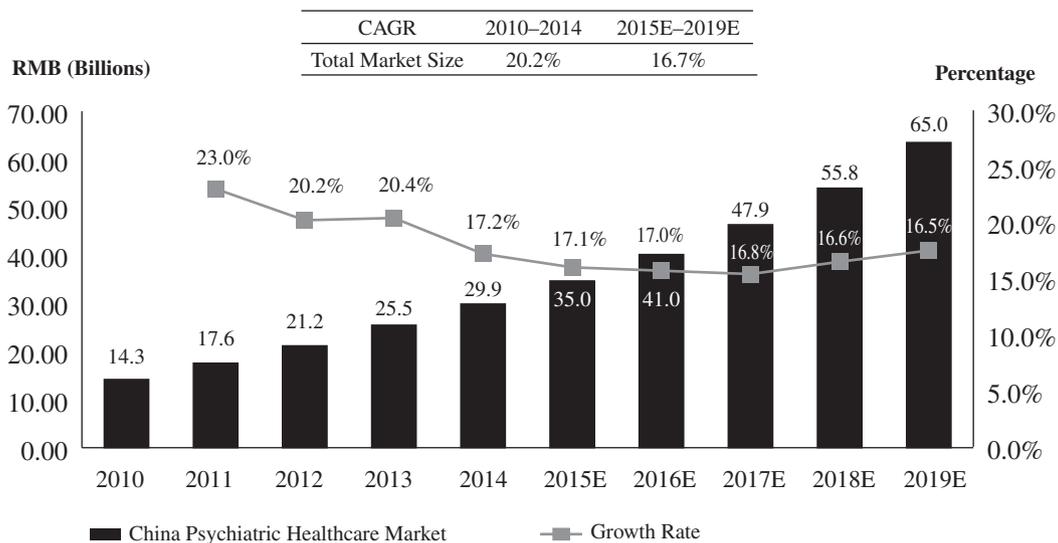
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PRC PSYCHIATRIC HEALTHCARE MARKET

Overview

Driven by the economic boom over the last few decades, China has rapidly modernized, resulting in tremendous growth in per capita disposable income and prosperity, but also greater social pressure and competition among individuals, leading to increased risk and prevalence of psychiatric disorders. In turn, there has been increasing awareness of the existence and severity of psychiatric disorders, as well as of the importance and availability of diagnosis and treatment options, resulting in psychiatric healthcare emerging as a rapidly growing segment of the overall PRC healthcare market, according to the Frost & Sullivan Report. Moreover, over the past several years, the expansion of government medical insurance coverage and enactment of favorable PRC government policies have contributed greatly to the development of this market. In particular, the Mental Health Act of 2013 is considered a key milestone towards the development of the psychiatric healthcare market in China. The law, which came into effect in May 2013, aims to protect the rights of those suffering from psychiatric disorders, promote the prevention and treatment of psychiatric disorders, address social stigmas associated with psychiatric treatment, enhance psychological consulting services in schools, communities and workplaces, and implements various other improvements to the psychiatric healthcare system as a whole. The charts below set forth, for the years indicated, certain actual and estimated information on the psychiatric healthcare market in China:

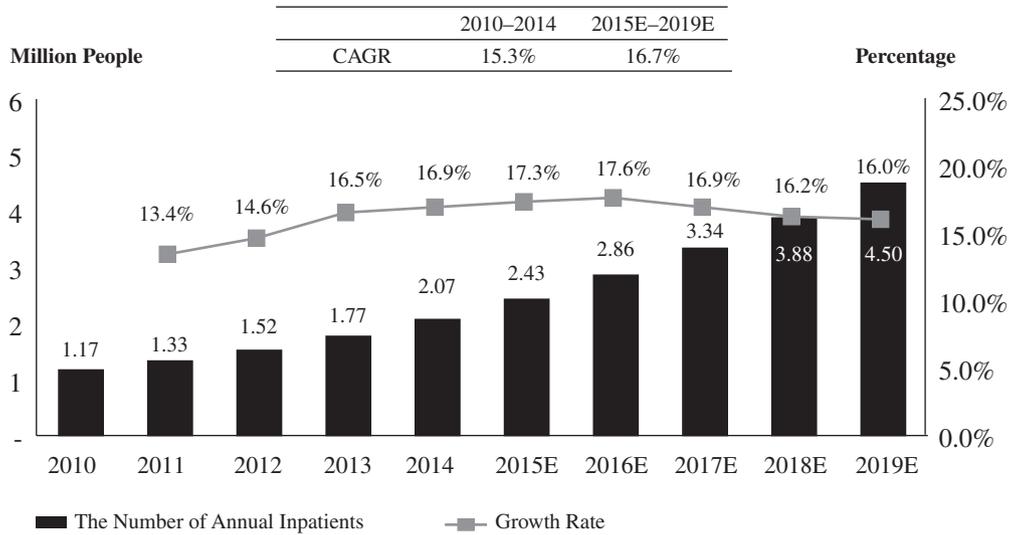
Market Size of China Psychiatric Healthcare Market, 2010–2019E



Source: Frost & Sullivan Report

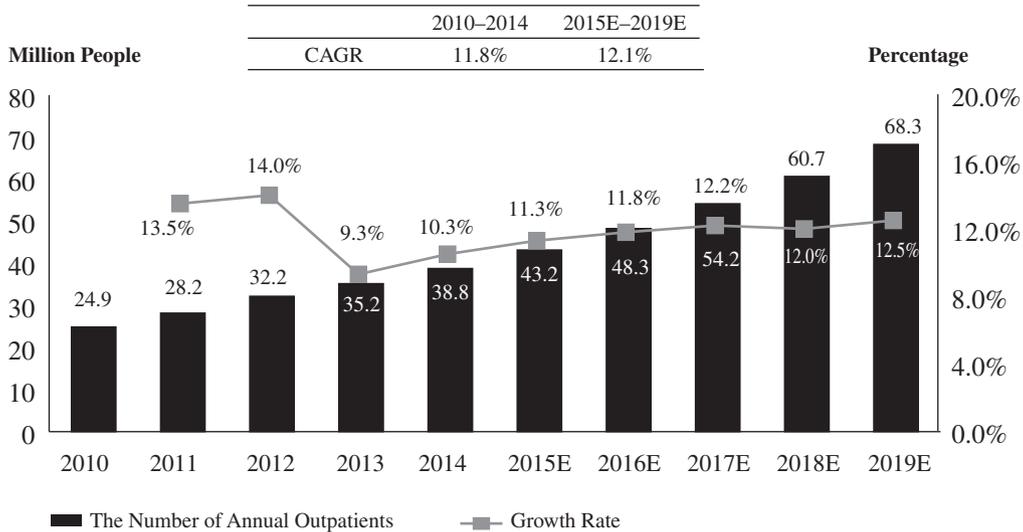
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Total Number of Annual Inpatients, China Psychiatric Healthcare Market, 2010–2019E



Source: Frost & Sullivan Report

Total Number of Annual Outpatients, China Psychiatric Healthcare Market, 2010–2019E

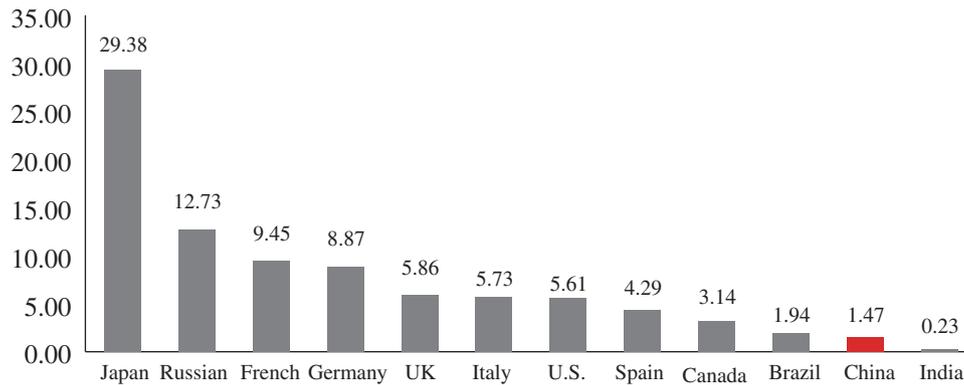


Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

However, despite the considerable growth in psychiatric patient visits, there remains significant unmet demand for psychiatric healthcare in China. According to the Frost & Sullivan Report, currently over 180 million people in China suffer from psychiatric disorders. Among the most common psychiatric disorders in China are those relating to mood, anxiety, substance abuse and psychosis. However, the average number of psychiatrists per 10,000 persons in China was 0.15 in 2011, which is lower than those of most other major economies, with only India having a lower ratio in the same year. Similarly, China also had a lower ratio of psychiatric beds in comparison with those of such other major countries. The chart below sets forth, for the countries indicated, the ratio of psychiatric beds per 10,000 persons in 2011:

Total Psychiatric Beds per 10,000 Population, 2011



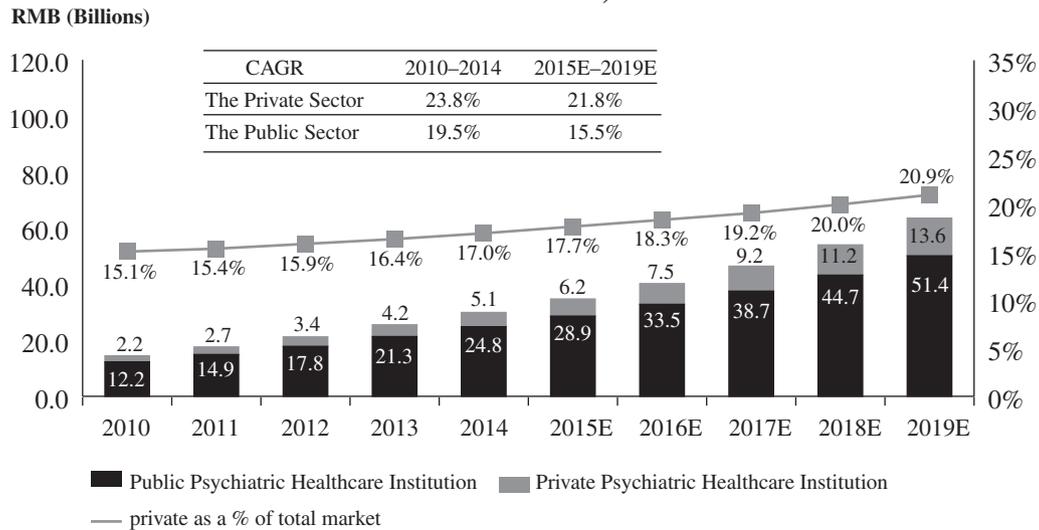
Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Providers of Psychiatric Healthcare

The chart below sets forth, for the years indicated, the total actual and estimated revenue for the PRC psychiatric healthcare market:

**Market Size of China Psychiatric Healthcare Market,
Revenue Breakdown, 2010–2019E**



Source: Frost & Sullivan Report

In China, demand for psychiatric healthcare has primarily been met by public hospitals, as measured by total revenue, treatment volume, total beds and psychiatrists in 2014. The table below sets forth a breakdown of certain information for public and private hospitals in the PRC psychiatric healthcare industry in 2014.

	Psychiatric beds ⁽¹⁾		Psychiatrists		Outpatient volume		Inpatient volume	
	Amount	% of total (%)	Amount	% of total (%)	Amount (millions)	% of total (%)	Amount (millions)	% of total (%)
Public	278,570	95.0	22,991	94.0	36.5	94.1	1.86	89.9
Private	14,662	5.0	1,467	6.0	2.3	5.9	0.21	10.1
Total	293,232	100.0	24,458	100.0	38.8	100.0	2.07	100.0

Note:

(1) Represents the estimated data for 2014.

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

The overall market for private psychiatric healthcare institutions in China grew from RMB2.2 billion in 2010 to RMB5.1 billion in 2014, representing a CAGR of 23.8%, and is projected to grow from an estimated RMB6.2 billion in 2015 to RMB13.6 billion in 2019, representing a CAGR of 21.8%, which surpasses the corresponding growth rates for public psychiatric healthcare institutions. In addition, due to higher average patient spending in private psychiatric healthcare institutions, private psychiatric healthcare providers accounted for a higher percentage of total revenue in the psychiatric healthcare market compared to the percentage of beds, doctors and patients attributable to the private sector. The table below sets forth a comparison of private and public psychiatric healthcare providers in China in 2014:

	<u>Private Hospital</u>	<u>Public Hospital</u>
Average outpatient spending (RMB)	400	250
Average inpatient spending (RMB)	14,000	6,200
Revenue per bed (RMB'000)	162	87
Bed utilization rate	89%	99%

Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, contributing factors for the difference in average spending, which also serve as significant drivers of the private psychiatric healthcare market, include:

- *High-quality facilities and services:* due to lower patient volume and more discretion to determine their own prices, private hospitals are often able to provide a hospital environment with relatively upscale facilities and more patient privacy.
- *Customized services:* public hospitals generally do not prioritize psychiatric healthcare and often cannot meet individualized demand, such as long-term care needed by chronic psychiatric patients, which allows private psychiatric healthcare providers to charge premium prices for specialized and patient-centric offerings.
- *Better rehabilitation and nursing services:* private psychiatric healthcare institutions generally have no time limitations for inpatient stays, whereas public hospitals tend to maintain high patient turnover rates in order to accommodate large numbers of incoming patients. As a result, private psychiatric healthcare institutions are more capable of undertaking rehabilitation and nursing services for patients who require long-term inpatient care to treat chronic psychiatric disorders, including patients who receive initial treatment at public hospitals but are unable to subsequently receive adequate follow-up care from such public hospitals.

Furthermore, premium services targeting higher-income patients have emerged as a rapidly-growing segment of the psychiatric healthcare market, and are generally available only from private psychiatric healthcare providers because public hospitals are not encouraged to provide such services as a matter of government policy. Going forward, the growth in the premium market is expected to further increase average spending for private psychiatric healthcare.

Other drivers of the psychiatric healthcare market in China include those that are also applicable to the private hospital market more broadly. See “— PRC Hospital Market — Overview.”

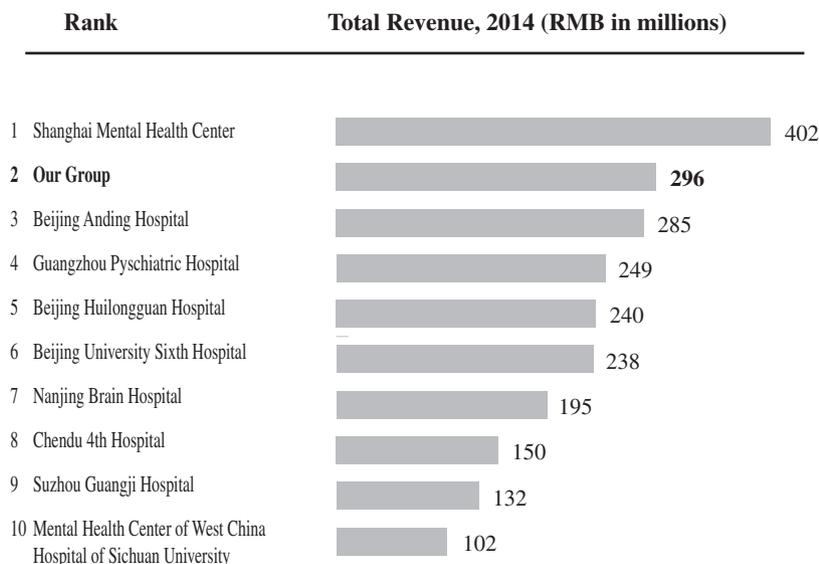
INDUSTRY OVERVIEW

Development of the Private Psychiatric Healthcare Market

The private sector has emerged as a high-growth sector in the psychiatric healthcare market in China. Over the past few years, the PRC government has enacted a number of policies to encourage private capital investment in the psychiatric healthcare market, ease regulatory processes and expand insurance reimbursement to private hospitals. See “Regulatory Overview — Rules on Foreign Investments.” Particular opportunities for private psychiatric healthcare providers include the rapidly-growing market for personalized, premium services, which a rising number of patients are willing to pay higher prices for. In addition, there has been a significant increase in participation from private equity investors, which have helped private healthcare institutions further leverage their strengths, improve their service quality and compete more effectively for market share. Driven by favorable policies, rapidly-growing demand and investment confidence, the number of private psychiatric specialty hospitals has increased from 90 in 2010 to 214 in 2014, and is projected to further increase to 558 in 2019, according to the Frost & Sullivan Report.

Competitive Landscape

As with the PRC healthcare market in general, public psychiatric healthcare institutions constitute most of the major players in the psychiatric healthcare segment. Of the top ten psychiatric healthcare providers as measured by revenue, only our Group is privately-owned.



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Barriers to Entry and Constraints on the PRC Private Psychiatric Healthcare Market

According to Frost & Sullivan Report, significant barriers to entry for the private psychiatric healthcare sector in China include:

- *High upfront capital investments:* new market entrants need to acquire or lease considerable amounts of land, property and medical equipment to establish and operate a healthcare institution, especially if located in a prime location which would require even higher capital costs.
- *High requirements for medical knowledge and experience:* in order to accurately diagnose and properly treat psychiatric disorders, a high degree of medical knowledge and experience is required, which demand extensive clinical experience and familiarity with a wide range of such disorders, effectively narrowing the available pool of qualified psychiatric treatment professionals.
- *Difficulty recruiting sufficient qualified psychiatric medical professionals:* recruitment is difficult for private psychiatric healthcare institutions due to (i) generally fewer resources compared to public hospitals and (ii) fewer doctors and medical students specializing in psychiatry compared to other medical specialties. According to the National Health and Planning Commission, in 2013, certified psychiatric doctors represent only 1.9% of total certified doctors in China. At the professional level, public hospitals employ the large majority of certified psychiatrists.

According to Frost & Sullivan Report, constraints on the private psychiatric healthcare sector in China include:

- *Competition from public hospitals:* China’s public hospitals have a dominant share of the overall healthcare market and enjoy strong brand recognition and awareness, and are able to offer greater service delivery capabilities.
- *Scarcity of psychiatrists:* the PRC in general suffers from a shortage of certified psychiatrists to meet the increasing demand, and public hospitals employ the substantial majority of certified psychiatrists.
- *Small scale:* the smaller scale of private hospitals renders direct competition with public hospitals difficult.
- *Restrictions on physicians’ multi-site practices:* certain public hospital doctors face restrictions against practicing in private hospitals, limiting the pool of qualified doctors for private hospitals.
- *Medical insurance restrictions:* insurance reimbursement is critical towards attracting patient flow to private hospitals, but private hospitals historically do not receive reimbursement from public medical insurance to the same extent as public hospitals, and the gaps in coverage are not sufficiently supplemented by commercial insurance.

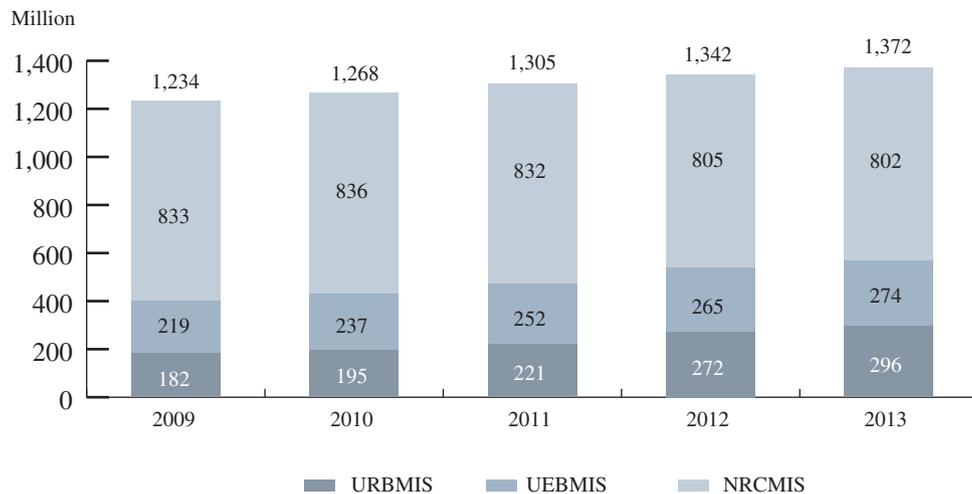
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- *Shortage of premium services:* private hospitals must distinguish themselves from public competitors by building up high-end patient-centric services in a premium environment.

PRC MEDICAL INSURANCE SYSTEM

Government Insurance

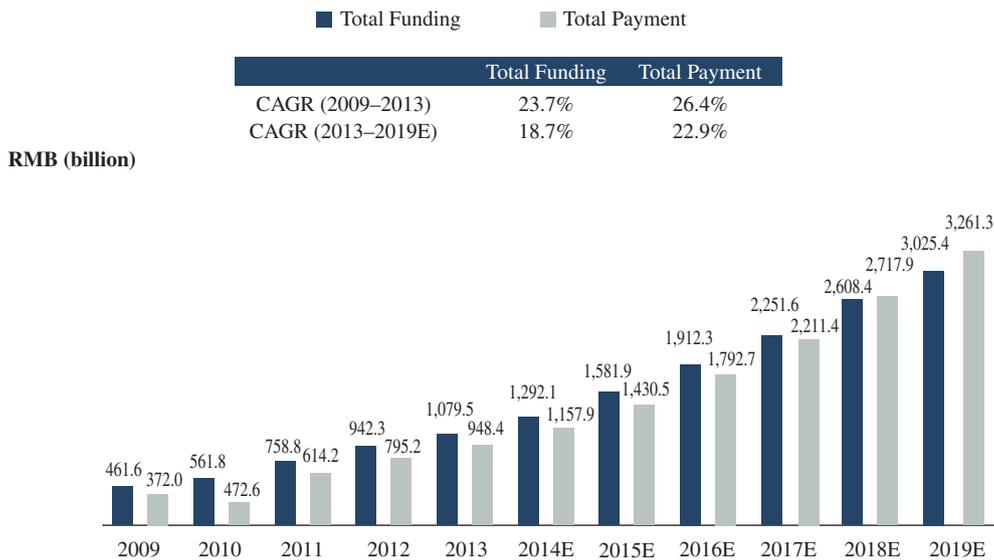
Medical insurance in China is provided primarily through three government schemes, of which the UEBMIS and URBMIS cover the urban population, and the NRCMIS covers the rural population. As part of its healthcare reform efforts, the PRC government has prioritized expanding population coverage, program funding and reimbursement levels. The charts below set forth, for the years indicated, the growth in population coverage by the three public medical insurance programs in China and the total actual and estimated funding and spending by such programs in China:



Source: Frost & Sullivan Report

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Total Pooled Funds of Public Insurance Programs in China (2009–2019E)



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, by the end of 2013, UEBMIS and URBMIS together covered approximately 95% of the total registered urban population, and the NRCMIS covered approximately 98% of the total registered population. The PRC government aims to achieve 100% coverage by 2020. Annual medical insurance expenditure per capita increased from approximately RMB700 in 2009 to approximately RMB1,200 in 2013 for urban residents, and from RMB110 to approximately RMB360 in the same years for rural residents. Meanwhile, along with the increase in government funding for public medical insurance, the proportion of out-of-pocket spending by patients in terms of total healthcare expenditure decreased from 40% in 2008 to 33% in 2013.

Commercial Insurance

Commercial medical insurance is also available to provide supplemental coverage, due to government insurance programs covering only basic healthcare services. The PRC government has encouraged growth in commercial insurance to provide differentiated coverage and fill gaps in demand left by public medical insurance. Premiums in the commercial insurance market have grown from RMB57 billion in 2009 to RMB159 billion in 2014, representing a CAGR of 22.6%, and is projected to reach RMB231 billion in 2017, representing a CAGR of 19.8% from 2013. In the same years, commercial insurance spending increased from RMB21.7 billion to RMB57.1 billion, representing a CAGR of 21.3% and is projected to reach RMB96 billion, representing a CAGR of 23.6%. While commercial insurance providers are expected to continue to have more opportunities going forward, they face various obstacles which may prevent them from meeting the increasing demand. Such issues include a lack of sufficiently differentiated insurance products, a high-cost distribution model, a lack of cooperation incentives from public healthcare providers, a shortage of industry expertise and relatively weak regulation and legal infrastructure.

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REGULATORY SUPERVISION OF HEALTHCARE SECTOR IN CHINA

Categories of Medical Institutions in China

Medical institutions in China are mainly identified as not-for-profit medical institutions (“NMI”) and for-profit medical institutions (“PMI”). Key basis for identifying either type of the two medical institutions include business purpose, service task and applicable financial, tax and pricing policies and accounting standards. NMIs do not aim at generating profit for their own. Positive accounting balance resulting from operation must be used for self-development. NMIs are eligible for preferential tax policies and for financial subsidies from local governments. On the other hand, NMIs must comply with the pricing guidance for medical service stipulated by governments from time to time, and the rules and policies issued by the Ministry of Finance and Ministry of Health (currently known as the “**National Health and Family Planning Commission**”) from time to time, including *Hospital Finance System* and *Hospital Accounting System*. PMIs may distribute their profit to their investors as economic returns. Based on its marketing needs, PMIs have the discretion to set the fees and prices for their medical and healthcare services. In establishing internal control system, they may apply the finance and accounting system and other policies suitable for corporate enterprise. When applying for approval, registration and verification in connected with their incorporation, a medical institution must state its business nature to healthcare administrative authorities and must specify on its practice registration as “not-for-profit” or “for-profit”.

Reform of Medical Institutions

Opinions of the Central Committee of the Communist Party and the State Council on Promoting Further Reform of the Healthcare System

The *Opinions of the Central Committee of the Communist Party and the State Council on Promoting Further Reform of the Healthcare System* (the “**Opinions**”), which were promulgated by the State Council on March 17, 2009, advocate a range of measures to reform medical institutions in China and to establish a basic healthcare system covering urban and rural residents. These measures aim at reforming medical institutions, include the separation of: (i) government agencies and public medical institutions, (ii) PMIs and NMIs, (iii) sponsorship and operations of public hospitals, and (iv) pharmaceutical dispensing and pharmaceutical prescription. The Opinions include proposals for establishing and improving of the corporate governance at public medical institutions, and the checks and balances in decision-making, execution and supervision processes between the owners and operators of public medical institutions. The Opinions also encourage private capital to invest in medical institutions (including investments by foreign investors), the development of private medical institutions and the reform of public medical institutions (including those established by state-owned enterprises) through private capital investment.

Opinions on Further Encouraging and Guiding Social Capital in Setup of Medical Facilities

On November 26, 2010, General Office of the State Council promulgated *Notice of the General Office of the State Council on Forwarding the Opinions of the National Development and Reform Commission, the Ministry of Health and other Departments on Further Encouraging*

REGULATORY OVERVIEW

and Guiding Social Capital in Setup of Medical Facilities (“the Notice”). The Notice set out the following measures with respect to expanding the scope for social capital to set up medical institutions, including:

- Social capital is permitted and encouraged to set up various medical facilities. Social capital may apply for establishing and operating either PMIs or NMIs according to its purposes;
- Priority shall be given to social capital when adjusting or increasing medical and health resources;
- To reasonably determine the scope of practice for NMIs;
- Social capital is encouraged to participate in the restructuring of the public hospitals;
- Overseas medical institutions, enterprises and other economic organizations are permitted to establish medical institutions together with domestic medical institutions, enterprises or other economic organizations in the form of equity or cooperation joint venture. The restrictions on maximum equity that can be owned by overseas capital in domestic medical institutions will be lifted step by step. The practice of allowing qualified overseas capital to set up wholly foreign owned medical institutions within China will be tested on a pilot basis and then be gradually expanded;
- To simplify and standardize the approval procedures for medical institutions by overseas capital. The establishment of Sino-foreign equity joint venture and Sino-foreign cooperative joint venture medical institutions can be approved by provincial level health authority and commerce authority.

In addition, for encouraging and guiding social capital in setup of medical facilities, the Notice also proposes on tax and price polices for the NMIs, entry policy for service providers under medical insurance plans, employment conditions and purchase of large medical equipment.

Opinions of the State Council on Encouraging the Development of Healthcare Service

According to *Opinions on Encouraging the Development of Healthcare Service*, which were promulgated by the State Council on September 28, 2013, the government encourages social capitals to invest in healthcare sector and develops healthcare services through various measures to be implemented concurrently. The purpose is to develop a comprehensive structure that consists of NMIs as principal body and PMIs as complementary while public medical institutions are mainstream and private medical institutions can develop together. The government supports diversified healthcare services, development of healthcare examination and consultation and other healthcare services. Guidance shall be made to improve the service level of the medical institutions. Moreover, the government encourages medical institutions to adopt chain-store operation, accelerate the development of mental healthcare, trains and promotes mental healthcare institutions to a more professional and standard level.

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Opinions on Accelerating the Development of Setup Medical Institutions by Social Capitals

Opinions on Accelerating the Development of Setup Medical Institutions by Social Capitals, which were promulgated by the National Health and Family Planning Commission and State Administration of Traditional Chinese Medicine on December 30, 2013, explicitly states that the government will give prior support to the establishment of NMIs by social capitals, accelerate the formation of a medical institutions structure that consists of NMIs as principal body and PMIs as complementary. Optimize allocation of medical resources by social capitals. Strictly control the development size of public medical institutions and leave space for development of social capitals under the principles of scale controls, structure adjustment and appropriate scale. Reduce limitations of applications and qualifications for applying for setting up a medical institution. Set up public, transparency, fair and normative entry permission system for establishing medical institutions by social capitals. Put reasonable requirements of share structure with respect to medical institutions invested by Sino-foreign equity or cooperative joint venture. Healthcare administrative department at province level shall be responsible for the review and approval of setup of medical institution by sole proprietorship. For a better support of social capital's investment in medical sector, limitations on service scope as well as the allocation of large medical equipment should be reduced, supporting polices should be improved and the approval process shall be accelerated. For a better service capacity of private medical institutions, the government will support the development of key medical specialists, introduction and training of talents, informationization construction, practitioners' practice with different medical institutions and promotion of academic status.

Guiding Opinions of the State Council on Innovating in Investment and Financing Mechanism and Encouraging Social Investment in Key Fields

Guiding Opinions of the State Council on Innovating in Investment and Financing Mechanism and Encouraging Social Investment in Key Fields, which were promulgated by the State Council on November 16, 2014, encourages social capital to invest in certain areas, including, (i) encourage social capitals to participate in the reform of public institutions; (ii) encourage social capitals to participate in healthcare sector through wholly-owned, joint venture, cooperation, association, leasing and other means; (iii) improving the implementation of preferential tax policies for construction and operation of social undertakings. The construction of non-profit healthcare institutions shall be exempt from administrative fees and the administrative fees in connection with the construction of for-profit medical institutions shall be halved; (iv) improving price administration policies for social undertakings. Private medical institutions are to be treated equally in respect of prices to be paid for the use of electricity, water, gas and heat with public medical institutions. Private medical institutions have the discretion to determine the prices determined for their medical services.

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

The General Office of the State Council promulgated the *Notice of the General Office of the State Council on Printing and Distributing the Outline of the National Medical and healthcare service system plan (2015-2020)* on March 6, 2015, which stipulates that private

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medical institutions are significant and integral parts of the medical and healthcare service system as well as an effective approach to fulfilling people's multilevel and diversified medical and healthcare service needs. The private medical institutions may provide basic medical services, orderly compete with public medical institutions, provide top service to fulfill extra needs which are beyond basic needs and provide badly-needed services such as rehabilitation and care of the elderly to complement the public medical institutions.

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

Perfect the supporting policies, including supporting the private medical institutions to be included into the scope of medical institutions designated for medical insurance. Improve the planning and overall arrangement as well as the security of use of land. Optimize the guiding policies for financing and investment. Improve price policies on finance and taxation. The private medical institutions shall apply to the implementation of market price adjustment. Encourage governments to purchase service provided by private medical institutions. Strengthen the industry supervision and ensure the quality and safety of medical service.

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Run by Social Capital

On 11 June, 2015, the General Office of the State Council promulgated *Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Run by Social Capital*, which shall include, (i) the elimination and cancellation of unreasonable preceding items for examination and approval and the reduction in the time required for making such examination and approval; (ii) the reasonable control of the number and scale of the public medical institutions and the exploration of the space for development of the medical institutions run by social capital; (iii) the support for the listing and financing of such eligible and qualified for-profit medical institutions run by social capital; (iv) and that social force possessing managerial experience in medical institutions are encouraged to participate in the management of public medical institutions through various formats including hospital management groups and subject to the defined power and responsibility.

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Rules on Mental Health Area

According to *Mental Health Law of PRC*, which was promulgated by the Standing Committee on October 26, 2012 and came into effect on May 1, 2013, the work of mental health shall be subject to a mechanism of integrated administration under which the government organizes and leads the work, departments perform respective duties, families and entities make uttermost efforts to fulfill their responsibilities and the entire society participates in the work. The health administrative department under the State Council shall be in charge of the work of mental health throughout the country. The people's governments at or above the county level shall be in charge of the work of mental health in their respective administrative areas.

- Mental disorder diagnosis and treatment shall, according to the principles of safeguarding sufferers' lawful rights and interests and respecting their personal dignity, ensure sufferers enjoy good mental health services under the current conditions. The relevant entities and individuals shall keep confidential the information of mental disorder sufferers such as name, portrait, address, working entity, medical records and other information from which the identity of the mental disorder sufferers could be deduced.
- Unless otherwise stipulated by law, medical examinations of mental disorder shall not be conducted against potential sufferers' will. Mental disorder shall be diagnosed by psychiatric practitioners. Mental disorder sufferers shall be hospitalized under a voluntary basis. Where diagnosis conclusions and disease assessment show patients are severe mental disorder sufferers and are involved under any of the following circumstances, such sufferers shall be hospitalized:
 - a) Patients have been involved in, or are likely to commit, acts harming themselves; and
 - b) Patients have been involved in, or are likely to commit, acts endangering others' safety.

Medical institutions shall have appropriate facilities and equipment, protect the personal safety of diagnosed and hospitalized mental disorder sufferers, prevent them from being harmed and create environments and conditions as close to their normal lives as possible for hospitalized sufferers. Medical institutions and their medical personnel shall comply with standards for mental disorder sufferer diagnosis and treatment, formulate treatment plans, and inform mental disorder sufferers and their guardians of the treatment plans, methods, purposes and possible consequences.

- The people's governments at or above the county level shall take measures, encourage and support social strength to operate medical institutions and rehabilitation institutions engaging in mental disorder diagnosis and treatment.

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Rules on Management and Classification of Medical Institutions

The Administrative Measures on Medical Institutions and its Implementation Measures

The Administrative Measures on Medical Institutions, which were promulgated on February 26, 1994 by the State Council and came into effect on September 1, 1994, and its *the Implementation Measures*, which were promulgated by the National Health and Family Planning Commission on August 29, 1994 and revised on November 1, 2006, stipulate that the establishment of a medical institution by any entity or individual must be reviewed and approved by healthcare administrative departments of people's governments at or above the county level and obtain Approval Letter of Establishment of Medical Institution. Medical institution shall register before practice and obtain a Practice License of Medical Institutions.

Administrative Measures for Verification of Medical Institutions (For Trial Implementation)

According to *Administrative Measures for Verification of Medical Institutions (For Trial Implementation)*, which was promulgated by the National Health and Family Planning Commission and came into effect on June 15, 2009, the registration authorities shall periodically verify the Practice License of Medical Institutions. Specifically, verification period shall be: (i) 3 years for general hospitals, hospitals of traditional Chinese medicine, hospitals of western medicine and traditional Chinese medicine, hospitals of ethnic minority medicine and specialized hospitals, as well as sanitariums, rehabilitation hospitals, maternity and children's health care centers, emergency centers, clinical laboratories and specialized disease prevention institutions equipped with more than 100 beds; (ii) 1 year for other medical institutions. In the event that a medical institution fails to apply for verification as required and post re-verification procedures or unsuccessful in its re-verification application, the registration authorities may cancel its Practice License of Medical Institutions.

The Classification of Medical Institutions

The Basic Standards for Medical Institutions (For Trial Implementation), *the Measures for the Assessment of Medical Institutions* and *Interim Measures for the Assessment of Hospitals*, which were promulgated by the National Health and Family Planning Commission on September 2, 1994, July 21, 1995 and September 21, 2011, respectively, stipulate that medical institutions in China are graded into three levels (Grade I, II and III) and three sub-levels (A, B, and C) and the highest standard is III A Grade. Each hospital will be assessed once every four years. The National Health and Family Planning Commission and its Hospital Assessment Committee are responsible for leading, organizing and supervising all hospital assessments in China. Health administrative departments at all regional levels shall set up Hospital Assessment Leading Groups, which are responsible for hospitals assessment at the corresponding regional level.

Interim Measures for the Administration of Medical Insurance Designated Medical Institutions and the Provision of Basic Medical Insurance for Urban Employees

According to *The Interim Measures for the Administration of Medical Insurance Designated Medical Institutions* and *the Provision of Basic Medical Insurance for Urban Employees*, which were jointly promulgated by Ministry of Labor and Social Security

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(currently known as “**Ministry of Human Resources and Social Security**”), National Health and Family Planning Commission, State Administration of Traditional Chinese Medicine and implemented on May 11, 1999, Medical Insurance Designated Medical Institution, which provide basic medical insurance for urban employees, shall be reviewed by the labor security administration department in a coordinating district and recognized by social insurance agencies. Qualifying Certificate as a Medical Insurance Designated Medical Institution shall be issued upon examination and approval by the aforesaid authorities.

Reform on Price of Medicine and Medical Services

Notice of Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services

According to the *Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services* promulgated and implemented on November 9, 2009 by the National Development and Reform Commission, the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security, the following major opinions have been made in respect of reforming the price formation system of medicine and medical services: (i) Reform of the Management on the Price of Medicine. The classified management shall be imposed on the medicine. In particular, the department in charge of prices under the State Council shall take charge of formulating policy, principle and method for pricing the medicine, as well as fixing prices of the national essential drugs, the prescribed drugs of the drugs for the national essential medical security, and the special medicine the production and operation of which are with monopolized nature. All provincial, autonomous and municipal departments in charge of prices shall, in accordance with the national unified policy, be responsible for formulating the prices of non-prescribed drugs for the national essential medical security (excluding the national essential drugs) and the supplemented local drugs for the medical security. In accordance with the requirement for “separating drug sales from medical services”, the medical institution compensation mechanism shall be reformed with the gradual elimination of the price mark-up of the medicine by the medical institutions. Under the pilot reform of public hospitals, local governments are encouraged to coordinate the launch of reform for having zero profit in the sale of the medicine by the public hospitals. As for the decreased revenue of the public hospitals after eliminating the price mark-up of the medicine, the essential compensation may be made through the increase in the financial subsidy and the prices of medical services as well as the establishment of “Service Charges for Pharmaceutical Care”; (ii) Reform on the Price Management of Medical Services. The price management of medical services shall implement the means of carrying out the government guiding prices in combination with the market adjusted prices. The essential medical services provided by NMIs shall adopt the government guiding prices; the various medical services provided by PMIs and the specially required medical services provided by NMIs shall adopt the market adjusted prices. The department in charge of prices under the State Council shall take charge of formulating the price policy and projects as well as the pricing principle and method for medical services to enhance the guidance and coordination for the local formulation of medical service prices. The guiding prices for the essential medical services shall be formulated by the provincial or the municipal competent price department together with the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security at the same grade.

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Medicine Prices

Notice of Issuing the Opinions on Pushing Forward the Reform on Medicine Prices by the National Development and Reform Commission and other Departments

According to the *Notice of Issuing the Opinions on Pushing Forward the Reform on Medicine Prices by the National Development and Reform Commission and other Departments* promulgated by the National Development and Reform Commission, the National Health and Family Planning Commission, the Ministry of Human Resources and Social Security, the Ministry of Industry and Information Technology, the Ministry of Commerce and the China Food and Drug Administration on May 4, 2015 and implemented on June 1, 2015, apart from the anesthetics and the first class psychoactive drugs, the former prices of medicine formulated by the government are cancelled. As for the anesthetics and the first class psychoactive drugs, the National Development and Reform Commission shall still tentatively implement the management of the highest ex-works prices and the highest retail prices. As pointed out in the opinions, the Medical Insurance Department and the related departments shall jointly draw up the procedure, basis and methods and other rules for formulating the payment standard for the medicine under medical insurance, explore and establish the mechanism to guide the reasonable price formation for the medicine paid by the Medical Insurance Fund.

Relevant Stipulations of Price Reform for Public Hospitals

Opinions on the Pilot Comprehensive Reform of Public Hospitals at County Level promulgated and implemented by the General Office of the State Council on June 7, 2012, and *Notice of the National Development and Reform Commission, the Ministry of Health, and the Ministry of Human Resources and Social Security on Promoting Medicine Price Reform in Public Hospitals at County Level* promulgated and implemented by the National Development and Reform Commission, the National Health and Family Planning Commission, the Ministry of Human Resources and Social Security on September 3, 2012, advocate a range of certain measures for promoting the pilot reform on public hospitals at county level, including the reform on the compensation system for the medical cost through drug-selling profits and the cancellation of the price mark-up of medicine. The decrease in the reasonable revenue of the hospital shall be compensated by adjusting the prices of medical technical services and increasing the government commitment etc. The standards for diagnosis charges, surgery charges and nursing charges shall be raised and the medical technical service fees shall be included in the scope of medical insurance payment policy, coupled with the promoting reform on the means of payment for medical insurance payment. The price adjustment is in line with the payment policy of medical insurance.

Guiding Opinions of the Price Bureau of Zhejiang Province on the Comprehensive Promotion of the Price Reform on the Medicine of Public Hospitals at County Level were promulgated by the Price Bureau of Zhejiang Province on November 19, 2012, with certain guiding opinions given on the comprehensive promotion of the price reform on the medicine of public hospitals at county level, including: (i) the implementation of the price reform on the medicine of public hospitals at county level, selling medicine at the actual purchase price with zero profit, coupled with the price adjustment of medical services (including the ordinary outpatient examination fee, the inpatient examination fee, the nursing fee, the medical

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treatment fee, the surgery fee and bed fee and etc.), and the implementation of the management of the highest guiding price; (ii) the non-public hospitals may make voluntary choice to carry out the medicine prices and the medical service prices same as the local public hospitals and shall report to the local price department, health department and medical insurance department for approval.

The major contents of the *Implementation Scheme for the Comprehensive Reform on Public Hospitals at Municipal Level in Wenzhou*, the *Reform Scheme on Medicine Prices of Public Hospitals at Municipal Level in Wenzhou*, and the *Implementation Scheme for the Comprehensive Reform on Basic Medical Insurance of Public Hospitals at Municipal Level in Wenzhou* include: All sorts of medicine (except the Chinese medicinal decoction pieces) of public hospitals at municipal level in Wenzhou shall be sold at actual purchase price with zero profit. After implementing the zero profit practice for medicine, the basic medical insurance for employees as well as urban and rural residents shall be executed according to the adjusted prices; the prices of certain medical services shall be adjusted upwards, including examination fee, nursing fee, medical treatment fee, surgery fee and bed fee. In particular, the adjustment standard for the medical treatment fee shall in principle be 30% higher than the current standard basis of the medical treatment projects; the medical costs including examination fee, nursing fee, bed fee, medical treatment fee and surgery fee which are adjusted as required shall be included in the payment scope for the basic medical insurance and reimbursed in accordance with the basic medical insurance policy. The private hospitals may voluntarily make reference to the execution of such reform scheme of public hospitals.

Medicine Catalog for Medical Insurance and Payment Requirements

According to the *Interim Measures for the Management of Medicine within the Scope of Basic Medical Insurance for Urban and Rural Employees*, promulgated and implemented on May 12, 1999 by the Ministry of Human Resources and Social Security, the State Development Planning Commission (currently known as “**National Development and Reform Commission**”), the State Economic and Trade Commission (currently known as “**Ministry of Commerce**”), the Ministry of Finance, the National Health and Family Planning Commission, China Drug Administration (currently known as “**China Food and Drug Administration**”) and the State Administration of Traditional Chinese Medicine, the scope of essential medicine for medical insurance shall be managed through formulating Essential Medicine Catalog for Medical Insurance (hereinafter referred to as the “**Essential Medicine Catalog**”). The medicine listed in the Essential Medicine Catalog includes the western medicine, the Chinese traditional medicine (including the ethnic drug), and the Chinese medicinal decoction pieces (including the ethnic drug), with the western medicine and the Chinese traditional medicine listed in the medical catalog approved for payment by the basic medical insurance funds, and the Chinese medicinal decoction pieces listed in the medical catalog disapproved for payment by the basic medical insurance funds. In the Essential Medicine Catalog, the western medicine and the Chinese traditional medicine are divided into the “Class A Catalog” and the “Class B Catalog”. The formulation of “Class A Catalog” shall be unified by the State and not be subject to local adjustment. The “Class B Catalog” formulated by the State may be subject to appropriate adjustment by various provinces, autonomous regions and municipalities. The sum for the increase and decrease of the varieties shall not exceed 15% of the total number of medicine varieties in “Class B Catalog” formulated by the State.

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On the basis of the above-mentioned stipulations, the Ministry of Human Resources and Social Security promulgated and implemented *Medicine Catalog for the National Basic Medical Insurance, the Work-Related Injury Insurance and the Maternity Insurance (2009 Version)* on November 27, 2009. The said medicine catalog shall be the basis and standard for paying the insured personnel the medicine costs of the basic medical insurance, the work-related injury insurance and the maternity insurance as well as for enhancing the management of medical treatment under medical insurance. The Ministry of Human Resources and Social Security shall adjust the specifications of the medicine in such medicine catalog from time to time. On July 20, 2010, the Zhejiang Provincial Office of Human Resources and Social Security launched *the Zhejiang Provincial Medicine Catalog for the National Basic Medical Insurance, the Work-Related Injury Insurance and the Maternity Insurance (2010 version*, hereinafter referred to as "**The Zhejiang Provincial Medicine Catalog for Medical Insurance**"). *The Zhejiang Provincial Medicine Catalog for Medical Insurance* is the standard for paying the medicine costs by the basic medical insurance, the work-related injury insurance and the maternity insurance fund in Zhejiang Province. The various districts under coordination shall pay the Class A Medicine according to the stipulations of the basic medical insurance. As for the Class B Medicine, a certain proportion to be borne by the insured may be set in the first instance depending on the payment capability of the fund before effecting payment according to the stipulations of the basic medical insurance. As for the medicine listed in the catalog of Zhejiang provincial supplemented non-essential medicine, the Class A Medicine shall be subject to payment according to the stipulations of the basic medical insurance while the Class B Medicine, when applied by the basic medical and health institutions, shall be subject to the reference to the payment for the Class A Medicine without setting separately the proportion to be borne by the insured.

Prices of Medical Services

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

According to the *Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Medical Institutions* promulgated and implemented on March 25, 2014 by the National Development and Reform Commission, the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security, the profit-making non-public medical institutions may set their own price projects for medical services but the reasonable prices shall be formulated under the principles of fairness, lawfulness and faithfulness and maintained the relatively stable price level within a specific period. The system of explicitly specifying the price and the breakdown list of medicine costs shall be executed as required. The prices of medical services and medicine shall be displayed to the patients publicly through various means. Medical institutions shall take the initiative to accept social supervision. The non-public medical institutions in compliance with the relevant stipulations of medical insurance designated institutions shall be included according to the procedure in the designated scope of services for the social insurances such as the employees' medical insurance, the urban and rural residents' medical insurance, the new rural cooperative medical service, the work-related injury insurance and the maternity insurance and shall carry out the payment policy same as the public hospitals. The institutions handling the medical insurance shall, in compliance with the requirements of the reform on the means of payment

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for medical insurance, identify the specific means and standard of payment with the designated non-public medical institutions through negotiation to increase the application efficiency of the fund.

Guiding Price Catalog for Medical Services

On May 4, 2012, the National Development and Reform Commission, the National Health and Family Planning Commission and the State Administration of Traditional Chinese Medicine promulgated *the Notice Concerning the Standardization of Price Management for Medical Services and Related Issues* and announced *the National Medical Services Price Project Standardization (2012 Version)*. The price projects of medical services announced by the project standardization shall be the basis of the costs charged by the various classes and types of NMIs for their medical services. Those project charges requiring merger or combination or the new medical service price projects shall be examined and approved by the provincial competent price department together with the departments including the health administration at the same grade. On June 8, 2005, the Price Bureau of Zhejiang Province and the Health and Family Planning Commission of Zhejiang Province promulgated the *Prices (interim) of Medical Services in Zhejiang Province* which stipulated the government guiding prices for the medical services in Zhejiang Province. All classes of medical institutions shall execute the corresponding prices stipulated in the said catalog. The appropriate downward price adjustment shall be permitted but no upward price adjustment shall be permitted. The Price Bureau of Zhejiang Province and the Health and Family Planning Commission of Zhejiang Province shall launch corresponding documents to adjust the said catalog from time to time.

Medical Service Catalog for Medical Insurance and Payment Requirements

The Human Resources and Social Security Office of Zhejiang Province promulgated, *the Project Catalog for Medical Services of Basic Medical Insurance in Zhejiang Province (2005 Version*, hereinafter referred to the “**Catalog for Medical Services in Zhejiang Province**”) on November 8, 2005. The said catalog shall be the standards for the payment for medical service projects by the basic medical insurance fund, which was formulated according to the related stipulations of the scope of diagnosis and treatment subjects and the facilities for medical services as well as the payment standards for the basic medical insurance nation-wide and in Zhejiang Province based on the *Prices (interim) of Medical Services in Zhejiang Province*. *The Catalog for Medical Insurance Services in Zhejiang Province* implements the admittance management. For the use of the medical service projects and medical materials listed in the catalog, it shall be paid by the basic medical insurance according to the stipulations. For the use of the medical service projects and medical materials not listed in the catalog, it shall not be paid by the basic medical insurance. The charges of medical services shall comply strictly with stipulations of *Prices (interim) of Medical Services in Zhejiang Province*. As for the medical treatment costs not complied with the stipulations, no payment shall be made in respect of the basic medical insurance. The Human Resources and Social Security Office of Zhejiang Province shall adjust such catalog from time to time by launching the corresponding documents.

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Rules on the Supervision over Pharmaceuticals in Medical Institutions

Drug Control Law of PRC and its Implementing Rules’ and Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation)

According to *Drug Control Law of PRC*, which was promulgated by Standing Committee on September 20, 1984 and amended on February 28, 2001, December 28, 2013 and April 24, 2015, *Regulations for the Implementation of the Drug Administration Law*, which was promulgated by State Council on August 4, 2002 and came into effect on September 15, 2002, and *Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation)*, which was promulgated by China Food and Drug Administration and came into effect on October 11, 2011, medical institutions must purchase drugs from enterprises qualified to produce and deal in drugs. Drugs used by medical institutions must be purchased uniformly by special departments in accordance with the provisions, and other departments and medical staff members of medical institutions are forbidden to purchase drugs on their own.

Regulations on Control of Narcotic Drugs and Psychotropic Substances

According to *Regulations on Control of Narcotic Drugs and Psychotropic Substances*, which were promulgated by the State Council on August 3, 2005 and revised on December 7, 2013, where a medical institution needs to use any narcotic drug or Class I psychotropic substance, it shall, upon approval by the competent health department of the people’s government, obtain the Seal Card for Purchasing and Using Narcotic Drugs and Class I Psychotropic Substances (hereinafter referred to as “**the Seal Card**”). The medical institution shall, on the strength of the Seal Card, purchase the narcotic drugs or Class I psychotropic substances from a designated wholesaler within the administrative area of the province, autonomous region, or municipality directly under the Central Government of the place where it is located.

Rules on Medical Equipment and Treatment Provided by Medical Institutions

Administrative Measures on the Radiotherapy

According to the *Administrative Measures on the Radiotherapy*, which were promulgated by the National Health and Family Planning Commission on January 24, 2006 and came into effect on March 1, 2006, medical institutions engaged in the clinical diagnosis and treatment using radioisotopes and radiation-emitting devices shall be eligible for conducting radiation-emitting devices, apply for the License for Radiotherapy issued by the competent public health administrative authorities. After obtaining the License for Radiotherapy, medical institution shall undertake registration of the relevant diagnosis and treatment subject with health administrative and registration authorities, which issued the Practice Permits for Medical Institutions. Medical institutions shall not conduct radiotherapy if failing in obtaining License for Radiotherapy or not registering the diagnosis and treatment subject.

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Regulations on Safety and Protection of Radioisotopes and Radiation-emitting Devices' and Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment

According to *Regulations on Safety and Protection of Radioisotopes and Radiation-emitting Devices*, which were promulgated by the State Council on September 14, 2005 and revised on July 29, 2014, and *Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment*, which were promulgated by Ministry of Environmental Protection on January 18, 2006 and revised on December 6, 2008, any unit which conducts activities of production, sale, and use of radioactive isotopes and radial equipment within the territory of PRC shall obtain the Radiation Safety Licenses in accordance with the provisions of the Measures.

Administrative Measures on the Deployment and Use of Large Medical Equipment

The *Administrative Measures on the Deployment and Use of Large Medical Equipment*, which were jointly promulgated by National Health and Family Planning Commission, National Development and Reform Commission and Ministry of Finance on December 31, 2004 and came into effect on March 1, 2005, provide that the management of large medical equipment is subject to allocation planning and License for the Deployment system. Large medical equipment refers to those medical equipment listed in the catalog issued by the public health administrative authorities of the State Council or those unlisted medical equipment deployed for the first time within the provincial regions with a unit price above RMB5 million. Medical institutions that wish to purchase large medical equipment must apply to the competent public health administrative authorities and purchase the approved large medical equipment upon receipt of a License for the Deployment of Large Medical Equipment. Mount guard of the large medical equipment (including doctors, operation staff, engineers and technicians and etc.) shall accept corresponding job training and obtain corresponding operating qualifications.

The Law of the People's Republic of China on Maternal and Infant Healthcare, its Implementation Measures and Management Measures of Special Technology Services Licensing and Personnel Qualification of Maternal and Infant Care

According to *the Law of PRC on Maternal and Infant Healthcare*, which was promulgated by the Standing Committee and came into effect on October 27, 1994 and revised on August 27, 2009, and its *Implementation Measures*, which were promulgated by the State Council and came into effect on June 20, 2001, and *Management Measures of Special Technology Services Licensing and Personnel Qualification of Maternal and Infant Care*, which was promulgated by the National Health and Family Planning Commission and came into effect on August 7, 1995, medical and health care institutions engaged in pre-marital medical examination, genetic disease diagnosis, prenatal diagnosis, ligature operations or operations for termination of gestation shall be licensed by the administrative department of public health of the people's government at a corresponding level and obtain License of Maternal and Infant Health Care Technology Services.

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Interim Provisions of Management of Physical Examination

According to *Interim Provisions of Management of Physical Examination*, which was promulgated by National Health and Family Planning Commission on August 5, 2009 and came into effect on September 1, 2009, when medical institutions apply to registration authority, which proved and issued Practice Permits for Medical Institutions to them, for participation in physical examination, the registration authority shall examine and assess the institutions. If the institution is eligible for conducting physical examination, permission shall be issued and registration shall be added to Remarks Column of the counterpart of the Practice Permits for Medical Institutions.

Rules on Medical Incidents

Tort Liability Law of PRC

The *Tort Liability Law of PRC*, which was promulgated by the Standing Committee on December 26, 2009 and came into effect on July 1, 2010, provides that, if a medical institution or its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation. Medical institution shall liable and pay for the damage caused to the patient by the failure of the medical personnel to fulfill their statutory obligations in the course of diagnosis and treatment. Medical institutions and their medical personnel shall protect the privacy of their patients and will be liable for damage caused by divulging the patients' private or medical records without consent.

The Regulations on Handling Medical Incidents

The Regulations on Handling Medical Incidents, which were promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provide detailed provisions regarding the prevention, disposition, technical identification, administrative disposition and supervision and compensation of medical incidents. "Medical incident" means an accident caused by a medical institution or its medical personnel resulting in personal injuries to a patient due to faults in medical activities as a result of violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures for diagnosis, cure and nursing. Medical institution and the patient may, through negotiation, settle the disputes on civil liability such as the compensation for medical incidents; if they are unwilling or fail to reach settlement, the parties concerned may apply for mediation to the health administration department, or may directly bring a civil lawsuit in the people's court. The following factors shall be taken into account for determining the actual amount of compensation for a medical incidents: the grade of the medical incidents; the extent of responsibility of the medical fault for the injury in the medical incidents; and the relationship between the injury in the medical incidents and the illness of the patient. Where a medical institution produces a medical accident, health administration department may give the penalty to medical institution according to the grade of the medical accident and circumstances.

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Rules on Medical Advertisement

Measures on Medical Advertisement Administration

According to *Measures on Medical Advertisement Administration*, which were promulgated by the State Administration of Industry and Commerce and National Health and Family Planning Commission on November 10, 2006 and came into effect on January 1, 2007, any medical institution that intends to publish any medical advertisement shall apply for medical advertisement examination to health administrative departments and administrative departments for traditional Chinese medicine prior to its publication, and obtain Medical Advertisement Examination Certification. The Medical Advertisement Examination Certification shall be valid for one year.

Rules on Medical Personnel of Medical Institutions

Licensed Doctor/ Medical Practitioners

According to *the Law on Medical Practitioners of PRC*, which was promulgated by the Standing Committee on June 26, 1998 and revised on August 27, 2009, and *the Interim Measures of Physician Practice Registration*, which was promulgated by the National Health and Family Planning Commission and came into effect on July 16, 1999, the State applies the system of registration for licensed doctors. Anyone who has passed the examinations for the qualifications of a licensed doctor or a licensed assistant doctor, upon registration with corresponding health administration department and doctor's license, may work for medical treatment, disease-prevention or healthcare institutions at the places, for the types of job and within the scopes of practice as registered. No one may work as a doctor without a doctor's license obtained through registration.

On November 5, 2014, National Health and Family Planning Commission, National Development and Reform Commission, Ministry of Human Resources and Social Security, State Administration of Traditional Chinese Medicine, Insurance Regulatory Commission jointly promulgate *Opinions on Promoting and Regulating Medical Practitioners' Practice with Different Medical Institutions* ("**the Opinions**"). According to the Opinions, medical practitioners engaged in the practice of medicine, stomatology and Chinese Medicine may practice with different medical institutions (i.e., during the term of valid registration period, medical practitioners may practice in two or more than two medical institutions). Medical practitioners' practice with different medical institutions shall be subject to registration management. However, where the medical practitioners are engaged in counterpart support between urban and rural hospitals, support at the grass-roots level, or practice among medical institutions which entering into support agreement or escrow agreement, or belonging to the same medical group or medical union, the aforesaid registration is excused.

According to applicable laws and regulations of PRC, including *Appraisal Criteria of Intermediate Technical Qualifications for Clinical Medicine Profession (For Trial Implementation)*, which was promulgated by Ministry of Human Resources and Social Security and National Health and Family Planning Commission and came into effect on August 18, 1999, professional ranks for clinical medicine physicians are divided as resident doctor, attending doctor, associate chief doctor and chief doctor.

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Nurses

The Regulations on Nurses, which were promulgated by the State Council on January 31, 2008 and came into effect on May 12, 2008, provide that for nursing practice, a nurse shall acquire the nurse's practicing certificate through practice registration. The registration of nursing practice shall be valid for a period of five years. The number of nurses staffed by a medical and health institution shall not be below the standards as prescribed by the competent health department of the State Council.

Rules on Environmental Protection related to Medical Institutions

Environmental Protection Law of PRC and Other Laws and Regulations

According to *Law of PRC on Prevention and Control of Water Pollution*, which was promulgated by the Standing Committee on February 28, 2008 and came into effect on June 1, 2008, and *Environmental Protection Law of PRC*, which was promulgated by the Standing Committee on December 26, 1989, revised on April 24, 2014 and came into effect on January 1, 2015, the State shall implement the pollutant emission license administration system. Any enterprise or institution that directly or indirectly discharges medical sewage shall obtain the relevant pollutant discharge permit. Facilities for the prevention and control of water pollution must be designed, constructed and put into use or operation simultaneously with the central part of a construction project. Local governments release regulations stipulating pollutant emission license. On May 14, 2010, the People's Government of Zhejiang Province promulgated *Interim Measures on Management of Pollutant Emission License in Zhejiang Province*.

According to *Law of PRC on Evaluation of Environmental Effects*, which was promulgated by the Standing Committee on October 28, 2002 and came into effect on September 1, 2003, the State has established system of Evaluation of Environmental Effects of Construction Projects. On the basis of the extent of the effects exerted on the environment by construction projects, the State exercises, in a classified manner, control over the evaluation of the effects of construction projects on the environment. Specifically, where considerable effects may be exerted on the environment, a written report on environmental effects in which a comprehensive evaluation of the effects on the environment shall be made; where mild effects may be exerted on the environment, a statement on the effects in which an analysis or special evaluation of the effects shall be made; or where the effects on the environment are very little and therefore it is not necessary to make an evaluation of them, a registration form of environmental effects should be filled out. The document for evaluation of the environmental effects of a construction project shall, in accordance with the regulations of the State Council, be submitted by the construction unit for examination and approval to the competent administrative department for environment protection.

According to *Regulations on Administration of Environmental Protection Testing Acceptance on Completion of Construction Projects*, which was promulgated by Ministry of Environmental Protection on December 27, 2001 and revised on December 22, 2010, upon the completion of a construction project, the construction unit shall apply with the competent administrative department of environmental protection for inspection and acceptance of the completed environmental protection of the construction project.

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Regulations on the Management of Medical Waste, the Implementation Measures of the Management of Medical Waste

According to the *Regulations on the Management of Medical Waste*, which were promulgated by the State Council on June 16, 2003 and revised on January 8, 2001, and the *Implementation Measures of the Management of Medical Waste*, which were promulgated by National Health and Family Planning Commission on October 15, 2003 and came into effect on the same day, medical or health institution shall register medical wastes, manage medical wastes under classification and undertake management of duplicate forms for transfer of hazardous waste in accordance with the *Catalogue of Classified Medical Wastes*, and deliver medical wastes to a unit for centralized disposal of medical wastes and licensed by a relevant environment protection administrative department for dispose. Sewage generated by any medical or health institution and excretion of its patients or suspected patients of infectious diseases shall be sterilized in strict accordance with the relevant provisions, and shall not be discharged into sewage disposal systems until the discharging standards are met.

The Administrative Measures on Licensing of Urban Drainage

The Administrative Measures on Licensing of Urban Drainage, which were promulgated by the Ministry of Housing and Urban-rural Development on January 22, 2015 and came into effect on March 1, 2015, provide that enterprises engaging in industry, construction, catering industry, medical industry and discharging sewage into the urban drainage network must apply for and obtain a License for Urban Drainage.

Rules on Pharmaceutical Distribution

Drug Control Law of the People's Republic of China and its Implementing Rules

The Pharmaceutical Administration Law of PRC, which was promulgated by the Standing Committee on September 20, 1984 and amended on February 28, 2001, December 28, 2013 and April 24, 2015 sets forth the regulatory framework governing pharmaceutical manufacturers, pharmaceutical distributors, pharmacies in medical institutions, and the packaging, pricing advertising and the inspection of pharmaceuticals. *The Pharmaceutical Administration Law* also provides specific regulations on the relevant licenses and approvals required for pharmaceutical manufacturing and related operating activities. *The Regulations for the Implementation of the Pharmaceutical Administration Law of PRC*, which were promulgated by the State Council on August 4, 2002 and came into effect on September 15, 2002, provide detailed implementing measures of *the Pharmaceutical Administration Law*.

Pursuant to *the Pharmaceutical Administration Law and the Regulations for the Implementation of the Pharmaceutical Administration Law*, the establishment of enterprises engaged in the pharmaceutical wholesale or retail business requires the approval of the relevant pharmaceutical regulatory departments, and such enterprises are required to obtain a Pharmaceutical Distribution Certificate. The term of validity of a Pharmaceutical Distribution Certificate is five years. Pharmaceutical distributors must keep authentic and complete records of the procurement and sales of pharmaceuticals. Medical institutions are subject to the examination and permission of the competent public health authorities in the

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dispensing of pharmaceutical preparations and must obtain the Pharmaceutical Preparation Certificate for Medical Institutions issued by the relevant pharmaceutical regulatory authorities.

Administrative Measures on the Supervision of the Distribution of Pharmaceutical Products

The *Administrative Measures on the Supervision of the Distribution of Pharmaceutical Products*, which were promulgated by China Food and Drug Administration on January 31, 2007 and came into effect on May 1, 2007, govern the procurement and sales of pharmaceutical products by pharmaceutical manufacturers and distribution enterprises as well as the procurement and storage of pharmaceutical products by medical institutions.

The Measures for the Classification and Administration of Prescription Pharmaceuticals and Non-prescription Pharmaceuticals (For Trial Implementation)

The Measures for the Classification and Administration of Prescription Pharmaceuticals and Non-prescription Pharmaceuticals (For Trial Implementation), which were promulgated by China Food and Drug Administration on June 18, 1999 and came into effect on January 1, 2000, set forth different systems for the control over prescription and non-prescription drugs. Prescription pharmaceuticals can only be dispensed, purchased and used after acquiring prescriptions dispensed by licensed physicians or licensed associate physicians. Non-prescription pharmaceuticals can be purchased and used at discretion without acquiring prescriptions dispensed by licensed physicians or licensed associate physicians. Medical institutions can decide or recommend the use of non-prescription pharmaceuticals with regard to medical necessary.

Regulations on Centralized Pharmaceutical Procurement by Medical Institutions

The Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions and the Interpretations of Issues Related to the Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions, which were jointly promulgated by the National Health and Family Planning Commission and other five departments on January 17, 2009 and June 19, 2009, respectively, as well as *the Standards of Centralized Pharmaceutical Procurement Work for Medical Institutions* jointly promulgated by the National Health and Family Planning Commission and other six departments on July 7, 2010, stipulate that Medical institutions of other forms, such as for-profit medical institutions, are encouraged to participate in the centralized pharmaceutical procurement system. All pharmaceuticals used by medical institutions are required to be listed in the catalog of centralized pharmaceutical procurement with the exception of (i) narcotic pharmaceuticals and Class I psychotropic pharmaceuticals, (ii) certain pharmaceuticals under the state's special control such as Class II psychotropic pharmaceuticals, toxic pharmaceuticals for medical uses and radioactive pharmaceuticals, and (iii) Chinese herbs and ready-for-use Chinese herbs. The price generated by the centralized procurement activities of provinces, autonomous regions and municipalities directly under the central government shall be the supply price for pharmaceutical products supplied by pharmaceutical enterprises to all the medical institutions under the centralized pharmaceutical procurement mechanism and medical institutions shall apply the retail price of the pharmaceuticals as determined by the competent pricing control authority. Pharmaceutical manufacturers shall directly participate

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in the bidding activities during centralized pharmaceutical procurement. Delivery expenses for the bid-winning pharmaceuticals must also be included in the bid price. Bid-winning manufacturers are responsible for product delivery. They may choose to deliver the products either by themselves or through other qualified medical enterprises. If the commissioned enterprise fails to fulfill the delivery task and another medical enterprise needs to be commissioned, the bid-winning manufacturer shall lodge an application for review and approval by the competent provincial department of the medical procurement leading group, but the procurement prices of the bid-winning pharmaceuticals may not be increased under such circumstances.

RULES ON JUDICIAL EXPERTISE

According to *Decisions of the Standing Committee on Management of Judicial Expertise*, which was promulgated by the Standing Committee on February 28, 2005 and came into effect on October 1, 2005, *Measures on Registration Management of Judicial Expertise*, which was promulgated by Ministry of Justice and came into effect on September 30, 2005, the State conducts registration management system towards judicial authenticator and judicial expertise institutions, who and which are engaged in forensic identification, physical evidence identification, audio-visual material identification which are regulated by relevant laws and regulations. Judicial Expertise Institutions shall apply for the approval by and registration with the judicial administrative authorities at province level and obtain Judicial Expertise License.

RULES ON FOREIGN INVESTMENTS

Industry Catalog for Guiding Foreign Investment and Interim Provisions Guiding Foreign Investment Direction

According to the *Industry Catalog for Guiding Foreign Investment (2015 Revised Version)*, which was jointly promulgated by the National Development and Reform Commission and Ministry of Commerce on March 10, 2015 and came into effect on April 10, 2015, and the *Interim Provisions Guiding Foreign Investment Direction*, which were promulgated by the State Council on February 11, 2002 and came into effect on April 1, 2002, all foreign investment projects are classified into four categories: (1) encouraged projects, (2) permitted projects, (3) restricted projects, and (4) prohibited projects. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed. According to the latest revised *Industry Catalog for Guiding Foreign Investment*, medical institutions industries were restricted and limited to Sino-foreign equity/cooperative joint venture operations.

Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions and its Supplementary Provisions

According to *Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions*, which were promulgated by the Ministry of Foreign Trade and Economic Cooperation (currently known as "Ministry of Commerce") on May 15, 2000

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and come into effect on July 1, 2000, foreign investors are allowed to partner with Chinese medical institutions, companies, enterprises and other entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture. Establishment of an equity joint venture or cooperative joint venture shall meet certain requirements, including that the total investment sum must not be less than RMB20 million and that the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. Establishment of an equity joint venture or cooperative joint venture shall be subject to approval by relevant authorities.

Supplementary Provisions of Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions, which were jointly promulgated by the Ministry of Commerce and the National Health and Family Planning Commission on December 30, 2007 and came into effect on January 1, 2008 stipulate that the total investment by a Hong Kong or Macau service provider in establishing an equity or cooperative medical institution in China shall not be less than RMB10 million. Hong Kong and Macau service providers shall comply with the *Closer Economic Partnership Arrangement between Mainland China and Hong Kong* and *Arrangement regarding Establishing Closer Economic Partnership between Mainland China and Macau*, respectively.

Further Encouraging and Guiding Social Capital in Setup of Medical Facilities

According to the *Opinions on Further Encouraging and Guiding Social Capital in Setup of Medical Facilities*, Overseas medical facilities, enterprises and other economic organizations are permitted to establish medical facilities together with domestic medical facilities, enterprises or other economic organizations in the form of equity or cooperation joint venture, and the restrictions on equity proportion for overseas capital will be gradually removed.

RULES ON EMPLOYMENT AND SOCIAL SECURITY

Labor Law of PRC

The *Labor Law*, which was promulgated by the Standing Committee on July 5, 1994, came into effect on January 1, 1995, and amended on August 27, 2009, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national rules and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with labor safety and health conditions stipulated under national regulations and necessary labor protection equipment, as well as regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer must establish a vocational training system. Vocational training funds must be withdrawn and used in accordance with national regulations and vocational training for workers must be carried out in a planned way based on the actual conditions of the employer.

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Labor Contract Law of PRC

The *Labor Contract Law of PRC*, which was promulgated by the Standing Committee on June 29, 2007, came into effect on January 1, 2008, and amended on December 28, 2012, and *the Implementation Regulations on Labor Contract Law* which were promulgated and came into effect on September 18, 2008, regulate employer and the employee relations and contain specific provisions involving the terms of the labor contract. Labor contracts must be made in writing and may, after reaching agreement upon due negotiations, be for a fixed-term, an un-fixed term, or conclude upon the completion of certain work assignments. An employer may legally terminate a labor contract and dismiss its employee after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

Social Security and Housing Funds

According to applicable laws and regulations, including *the Law on Social Insurance of PRC*, which was promulgated by the Standing Committee on October 28, 2010 and came into effect on July 1, 2011, *the Regulations on the Administration of Housing Provident Fund*, which were promulgated by the State Council and came into effective on March 24, 2002, workers shall participate in basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance and shall pay and deposit housing funds. An employing entity shall undertake social insurance registration and registration of payment and deposit of the housing provident fund; shall pay work-related injury insurance premiums and maternity insurance premiums, and shall pay and deposit housing funds for workers. The basic pension insurance premiums, basic medical insurance premiums and unemployment insurance premiums shall be paid jointly by the employing entities and the workers. If an employing entity does not pay the full amount of social insurance premiums and housing funds as scheduled, it may be ordered to make the payment or make up the difference within the stipulated period and imposed a fine of the overdue payment.

RULES ON TAXATION

Enterprise Income Tax

The *Enterprise Income Tax Law*, which was promulgated by the National People's Congress on March 16, 2007 and came into effect on January 1, 2008, and its *Implementation Regulations*, which were promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, stipulate that the rate of enterprise income tax is 25%.

Business Tax

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

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Value-added Tax

The Temporary Regulations on Value-added Tax of PRC, which were promulgated by the State Council on December 13, 1993, amended on November 10, 2008, and came into effect on January 1, 2009 and the *Detailed Implementing Rules of the Temporary Regulations on Value-added Tax of PRC*, which were promulgated by the Ministry of Finance and became effective on December 25, 1993, amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or replacement service. For small-scale taxpayers engaged in selling goods or taxable services, a simplified method for the calculation of tax payable according to the sales volume and the rate leviable shall apply, the rate leviable on small-scale taxpayers is 3 percent.

Furthermore, according to the *Trial Scheme for the Conversion of Business Tax to Value-added Tax*, which were promulgated by the Ministry of Finance and the State Administration of Taxation, the government launched gradual taxation reforms starting from January 1, 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service.

OUR HISTORY AND CORPORATE STRUCTURE

OUR HISTORY

Our history can be traced back to 1996 when our Company was established as a joint stock cooperative enterprise in the PRC on February 7, 1996 by Mr. Guan Weili (“**Mr. Guan**”), Ms. Wang Hongyue, Mr. Wang Xianjing (“**Mr. Wang**”) (the brother of Ms. Wang Lianyue) and Mr. Xia Aiguang (“**Mr. Xia**”) who is independent from Mr. Guan, Mr. Wang and Mr. Xia, and they found our Company with their own financial resources. For details of Mr. Guan and Ms. Wang Hongyue, please refer to the section “Director, Supervisors and Senior Management” of this [REDACTED]. We commenced our business primarily for the provision of psychiatric care specializing in psychiatric and mental health in Wenzhou, Zhejiang province in 1996. On December 19, 2011, our Company was converted into a limited liability company under the PRC Company Law, and was then converted into a joint stock limited company on October 15, 2014.

OUR MILESTONES

The following sets forth the key milestones of our Group since 1996:

Year	Milestone
1996	<ul style="list-style-type: none">• Our Company was established in Wenzhou, Zhejiang province and commenced business under the name of Wenzhou Kangning Mental Convalescent Hospital (溫州市康寧精神康復醫院) primarily for the provision of psychiatric medical treatment.
1998	<ul style="list-style-type: none">• Our Company relocated to our first self-built and self-owned building.
2004	<ul style="list-style-type: none">• Our Company became one of the first batches of hospitals which was awarded the “Exemplary Hospitals Relied Upon by People Across the Nation” (全國百姓放心示範醫院).• Our Company was renamed as Wenzhou Kangning Hospital (溫州康寧醫院).
2006	<ul style="list-style-type: none">• Our Company was recognized as a Grade B Class III psychiatric hospital.
2011	<ul style="list-style-type: none">• Our first subsidiary, Qingtian Kangning, commenced business primarily for the provision of psychiatric medical treatment.• The psychiatric department of our Company was listed as one of the “Key National Hospital for Specialized Clinical Psychiatry” (國家臨床重點專科建設單位(精神科)).
2012	<ul style="list-style-type: none">• Our Company established Cangnan Kangning, and commenced business primarily for the provision of psychiatric medical treatment.• Our Company established Yongjia Kangning, and commenced businesses primarily for the provision of psychiatric medical treatment.

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Year	Milestone
2013	<ul style="list-style-type: none">• Our Company established Yueqing Kangning, and commenced businesses primarily for the provision of psychiatric medical treatment.• Our Company was recognized as a Grade A Class III psychiatric hospital.
2014	<ul style="list-style-type: none">• Our Company was converted into a joint stock limited company and was renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).
2015	<ul style="list-style-type: none">• Our Company launched the entrustment management operational model with Yanjiao Furen Hospital.

OUR CORPORATE DEVELOPMENT

Background

In February 1996, our Company was established as a joint stock cooperative enterprise with a registered capital of RMB6.0 million, divided into 1,200 shares with a nominal value of RMB5,000 each, held as to 36% by Mr. Guan, 27% by Mr. Wang, 27% by Mr. Xia and 10% by Ms. Wang Hongyue.

In January 2010, Mr. Xia, transferred 10% and 17% of his equity interest in our Company to Ms. Wang Hongyue and Mr. Guan for a consideration of RMB600,000 and RMB1,020,000, respectively. The considerations were determined with reference to the then registered capital of our Company, and were settled on January 18, 2010. In addition, in January 2010, Mr. Wang, transferred 7% and 20% of his equity interest in our Company to Mr. Guan and Ms. Wang Lianyue for a consideration of RMB420,000 and RMB1,200,000 respectively. The considerations were determined with reference to the then registered capital of our Company, and were settled on January 18, 2010. As a result of the above transfers, our Company was held as to 60% by Mr. Guan, 20% by Ms. Wang Hongyue and 20% by Ms. Wang Lianyue.

In August 2010, our Company increased its registered capital from RMB6.0 million to RMB20.0 million and was subscribed by the then Shareholders on the basis of their respective shareholding by way of cash.

In December 2011, our Company was converted into a limited liability company under the PRC laws.

In March 2013 and April 2013, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen, which are independent third parties, (Beijing CDH Weixin and Beijing CDH Weisen collectively referred to as “**Beijing CDH**”) made the first round of investment in our Company by way of capital injection and acquiring shares from the then Shareholders. Please refer to the section headed the “— **[REDACTED]** Investments” below in this section for further details. After completion of such investment, the registered capital of our Company was increased

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from RMB20.0 million to RMB28.0 million and our Company was held as to approximately 42.82%, 26.83%, 11.41%, 7.59%, 6.70% and 4.65% by Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin and Beijing CDH Weisen, respectively.

On July 28, 2014, Ms. Wang Hongyue transferred approximately 0.40% and 0.40% of her equity interest in our Company to Renai Kangning and Enci Kangning for a consideration of RMB2,083,928 and RMB2,104,872 respectively. The considerations were based on the valuation made when Defu and Beijing CDH invested in our Company in 2013 and were settled on July 28, 2014 and July 25, 2014, respectively. On July 28, 2014, Mr. Guan transferred approximately 0.11% and 3.09% of his equity interest in our Company to Enci Kangning and Xinshi Kangning for a consideration of RMB596,904 and RMB16,158,296, respectively. The considerations were based on the valuation made when Defu and Beijing CDH invested in our Company in 2013 and were settled on July 28, 2014 and April 27, 2015, respectively. The purpose for the above transfers of equity interests to Renai Kangning, Enci Kangning and Xinshi Kangning was for the motivation of our Directors, Supervisors, senior management, employees and external consultants (who advise on our medical research, teaching and training and/or quality control) and provide incentives for their contributions to our Company. As of the Latest Practicable Date, the interests of Enci Kangning, Renai Kangning and Xinshi Kangning were held by 27 individuals, 41 individuals and 38 individuals, respectively, consisting of one Director, two Supervisors, three external consultants and the remainings were senior management and employees of the Group. After completion of the above transfers, our Company was held approximately as to 39.62% by Mr. Guan, 26.83% by Defu Fund, 10.61% by Ms. Wang Hongyue, 7.59% by Ms. Wang Lianyue, 6.70% by Beijing CDH Weixin, 4.65% by Beijing CDH Weisen, 3.09%, by Xinshi Kangning, 0.51% by Enci Kangning and 0.40% by Renai Kangning, respectively.

On October 15, 2014, our Company was converted into a joint stock limited company under the PRC laws, with a registered capital of RMB50.0 million, divided into 50,000,000 Domestic Shares of nominal value of RMB1.00 each, all of which were fully paid up. Upon completion of the conversion, Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning, held 19,810,250, 13,416,750, 5,304,350, 3,794,500, 3,347,750, 2,326,400, 1,543,000, 258,000 and 199,000 Domestic Shares, representing approximately 39.62%, 26.83%, 10.61%, 7.59%, 6.70%, 4.65%, 3.09%, 0.51% and 0.40%, of the then equity interest in our Company, respectively.

In March 2015, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen made the second round of investment in our Company by way of capital injection, and the registered share capital of our Company was increased from RMB50,000,000 to RMB52,800,000. Please refer to the “— [REDACTED] Investments” below in this section for further details. After completion of the capital injection, Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning, held 19,810,250, 15,384,541, 5,304,350, 3,794,500, 3,838,754, 2,667,605, 1,543,000, 258,000 and 199,000 Domestic Shares, representing approximately 37.52%, 29.14%, 10.04%, 7.19%, 7.27%, 5.05%, 2.92%, 0.49% and 0.38%, of the then equity interest in our Company, respectively.

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As advised by the PRC Legal Advisers, each of the abovementioned changes in the shareholding structure of our Company was legally and properly completed and settled and complied with all applicable laws and regulations of the PRC. We have obtained all necessary approvals, permits, licenses, authorizations and consents from the relevant PRC governmental authorities with respect to such changes and such approvals, permits, licenses, authorizations and consents are valid, current, subsisting and irrevocable.

OUR PRINCIPAL SUBSIDIARIES

Qingtian Kangning

On April 1, 2011, Qingtian Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business of Qingtian Kangning is for the provision of psychiatric medical treatment and it commenced its business in April 2011.

Cangnan Kangning

On June 15, 2012, Cangnan Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business of Cangnan Kangning is for the provision of psychiatric medical treatment and it commenced its business in June 2012.

Yongjia Kangning

On December 12, 2012, Yongjia Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business activity of Yongjia Kangning is for the provision of psychiatric medical treatment and it commenced its business in December 2012.

Yueqing Kangning

On September 3, 2013, Yueqing Kangning, a wholly-owned subsidiary of our Company was established in the PRC with a registered capital of RMB1,000,000. The principal business of Yueqing Kangning is for the provision of psychiatric medical treatment and it commenced its business in September 2013.

Judicial Appraisal Institution

On June 16, 2006, the Judicial Appraisal Institution, fully sponsored by our Company was established in the PRC with a capital of RMB500,000. The principal business of the Judicial Appraisal Institution is for the provision of psychiatric forensic services and it commenced its business in June 2006.

Shenzhen Yining

On September 22, 2014, Shenzhen Yining, a non-wholly-owned subsidiary of our Company, was established in the PRC with the registered share capital of RMB10,000,000. Our Company owns 70% equity interest in Shenzhen Yining and Shenzhenshi Yidi Investment

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Co., Ltd (深圳市醫的投資有限公司), an independent third party, owns 30% of the equity interest in Shenzhen Yining. As of the Latest Practicable Date, Shenzhen Yining has not commenced its business and is expected to be primarily engaged in the provision of psychiatric medical treatment.

Linhai Kangning

On February 2, 2015, Linhai Kangning, a non-wholly-owned subsidiary of our Company, was established in the PRC with the registered share capital of RMB2,000,000. Our Company owns 80% equity interest in Linhai Kangning and Mr. Qu Kaisheng (屈凱勝), an independent third party, owns 20% of the equity interest in Linhai Kangning. As of the Latest Practicable Date, Linhai Kangning has not commenced its business and is expected to be primarily engaged in the provision of psychiatric medical treatment.

[REDACTED] INVESTMENTS

Overview of the [REDACTED] Investments

On March 11, 2013, our Company and the Founders entered into a capital increase and share transfer agreement with Defu Fund (“**Defu Investment Agreement**”), which was later amended on April 22, 2013. Pursuant to the Defu Investment Agreement, Defu Fund agreed to contribute the increase in the registered capital of the Company of RMB4,843,717 for a consideration of RMB90,500,000 and acquire approximately 6.68% and 2.86% equity interest of the Company from Ms. Wang Lianyue and Ms. Wang Hongyue for a consideration of RMB35,000,000 and RMB15,000,000, respectively. The considerations for the abovementioned share capital increase and transfers were determined with reference to the then financial performance of our Group and were based on arm’s length negotiations. The considerations were settled on May 24, 2013.

On April 22, 2013, our Company and the Founders entered into a capital increase agreement with Beijing CDH Weixin and Beijing CDH Weisen (“**CDH Investment Agreement**”). Pursuant to the CDH Investment Agreement, Beijing CDH Weixin and Beijing CDH Weisen agreed to contribute the increase in registered capital of the Company of RMB1,876,354 and RMB1,303,907 for a consideration of RMB35,057,800 and RMB24,362,200, respectively. The considerations for the abovementioned share capital increase and transfers were determined with reference to the then financial performance of our Group and were based on arm’s length negotiations. The considerations were settled on May 24, 2013.

On March 16, 2015, our Company and all the then Shareholders entered into a capital increase agreement (“**Capital Increase Agreement**”), pursuant to which, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen agreed to subscribe 1,967,791, 491,004 and 341,205 new Domestic Shares for a consideration of RMB55,098,148, RMB13,748,112 and RMB9,553,740 by way of cash, respectively. The above considerations were based on the then net present value of the Company and were settled on March 17, 2015 and March 18, 2015 respectively.

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After completion of the above capital increase and the transfers of Domestic Shares, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen held approximately 29.14%, 7.27% and 5.05% equity interest of our Company, respectively.

The Founders have entered into a shareholders’ agreement dated April 22, 2013 and a supplemental shareholders’ agreement dated April 22, 2013 with Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen (collectively, “the [REDACTED] Investors”), which were later superseded by the agreement among the Promoters dated September 18, 2014, the supplemental agreement to the agreement among the Promoters dated September 18, 2014 and the second supplemental agreement to the agreement among the Promoters dated April 30, 2015 (collectively, the “Agreements among Promoters”).

Details of the [REDACTED] Investments

The below table summarizes the details of the [REDACTED] Investments:

Name of Investors	Defu Fund	Beijing CDH Weixin	Beijing CDH Weisen
Name of the Agreement for the first and second round investments	(1) Defu Investment Agreement (2) Capital Increase Agreement	(1) CDH Investment Agreement (2) Capital Increase Agreement	(1) CDH Investment Agreement (2) Capital Increase Agreement
Date of the Agreement for the first and second round investments	(1) March 11, 2013 (2) March 16, 2015	(1) April 22, 2013 (2) March 16, 2015	(1) April 22, 2013 (2) March 16, 2015
Date of closing of the for the first and second round investments	(1) May 24, 2013 (2) March 17, 2015	(1) May 24, 2013 (2) March 18, 2015	(1) May 24, 2013 (2) March 18, 2015
Registered Capital subscribed/acquired ⁽¹⁾ for the first round investment	RMB7,519,803	RMB1,876,354	RMB1,303,907
Number of Domestic Shares subscribed/acquired for the second round investment	1,967,791	491,004	341,205
Total percentage of equity interest subscribed after the first and second round investments	29.14%	7.27%	5.05%
Amount of consideration paid for the first and second round investments	(1) RMB140,500,000 (2) RMB55,098,148	(1) RMB35,057,800 (2) RMB13,748,112	(1) RMB24,362,200 (2) RMB9,553,740
Cost per RMB1.00 registered capital ⁽¹⁾ for the first round investment	RMB18.68	RMB18.68	RMB18.68
Cost per Domestic Share paid for the second round investment	RMB28	RMB28	RMB28

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Name of Investors	Defu Fund	Beijing CDH Weixin	Beijing CDH Weisen
Payment date of consideration for the first and second round investments	(1) May 24, 2013 (2) March 17, 2015	(1) May 24, 2013 (2) March 18, 2015	(1) May 24, 2013 (2) March 18, 2015
Basis of determination of the consideration for the first and second round investments	(1) The consideration was determined with reference to the then financial performance of our Group and was based on arm’s length negotiations between our Founders and [REDACTED] Investors at the time of subscription. (2) The consideration was based on the then net present value of the Company.	(1) The consideration was determined with reference to the then financial performance of our Group and was based on arm’s length negotiations between our Founders and [REDACTED] Investors at the time of subscription. (2) The consideration was based on the then net present value of the Company.	(1) The consideration was determined with reference to the then financial performance of our Group and was based on arm’s length negotiations between our Founders and [REDACTED] Investors at the time of subscription. (2) The consideration was based on the then net present value of the Company.
Discount to the [REDACTED] for the first and second round investments	(1) The discount of approximately [REDACTED]% to the midpoint of the indicated [REDACTED] range of [REDACTED] to [REDACTED], on the basis of enlarged share capital immediately upon completion of the [REDACTED]. (2) The discount of approximately [REDACTED]% to the midpoint of the indicated [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED], on the basis of enlarged share capital immediately upon completion of the [REDACTED].	(1) The discount of approximately [REDACTED]% to the midpoint of the indicated [REDACTED] range of [REDACTED] to [REDACTED], on the basis of enlarged share capital immediately upon completion of the [REDACTED]. (2) The discount of approximately [REDACTED]% to the midpoint of the indicated [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED], on the basis of enlarged share capital immediately upon completion of the [REDACTED].	(1) The discount of approximately [REDACTED]% to the midpoint of the indicated [REDACTED] range of [REDACTED] to [REDACTED], on the basis of enlarged share capital immediately upon completion of the [REDACTED]. (2) The discount of approximately [REDACTED]% to the midpoint of the indicated [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED], on the basis of enlarged share capital immediately upon completion of the [REDACTED].

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Name of Investors	Defu Fund	Beijing CDH Weixin	Beijing CDH Weisen
Use of Proceeds and whether fully utilized for the first and second round investments	(1) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized. (2) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized.	(1) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized. (2) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized.	(1) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized. (2) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized.
Shareholding in the Company upon [REDACTED] (assuming the [REDACTED] is not exercised)	[REDACTED]%	[REDACTED]%	[REDACTED]%
Strategic Benefit	In conjunction with their investment, the [REDACTED] Investors provided capital and strategic advice to our Company in relation to our Group’s business based on their extensive experience gained from advising companies in their investment portfolios, which the Directors believe have brought strategic benefits to our Group.		

Note:

- (1) The Company was a limited liability company under the PRC laws when the [REDACTED] Investors made the first round investment in 2013. The Company was converted into a joint stock limited company under the PRC laws, with a registered capital of RMB50.0 million, which was divided into 50,000,000 Domestic Shares of nominal value of RMB1.00 each on October 15, 2014 before the [REDACTED] Investors made the second round investment in 2015.

OUR HISTORY AND CORPORATE STRUCTURE

Shareholders’ Rights of [REDACTED] Investors

Set out below is a summary of certain rights to which the [REDACTED] Investors are entitled under the Agreements among Promoters.

Transfer Restrictions

The Shareholders other than the [REDACTED] Investors shall not, directly or indirectly sell, transfer, pledge, hypothecate, donate or otherwise encumber or dispose of in any way or otherwise grant any interest or right with respect to all or any part of their interest in any equity securities of our Company now or hereafter owned or held directly or indirectly by such Shareholders prior to the Qualified [REDACTED] (as defined below), without the prior written consent of the [REDACTED] Investors.

“Qualified [REDACTED]” means the [REDACTED] of the shares of the Company on a PRC stock exchange (either on main board, SME board or ChiNext market), prior to which the valuation of the Company is not less than RMB1,800,000,000, or other similar [REDACTED] of the shares on other eligible stock exchange according to applicable securities laws and listing rules.

Right of First Refusal and Tag-along Rights

If any of the Shareholders other than the [REDACTED] Investors proposes to sell or transfer any of his or her equity securities of the Company (the “Offered Shares”), the [REDACTED] Investors have the option to purchase such number of the transferred shares to be determined by multiplying (i) the total number of the transferred shares, by (ii) a fraction, the numerator of which is the number of shares of the Company held by Defu Fund or Beijing CDH, and the denominator of which is the aggregate number of shares of the [REDACTED] Investors at the same price and on the same terms and conditions. To the extent that the [REDACTED] Investors do not exercise their respective rights of first refusal as to all of the Offered Shares, the [REDACTED] Investors have the option to participate in such sale of shares at the same price and on the same terms and conditions up to the number of the shares to be determined by multiplying (i) the total number of the transferred shares, by (ii) a fraction, the numerator of which is the shareholding percentage of the Company’s total registered capital of Defu Fund or Beijing CDH, and the denominator of which is the aggregate of the shareholding percentage of the Company’s total registered capital of the [REDACTED] Investors plus the shareholding percentage of the Company’s total registered capital of such Shareholders who are selling their Offered Shares.

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- Right of First Refusal between the [REDACTED] Investors and the Founders
- If one of the [REDACTED] Investors proposes to sell or transfer, directly or indirectly, its Offered Shares to a third party other than their related parties, the other [REDACTED] Investor is entitled to have the option to purchase such number of the transferred shares at the same price offered to the third party. If the other [REDACTED] Investor decided not to exercise its right of first refusal or that all the [REDACTED] Investors propose to sell or transfer, directly or indirectly, their Offered Shares, the Founders are entitled to have the option to purchase such number of the transferred shares at the same price offered to the third party.
- Put Option
- In case of any of the following: (i) at any time after April 22, 2017, (ii) any breach of the Agreements among Promoters or any violation of the Articles of Association by the Company or the Shareholders other than the [REDACTED] investors, which has caused or may potentially cause a material impact on the Group, or (iii) any untruthfulness, non-compliance or non-performance of the representations, warranties, undertakings and agreements made by the Company or the Founders under the CDH Investment Agreement or the Defu Investment Agreement, which has caused or may potentially cause a material impact on the Group, each of the [REDACTED] Investors has the right to sell all or any part of the Shares held by it in the Company to the Founders.
- Exit Right
- Where (i) most of the Founders and the [REDACTED] Investors approve the transactions of which to sell all or most of the Shares or business to any third parties or (ii) the [REDACTED] Investors approve in writing the transactions of which to sell all of the Shares of which the value is no less than RMB1.89 billion to any third parties during the period from July 1, 2014 to June 30, 2018, all the Shareholders shall procure the Board to approve such transaction. In respect of (ii) above, the Founders shall have the right of first refusal to purchase all of the [REDACTED] Investors' shares on the same terms and conditions offered by the same third parties.
- Anti-Dilution Right
- The [REDACTED] Investors shall have the right to adjust their shareholding in the Company's registered capital according to the anti-dilution adjustment mechanism to avoid dilution of their shareholdings in the Company.

OUR HISTORY AND CORPORATE STRUCTURE

If the Company further increases its registered capital (including any existing Shareholder makes further contribution to the registered capital) or issues new Shares of the Company (collectively, "Additional Capital Increase") and the valuation of the Company prior to the Additional Capital Increase is lower than the Valuation After Investment (as defined below), the Shareholders other than the [REDACTED] Investors shall not allow the Company to progress with such Additional Capital Increase, unless, the Shareholding of the [REDACTED] Investors of the Company are adjusted according to the following formula:

$$\text{Shareholding After Adjustment} = \frac{(i) \times (ii)A}{(ii)B}, \text{ where}$$

(i) = Shares held by the [REDACTED] Investors prior to the Additional Capital Increase

(ii)A = Total investment by the [REDACTED] Investors in the Company prior to the Additional Capital Increase divided by the Shareholding of the [REDACTED] Investors prior to the Additional Capital Increase

(ii)B = Valuation of the Company prior to Additional Capital Increase

Profit Guarantee

2013 Adjustment: In the event that the Company's audited net profit after tax does not meet 90% of the profit target (as defined below) in 2013, the [REDACTED] Investors shall have the right to adjust their shareholding according to the formula below:

$$\text{2013 Shareholding After Adjustment} = \frac{X \times Y}{Z}, \text{ where}$$

X = Shareholding of Defu Fund or Beijing CDH

OUR HISTORY AND CORPORATE STRUCTURE

Y = 2013 Target which shall mean (i) if the closing (i.e. the closing of the Defu Investment Agreement and Beijing CDH Investment Agreement, whichever is earlier) occurs prior to or on April 26, 2013, the 2013 Target will be RMB40,000,000; but (ii) if the closing (i.e. the closing of Defu Investment Agreement and Beijing CDH Investment Agreement, whichever is earlier) occurs after April 26, 2013, the 2013 Target will be equal to RMB40,000,000 minus RMB1,000,000 for every thirty (30) days during the period from April 26, 2013 to the date of closing (i.e. the closing of the Defu Investment Agreement and Beijing CDH Investment Agreement, whichever is earlier).

Z = Audited Net Profit After Taxes of the Fiscal Year ended on December 31, 2013

2014 Adjustment: In the event that (i) the audited net profit after taxes for the fiscal year ended on December 31, 2013 is lower than 95% of the 2013 Target, and the audited net profit after taxes for the fiscal year ended on December 31, 2014 is lower than 2014 Target (as defined below), or (ii) the audited net profit after taxes for the fiscal year ended on December 31, 2013 is higher than 95% of the 2013 Target but the audited net profit after taxes for the fiscal year ended on December 31, 2013 is lower than 90% of the 2014 Target, the [REDACTED] Investors shall have the right to adjust their shareholding in the Company ("2014 Performance Adjustment") according to the formula below:

2014 Shareholding After Adjustment = $\frac{A \times B}{C}$, where

A = Shareholding of the [REDACTED] Investors prior to 2014 Performance Adjustment (2013 Performance Adjustment shall be considered, if applicable)

B = 2014 Target which shall mean RMB55,000,000

C = Audited Net Profit After Taxes for the Fiscal Year ended on December 31, 2014

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Pre-emptive Right

For any further capital increase made by the Company, the Shareholders other than the [REDACTED] Investors shall irrevocably agree to waive their pre-emptive rights or any other rights (whatsoever statutory, contractual or otherwise, including the rights provided for under the PRC Laws) in respect of such capital increase. The Company hereby grants each of the [REDACTED] Investors the right to subscribe any part of the capital increase (including the registered capital and capital reserves) to be further made by the Company based on their respective shareholding:

$$\begin{array}{l} \text{Proportion} \\ \text{of shares to} \\ \text{be allotted to} \\ \text{each [REDACTED]} \\ \text{Investor} \end{array} = \frac{\begin{array}{l} \text{the Shareholding of Defu Fund} \\ \text{or Beijing CDH prior to} \\ \text{the capital increase} \end{array}}{\begin{array}{l} \text{the Shareholding of the} \\ \text{[REDACTED] Investors prior to} \\ \text{the capital increase} \end{array}}$$

If either Defu Fund or Beijing CDH waives its pre-emptive right to subscribe for additional shares, the other party is entitled to all or any of such additional shares belong to the party who has waived its pre-emptive right.

Liquidation Preference

In the event of liquidation (including but not limited to any deemed liquidation), if the value of the remaining assets and capital of the Company available for distribution is lower than RMB1,575,000,000:

- (a) the [REDACTED] Investors shall have the right to receive their payments in cash prior to the other Shareholders of the Company, with an amount equal to 1.5 times of their total investment, plus all overdue or accumulative dividends (“**Priority Liquidation Amount**”). The Priority Liquidation Amount shall be allocated according to their respective shareholding of the [REDACTED] Investors at the time of such liquidation.
- (b) after the Priority Liquidation Amount has been allocated in full to the [REDACTED] Investors, any remaining assets or capital of the Company shall be allocated to all Shareholders (including the [REDACTED] Investors) according to their respective shareholding in the Company at the time of such liquidation.

OUR HISTORY AND CORPORATE STRUCTURE

Director and Supervisor Nomination Rights

Each of Defu Fund and Beijing CDH are entitled to nominate one Director. Defu Fund and Beijing CDH together are entitled to nominate one Supervisor. In addition, as long as the [REDACTED] Investors hold any interest in our Company, each is entitled to appoint one observer, to attend any Shareholders meetings and Board meetings.

Veto/Protective Rights

Any of the following matters such as acquisition, reorganization or event which may lead to the capital changes of the Company, any expansion plan of the Company and any change or appointment of key management of the Company, shall require unanimous approval by all Directors nominated by the [REDACTED] Investors. All other matters of the Company shall require the approval of at least one Director appointed by Defu Fund or Beijing CDH.

Certain matters which require simple majority approval in Shareholders’ meeting as provided in the Company’s article of association shall at least require the approval of Defu Fund or the approval of Beijing CDH.

Information and Inspection Rights

The [REDACTED] Investors have the right to receive periodic financial information. The [REDACTED] Investors also have the right to reasonably request for information about, or answers to its enquiries relating to, the operations, business affairs and financial condition of our Group.

All of the above special rights will be terminated upon the [REDACTED], except for the rights of profit guarantee and the right of first refusal between the [REDACTED] Investors and the Founders. These special rights are purely private arrangements between the Founders and [REDACTED] Investors. Pursuant to the confirmations issued by the [REDACTED] Investors on April 30, 2015, the [REDACTED] Investors confirmed that the Company’s audited net profits have met the profit targets in both 2013 and 2014 as provided under the Agreements Among the Promoters and accordingly, they will not exercise their respective rights of shareholding adjustment under the right of profit guarantee. In view of the above, our Directors are of the view that the aforementioned special rights are in compliance with Rule 2.03(4) and paragraph 3.1(f) of the Guidance Letter HKEX-GL-43-12 (issued in October 2012 and updated in July 2013) of the Stock Exchange.

Lock-up and Public Float

The terms of the Agreements among Promoters did not impose any lock up obligations over the Domestic Shares held by any of the [REDACTED] Investors upon [REDACTED]. As advised by the PRC Legal Advisers, the [REDACTED] Investors would be subject to a lock-up period of one year under the PRC laws after the [REDACTED]. Pursuant to the PRC laws, the shares which have been issued before we publicly issue H Shares are prohibited from being

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transferred within one year from the date of [REDACTED] on a stock exchange. The Shares held by Beijing CDH Weixin, Beijing CDH Weisen and Defu Fund are Domestic Shares, these Shares would not be considered as part of the public float for the purposes of Rule 8.08(1) of the Listing Rules as they are Domestic Shares which would not be [REDACTED] and traded in Hong Kong.

Information regarding the [REDACTED] Investors

Defu Fund

Defu Fund is a limited partnership established on January 23, 2013 under the laws of the PRC. It is owned as to 1.57% by Guangzhou GL Capital GP L.P. (廣州德福投資諮詢合夥企業(有限合夥)), the general partner, and as to 52.45% by Guangzhou Automobile Group Capital Co., Ltd. (廣汽資本有限公司), as to 25% by Guochuang Kaiyuan Equity Investment Fund (Limited Partnership) (國創開元股權投資基金(有限合夥)), as to 10.49% by Tianjin Langhui Pharmaceutical Tech Development Co., Limited (天津朗輝醫藥科技發展有限公司) and as to 10.49% by Shenzhen Kangzhe Investment Management Co., Limited (深圳市康哲投資管理有限公司), and they are all limited partners. Defu Fund is an independent third party other than its shareholding in our Company.

Beijing CDH Weixin and Beijing CDH Weisen

Each of Beijing CDH Weixin and Beijing CDH Weisen, is a limited liability partnership established on May 19, 2010 and August 6, 2010, respectively, under the laws of the PRC. The general partner is CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理(北京)有限公司) (“CDH Huatai”), the majority of which is owned by CDH Equity Investment Management (Tianjin) Co., Ltd. (鼎暉股權投資管理(天津)有限公司) which is controlled by Tianjin Taiding Investment Co., Ltd.(天津泰鼎投資有限公司). Both Beijing CDH Weixin and Beijing CDH Weisen are independent third parties other than their shareholdings in our Company.

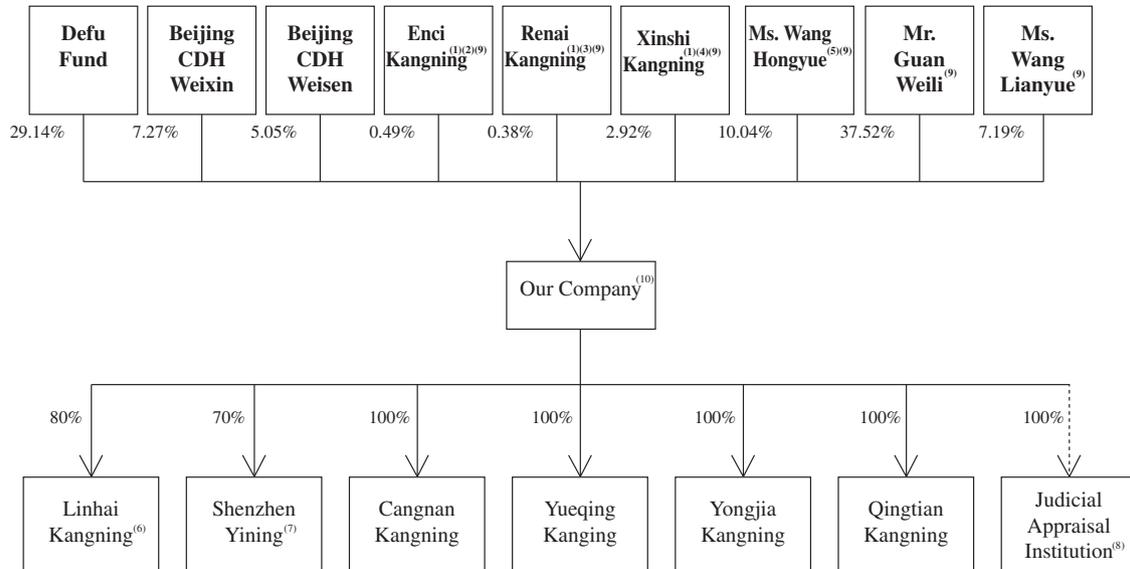
Joint Sponsors’ Confirmation

The Joint Sponsors have determined that the terms of the [REDACTED] Investments are under normal commercial terms and confirmed that the [REDACTED] Investments are in compliance with the Interim Guidance on [REDACTED] Investment issued by the Stock Exchange on October 13, 2010, Guidance Letters HKEx-GL44-12 (issued in October 2012) and HKEx-GL43-12 (issued in October 2012 and updated in July 2013), based on the review of the relevant documentation.

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OUR SHAREHOLDING AND CORPORATE STRUCTURES

Our corporate and shareholding structure immediately before the completion of the [REDACTED]:



Notes:

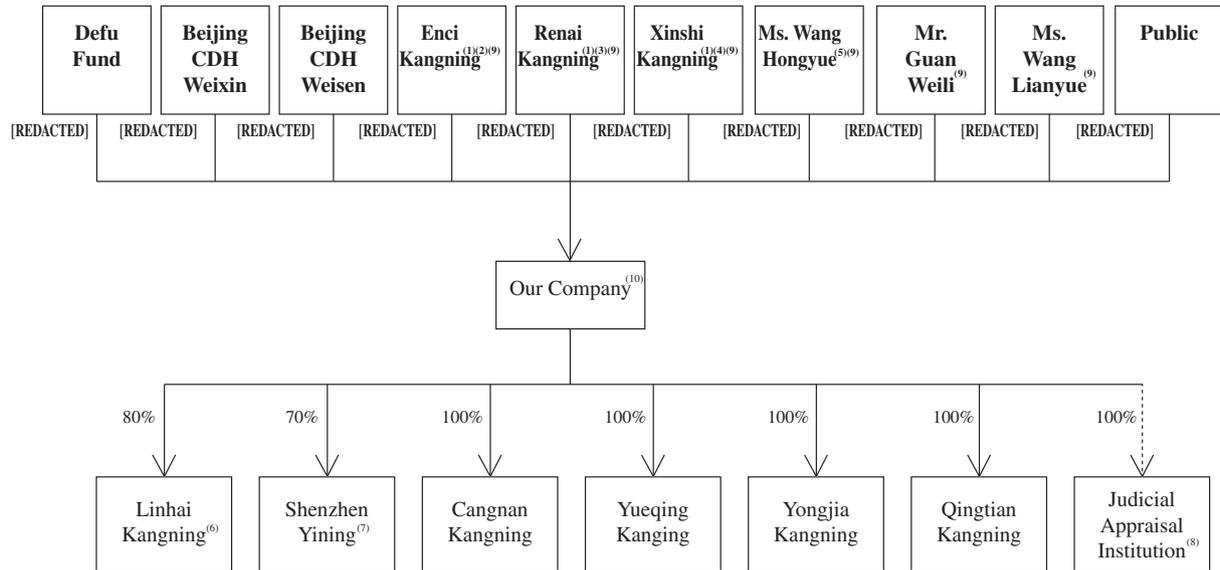
- (1) Each of Xinshi Kangning, Enci Kangning and Renai Kangning (collectively referred to as the “Kangning Partnerships”) was established in the PRC as a partnership on July 16, 2014, July 18, 2014 and July 17, 2014 respectively for the motivation of our Directors, Supervisors, senior management, external consultants and employees and provide incentives for their contributions to our Company. As of the Latest Practicable Date, the interests of Enci Kangning, Renai Kangning and Xinshi Kangning were held by 27 individuals, 41 individuals and 38 individuals, respectively, including one Director, two Supervisors, three external consultants and the remaining individuals are senior management and employees of our Group. Ms. Wang Biyu, the niece of Ms. Wang Lianyue and an employee of our Company, is the general partner of Enci Kangning and Renai Kangning and Ms. Wang Hongyue is the general partner of the Xinshi Kangning. The others are all limited partners of the Kangning Partnerships.
- (2) As of the Latest Practicable Date, there were 27 employees and external consultants of our Group who directly held interest in Enci Kangning including one Supervisor, 24 employees and two external consultants and they are Wang Biyu (3.80%), who is the general partner, and Zhang Mingyuan (3.70%), Wu Songquan (3.70%), Ma Mingdong (3.70%), Xu Qunyan (3.70%), Xie Tiefan (3.70%) who is the Supervisor of the Company, Xiang Jian (3.70%), Chen Desheng (3.70%), Guan Weilu (3.70%), Xu Xiaojun (3.70%), Yu Yanyan (3.70%), Xu Huaqin (3.70%), Ye Fengzhen (3.70%), Wang Xiaomin (3.70%), Zhang Linghui (3.70%), Wang Lianqun (3.70%), Hong Zhongqiu (3.70%), Yang Shaohai (3.70%), Wang Xiaoqiu (3.70%), Wu Liyuan (3.70%), Dai Xiaozhi (3.70%), Ye Jianqun (3.70%), Li Yueming (3.70%), Pan Xiujuan (3.70%), Wen Na (3.70%), Hou Xianqin (3.70%) and Liu Qiaojin (3.70%), who are all limited partners.
- (3) As of the Latest Practicable Date, there were 41 employees of our Group who directly held interests in Renai Kangning and they include Wang Biyu (4.00%) who is the general partner, and Zhang Jinxia (2.40%), Zhou Yi (2.40%), Zhang Haixia (2.40%), Ye Aiqun (2.40%), Ye Xiaochun (2.40%), JinLihong (2.40%), Yang Qingqing (2.40%), Luo Huaijuan (2.40%), CaiXugong (2.40%), Dai Yongde (2.40%), Li Feng (2.40%), Wu Chunhua (2.40%), Yang Qunhua (2.40%), Wang Xiaoqiong (2.40%), Feng Ruihua (2.40%), Zhang Sujuan (2.40%), Wang Ying (2.40%), Ye Hujie (2.40%), Chen Xiaoli (2.40%), Luo Qiujiao (2.40%), Zheng Haiyan (2.40%), Liang Yun (2.40%), Hu Shengdan (2.40%), Huang Jianli (2.40%), Wang Suyun (2.40%), Su Wenping (2.40%), Mao Youhui (2.40%), Xu Chunsong (2.40%), Wang Jieqiong (2.40%), Zhao Yin'ai (2.40%), Ying Xue (2.40%), Xia Miaomiao (2.40%), Rao Yuexiao (2.40%), Cai Qiaole (2.40%), Shi Sumi (2.40%), Gao Zhiyong (2.40%), Liu Hongyang (2.40%), Tian Haijia (2.40%), Zheng Shengzang (2.40%) and Ye Liuting (2.40%), who are all limited partners.

OUR HISTORY AND CORPORATE STRUCTURE

- (4) As of the Latest Practicable Date, there were 38 employees and external consultant who directly held interest in Xinshi Kangning including one Director, one Supervisor, six senior management, one external consultant and 29 employees of our Group include Wang Hongyue (13.73%), who is the general partner, and Zhou Chaoyi (6.19%), Xu Yi (6.19%), Ye Minjie (3.09%), Wang Qian (3.09%), Zhang Feixue (3.09%), and Wang Jian (24.3%) who are senior management of the Company, Sun Fangjun (1.55%) who is the Supervisor of the Company, Wang Biyu (1.94%), Zhao Jingping (1.85%), Cai Wenxiang (1.24%), Ye Xiaodan (0.93%), Tai Yong (1.55%), Sun Hongbo (1.55%), Huang Wenwu (1.55%), Liu Jiahong (1.55%), Liu Zhihong (3.09%), Shan Yisheng (3.09%), Hui Li (0.93%), Gong Benhong (0.93%), Li Fangmin (0.93%), Pan Jianshe (0.93%), Zhang Jinliang(0.93%), Tang Wei (0.93%), Liu Linjing (0.93%), Liu Wenguang (0.93%), Chen Yuanling (0.93%), Yang Yi (1.85%), Zhang Xiangyang (3.09%), Zheng Ke (0.31%), Xu Wandong (0.62%), Hu Jun (1.24%), Ye Wangjun (0.62%), Zheng Tiansheng (1.24%), Li Haishuang (0.62%), Liao Huixing (0.31%), Wang Xianxin (0.31%) and Jin Weiguang (1.85%), who are all limited partners.
- (5) Ms. Wang Hongyue is the general partner of Xinshi Kangning, which is a limited liability partnership and holds approximately 13.73% interest in Xinshi Kangning. Ms. Wang Hongyue directly holds approximately 10.04% equity interest in our Company.
- (6) Mr. QU Kaisheng holds 20% equity interest in Linhai Kangning, who is an independent third party.
- (7) Shenzhenshi Yidi Investment Co., Ltd (深圳市醫的投資有限公司) holds 30% equity interest in Shenzhen Yining, which is an independent third party. On June 16, 2015, Shenzhen Yining, our Company, Shenzhenshi Yidi Investment Co., Ltd. and Shenzhenshi Dongwu Investment Group Co., Ltd. (深圳市東吳投資集團有限公司) (“**Shenzhenshi Dongwu**”) (an independent third party) entered into a capital increase agreement in respect of an increase in registered capital of Shenzhen Yining for an amount of RMB40 million (“**Capital Increase Agreement**”). Pursuant to the Capital Increase Agreement, our Company, Shenzhenshi Yidi Investment Co., Ltd and Shenzhenshi Dongwu will further contribute to the registered capital of Shenzhen Yining for an amount of RMB19 million, RMB9 million and RMB12 million, respectively. After completion of the above capital increase, the registered capital of Shenzhen Yining will be increased from RMB10 million to RMB50 million and will be held as to 52%, 24% and 24% by our Company, Shenzhenshi Yidi Investment Co., Ltd and Shenzhenshi Dongwu, respectively.
- (8) On June 16, 2006, the Judicial Appraisal Institution, fully sponsored by our Company, was established in the PRC with a capital of RMB500,000. The principal business of the Judicial Appraisal Institution is for the provision of psychiatric forensic services and it commenced its business in June 2006.
- (9) Each of the Directors, Supervisors and senior management undertakes that, upon the [REDACTED], pursuant to the PRC Company Law, he/she will continuously declare to the Company his/her interest in the Shares of the Company, and will comply with the following restrictions: (1) he/she shall not transfer his/her respective interests in the Shares within one year upon the [REDACTED]; (2) he/she shall not transfer more than 25% of his/her respective interests in the Shares each year after the first year of the [REDACTED] during his/her tenure; and (3) he/she will not transfer any of his/her respective interests in the Shares within six months after his/her departure from the Company.
- (10) Our Company has also established six not-for-profit organizations. According to the articles of association of the six not-for-profit organizations, our Company cannot exercise the control over or obtain return from the not-for-profit organizations, thus they are not considered as subsidiaries of the Group. Please refer to Note 35 to the Accountants’ Report included in Appendix I to this [REDACTED] for further details.

OUR HISTORY AND CORPORATE STRUCTURE

Our corporate and shareholding structure immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):



Notes:

(1)-(10) Please refer to the details contained in Notes (1) to (10) on Page [124] to [125] of the [REDACTED].

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OVERVIEW

We are the largest private psychiatric healthcare group in China as measured by revenue in 2014, and the second largest in the overall psychiatric healthcare market in China by the same metric, according to the Frost & Sullivan Report. We operate and manage a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care. As of December 31, 2014, we had six healthcare facilities in operation, including the only privately-owned Grade A Class III psychiatric specialty hospital in China, with a total of 1,900 beds in operation across our network.

We operate in a rapidly-growing market with a strong demand for our services. According to the Frost & Sullivan Report, currently over 180 million people in China suffer from psychiatric disorders. However, much of this demand is unmet. According to the Frost & Sullivan Report, China has significantly lower ratios of psychiatrists and psychiatric beds per 10,000 persons compared to the median ratio of G7 countries, as well as significantly lower healthcare spending per capita and as a percentage of GDP, despite being the second largest economy in the world. As a result, the PRC psychiatric healthcare market is expected to have ample room to grow for years to come, particularly in light of the PRC government's efforts to ramp up healthcare infrastructure and expand the availability of public medical insurance. According to the Frost & Sullivan Report, the total revenue of healthcare institutions in China grew from RMB1,186.2 billion in 2009 to RMB2,314.7 billion in 2013, representing a CAGR of 18.2%, and is projected to reach RMB5,171.5 billion in 2018, representing a CAGR of 17.4% from 2013 to 2018. In line with the growth of the overall PRC healthcare market, the PRC private psychiatric healthcare market, in which we are the leading participant by revenue in 2014, grew from RMB2.2 billion in 2010 to RMB5.1 billion in 2014, representing a CAGR of 23.8%, and is projected to further grow from an estimated RMB6.2 billion in 2015 to RMB13.6 billion in 2019, representing a CAGR of 21.8%.

We believe we are well-positioned to capture significant opportunities in the high-growth PRC psychiatric healthcare market, and have a successful track record of utilizing a highly-flexible expansion strategy to rapidly enter and ramp up psychiatric healthcare facilities in new markets across China. We established our first healthcare facility, Wenzhou Kangning Hospital, in 1996, and have developed it into the only privately-owned psychiatric specialty hospital in China to achieve a Grade A Class III rating, which is the highest attainable classification for all PRC hospitals. Subsequently, we expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize management agreements to manage third party hospitals or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We believe that our multi-pronged expansion model allows us to accelerate expansion plans efficiently by limiting upfront capital investments, lowering risks and shortening the development period and path to profitability for new healthcare facilities. Our healthcare facilities established under these business expansion models have typically become operational within one year after commencing development.

Under our diverse expansion models, we have rapidly grown our network presence from the city of Wenzhou to across Zhejiang Province, one of the wealthiest provinces in China, and further to key population centers in other major economic regions in the PRC, including the Bohai Economic Rim and the Southwest China region. In the process, we expanded our

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network from three healthcare facilities in early 2012 to eight as of the Latest Practicable Date, consisting of five psychiatric specialty hospitals that we own and operate and three healthcare facilities that we manage through management agreements with third parties. In line with our network expansion, we nearly doubled our operational capacity from 1,090 beds as of January 1, 2012 to 1,900 beds as of December 31, 2014. We have pipeline healthcare facilities in Beijing, the Pearl River Delta Economic Region and the Yangtze Delta Economic Region.

We believe we have preeminent industry standing and experience, which together with our pioneer status, enable us to play a leading role in the development of the PRC psychiatric healthcare market. We are recognized for our market-leading medical expertise across the full spectrum of psychiatric disorders, as well as for our service quality and research and teaching capabilities. As a top-rated hospital, Wenzhou Kangning Hospital has received distinguished designations, such as being the only privately-owned psychiatric specialty hospital to be accredited as a Key National Hospital for Specialized Clinical Psychiatry (國家臨床重點專科建設單位(精神科)) by the NHFPC. We attribute much of our success to the skill and experience of our management and medical professionals, whom we augment with highly-standardized training, teaching and research programs in order to further improve our patient outcomes and service quality. As a result, we believe we are well-positioned to strengthen our clinical reputation as an industry leader that not only provides quality, compassionate and outcomes-focused healthcare to our patients, but also offers appealing learning and career development opportunities to our medical professionals.

We grew significantly during the Track Record Period. Our revenue increased from RMB170.8 million in 2012 to RMB226.4 million in 2013 and further to RMB296.3 million in 2014, representing a CAGR of 31.7%. Our net profit increased from RMB13.2 million to RMB36.2 million and further to RMB51.2 million over the same period, respectively, representing a CAGR of 96.9%. During the Track Record Period, we derived the majority of our revenue from treatment and general healthcare services, which amounted to RMB108.9 million in 2012, RMB150.1 million in 2013 and RMB206.8 million in 2014, respectively, representing 63.8%, 66.3% and 69.8% of our total revenue in the same years, respectively. Reflecting the nature of the psychiatric healthcare industry, we primarily focus on treatment and general healthcare services as the core aspect of our operations and expect this trend to continue going forward.

OUR COMPETITIVE STRENGTHS

Significant unmet demand and growth potential in the private psychiatric healthcare market in China

According to the Frost & Sullivan Report, China is a rapidly-growing market for psychiatric healthcare, with strong demand for the diagnosis and treatment of psychiatric disorders. We believe such demand is heavily driven by an increasing awareness of psychiatric disorders in China and the increasing availability of diagnosis and treatment options. Currently over 180 million people in China suffer from psychiatric disorders. However, due to

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shortages in psychiatric healthcare infrastructure and relevant resources, this demand remains largely unmet. According to the Frost & Sullivan Report, in 2011, the national average of psychiatrists and psychiatric beds per 10,000 persons in China was 0.15 and 1.47, respectively. By comparison, in G7 countries, the median ratio of psychiatrists and psychiatric beds per 10,000 persons was 1.2 and 7.4, respectively, in the same year.

In addition, within the PRC psychiatric healthcare industry, there are significant market opportunities and an important social need for private hospital operators. Given that public psychiatric hospitals are unable to meet current and projected market demand, private psychiatric hospitals are expected to play an increasingly important role. According to the Frost & Sullivan Report, the overall market for private psychiatric healthcare institutions in China grew from RMB2.2 billion in 2010 to RMB5.1 billion in 2014, representing a CAGR of 23.8%, and is projected to grow from an estimated RMB6.2 billion in 2015 to RMB13.6 billion in 2019, representing a CAGR of 21.8%, which is significantly higher than that of public psychiatric healthcare institutions during the same period. According to the same source, the number of annual inpatients in the PRC psychiatric healthcare market increased from 1.17 million in 2010 to 2.07 million in 2014, representing a CAGR of 15.3%, and is projected to continue to grow at a CAGR of 16.7% from 2015 to 2019, reaching 4.50 million inpatients in 2019. In addition, with rapidly rising disposable income and demand for quality healthcare services, an increasing number of Chinese patients are willing to pay for premium healthcare services, which are generally offered by private psychiatric healthcare institutions as a matter of PRC government policy. For example, while private psychiatric healthcare providers accounted for approximately one out of every ten hospital beds in the PRC psychiatric healthcare market in 2014, they contributed nearly one-fifth of the total revenue in the same market, according to the Frost & Sullivan Report.

Furthermore, the PRC government has made significant efforts to support the development of the psychiatric healthcare sector and encourage private investment and involvement in this market. For example, the Mental Health Act of 2013 is considered a key milestone in the PRC psychiatric healthcare sector, and has significantly raised the profile of psychiatric healthcare as a key segment of the overall healthcare system in China. Among the comprehensive measures enacted by the Mental Health Act of 2013 are requirements for various levels of the PRC government to establish official plans and financial support to upgrade community-level infrastructure for psychiatric healthcare, including encouraging medical facility development and modernization and elevating the quality of facilities, personnel and equipment. In addition, public medical insurance coverage has been expanded as part of the PRC government's efforts to establish a universal medical insurance system. Funding for public medical insurance programs in China has risen from RMB461.6 billion in 2009 to RMB1,079.5 billion in 2013, representing a CAGR of 23.7%, and is projected to reach RMB3,025.4 billion in 2019, according to the Frost & Sullivan Report. Such efforts significantly contributed to the growth of private psychiatric healthcare providers. During the Track Record Period, the amount of our medical bills settled through public medical insurance increased from RMB53.3 million in 2012 to RMB134.2 million in 2014, representing a CAGR of 58.7%. In line with the continued expected growth in public medical insurance funding, we anticipate that payments from public medical insurance will continue to account for a significant portion of our total payments received going forward.

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The largest private psychiatric hospital operator in China

According to the Frost & Sullivan Report, in 2014, we operated the largest privately-owned hospital network in China that specializes in psychiatric healthcare as measured by revenue, and were the second largest in the overall psychiatric healthcare market in China by the same metric. We are the only privately-owned operator of a Grade A Class III psychiatric hospital, which is the highest attainable classification for all hospitals in China. In addition, Wenzhou Kangning Hospital has been entrusted with distinguished government designations, such as being accredited by the NHFPC as a Key National Hospital for Specialized Clinical Psychiatry (國家臨床重點專科建設單位(精神科)), the only privately-owned psychiatric specialty hospital in China to receive such distinction. We are recognized for our market-leading medical expertise across the full spectrum of psychiatric disorders, as well as for our service quality and research and teaching capabilities. We believe we have preeminent industry standing and experience, which together with our achievements, enable us to play a leading role in the development of the PRC psychiatric healthcare market. In recognition of our efforts and accomplishments, we have received numerous awards for, among other categories, service quality, reputation, trustworthiness and social and corporate responsibility. See “— Awards and Recognition.”

We experienced significant growth during the Track Record Period, expanding our network from three healthcare facilities in early 2012 to six by the end of 2014, consisting of five psychiatric specialty hospitals that we own and operate and one psychiatric ward that we manage through a management agreement. In the process, we nearly doubled our operational capacity from 1,090 beds as of January 1, 2012 to 1,900 beds as of December 31, 2014. We believe that our experience and successful track record in operating hospitals under various operational and management models, together with the increase in the number of our professional staff, will support our future expansion efforts and further solidify our leading position as the largest private psychiatric healthcare group in China.

Highly-scalable business model backed by our standardized operating platform

Within approximately four years, we have successfully expanded our network presence from the city of Wenzhou to across Zhejiang Province, one of the wealthiest provinces in China, and further to key population centers in other major economic regions in the PRC. Beginning in 2011, we first consolidated our regional market share with the establishment of six healthcare facilities in Zhejiang Province in addition to Wenzhou Kangning Hospital, our flagship hospital. Of the six healthcare facilities in Zhejiang Province, five are in operation and one is planned as of the Latest Practicable Date. We then launched our network nationally by entering into management agreements to manage a hospital in Hebei, representing the Bohai Economic Rim, and a psychiatric ward in Chengdu, representing the Southwest China region. Locations of our pipeline healthcare facilities as of the Latest Practicable Date include new hospitals in Beijing, representing the capital region, Shenzhen, representing the Pearl River Delta Economic Region and Hangzhou, representing the Yangtze Delta Economic Region.

Our expansion strategy utilizes a variety of operating models that facilitate rapid entry and ramp-up in new regional markets. Historically, we have expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize

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management agreements to manage third party hospitals or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We believe that our multi-pronged expansion model allows us to accelerate expansion plans efficiently by limiting upfront capital investments, lowering risks and shortening the development period and path to profitability for new healthcare facilities. Our healthcare facilities established under these expansion models have typically become operational within one year after commencing development.

In addition, we strive to ensure that our rapid expansion efforts do not compromise the consistency of our service quality and our reputation for clinical excellence. We believe our long history and experience in operating our healthcare facility network and our pool of experienced hospital administrators and doctors allow us to have an in-depth understanding of patient needs and anticipation of market trends. As a pioneer in the private psychiatric healthcare sector in China, we are a market-leader in implementing well-developed operating protocols and quality controls. Over years of prudent and comprehensive testing and refinement, we have formulated highly-standardized diagnosis, treatment, follow-up and internal review procedures to focus on patient outcomes and service quality. Our consistent high quality services across our network also support the successful implementation of our expansion strategies and achieve economies of scale. In addition, we advocate compassionate, patient-centric values in our operations, and have studied the practices of successful overseas psychiatric healthcare providers and strive to implement global best practice guidelines in our field in terms of both clinical and operating protocol and facility design. We believe our longstanding commitment to clinical outcomes and service quality is a key strategic advantage and is essential to our long-term growth plans. Furthermore, we believe these values and protocols have been instrumental in our ability to not only recruit and develop skilled medical personnel, but also instill a culture of dedication to psychiatric healthcare.

High-quality workforce augmented by our strong teaching, training and research capabilities and collaboration with leading industry specialists and institutions

We attribute our successful track record and industry recognition to the talent and professionalism of our hospital administrators, doctors and other medical staff. As of the end of 2014, we had 599 medical staff across our network, including 150 registered doctors and 375 nurses, making our Group the largest employer of psychiatric doctors and nurses among private psychiatric hospital networks in China. We believe our pool of medical staff provides us with a critical competitive advantage in maintaining our position as the leading privately-owned psychiatric healthcare network in China. Many of our employees have specialized backgrounds and extensive experience in the treatment of a wide variety of psychiatric conditions. In turn, they are able to incorporate such specialization into the design and implementation of individualized treatment plans in order to meet the specific needs of each patient.

We augment our staff capabilities and ensure our continued market-leading expertise with comprehensive teaching, training and research programs, many of which involve long-standing partnerships with selected medical institutions. For example, our Wenzhou Kangning Hospital has close cooperation and teaching relationships with multiple medical colleges in the PRC, specifically Wenzhou Medical University, Qiqihar Medical University and Bengbu Medical College. We had a total training intake of over 100 medical students from

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various universities over the Track Record Period, which provides teaching and collaboration opportunities for our medical staff, and require all of our medical staff to undergo periodic training and review. We maintain active dialogue and information exchange with international experts in our field to continually improve our treatment services. For example, we recently engaged a team of leading psychiatric healthcare experts in the PRC to provide operational guidance and consultation services to our management staff and doctors. In addition, we maintain a dedicated research budget and encourage all of our doctors to participate in active research studies. Since 2014, we have authored six Scientific Citation Index academic papers under the Wenzhou Kangning Hospital name.

We believe such collaborations not only enhance the training and development of our workforce, but also strengthen our reputation and industry recognition as a specialized teaching and research hub, which helps us attract top quality talent in the psychiatric healthcare industry. In addition, through our teaching and training programs, we have been able to cultivate relationships with a promising next generation of doctors at an early stage of their professional development, creating a proprietary pipeline of clinical talent for future recruitment. For example, in 2014, we began sponsoring scholarships for 28 selected medical students specializing in psychiatry at Wenzhou Medical University, and plan to further increase the annual scholarship class going forward. In the same year, we also began providing clinical psychiatric training programs for undergraduate medical students of Wenzhou Medical University. We believe such advantages are instrumental to our ability to sustain our competitiveness and meet the growing demands of our business.

Experienced management team with industry-leading expertise and reputation

We attribute much of our operational and financial success to the members of our management team, who laid the foundation for our business. Through their vision, experience and entrepreneurial spirit, they have developed our network from a single hospital in Wenzhou into a leading private psychiatric healthcare group in China and the only private operator of a Grade A Class III psychiatric specialty hospital. We have enjoyed over 10 years of leadership continuity under the core members of our management, each of whom has deep, extensive knowledge and experience in the PRC psychiatric healthcare field, with an average of 24 years of industry experience. Several members of our management team are experienced psychiatric doctors, carrying a wealth of both clinical and management experience. Our chairman and founder, Mr. Guan Weili, is a leading hospital administrator in China, with approximately 25 years of management and operational experience in the psychiatric healthcare field, and has received numerous national recognitions.

We believe the talent and experience of our management team grant us considerable competitive advantages against public hospitals. For example, we believe that compared to public hospitals, we are able to enjoy greater flexibility with respect to operational aspects such as procurement and employee incentivization, without compromising the soundness of our risk management. As a result, we believe that we have achieved effective cost controls, leading to our increasing profitability during the Track Record Period. We largely attribute these advantages to the experience, guidance and continuity of our management team. We believe that under the continued leadership of our experienced management, we are well-positioned to further strengthen our reputation and presence through growth and geographical expansion.

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OUR BUSINESS STRATEGIES

Strengthen our market-leading position by continuing to ramp up and expand our healthcare facility network across China to capture unmet demand for psychiatric healthcare

We intend to leverage our successful track record and extensive experience in the PRC psychiatric healthcare industry to continue to expand our healthcare facility network across China. To establish a national presence, we have prioritized expansion of our network in major population centers in various leading economic regions in China. For example, we have recently commenced operations of psychiatric healthcare facilities in the Bohai Economic Rim and the Southwest China region, and have healthcare facilities under development in Beijing, the Pearl River Delta Economic Region and the Yangtze Delta Economic Region. We intend for such healthcare facilities to eventually serve as regional centers of our network, with further expansion extending from each such regional center in a hub-and-spoke structure, similar to our Wenzhou Kangning Hospital serving as the hub for subsequent network growth in Zhejiang Province, which enabled us to consolidate our regional market share. We believe replicating our hub-and-spoke model in new markets will allow us to effectively gain patient referrals, improve resource allocation and generate operating leverage.

We have a proven track record of network expansion through various expansion models, which we believe allow us to limit our upfront capital investments and shorten the ramp-up periods. We believe that continuing to expand our network through such models will create a favorable balance of investment returns and operational risks for our Group. We may also continue to explore other business expansion opportunities where available, such as business acquisitions or a widely-accessible online platform, in order to quickly capture opportunities in areas with underserved psychiatric demand and strong growth potential.

Target the premium psychiatric healthcare market in China by upgrading our healthcare facilities and enhancing our premium service capacity

We intend to penetrate the premium psychiatric healthcare market in China, which offers significant opportunities in line with the growth in socioeconomic status and per capita disposable income. In particular, as public hospitals are discouraged from providing premium healthcare services as a matter of PRC government policy, opportunities in this market are particularly timely for private healthcare providers. Consequently, we intend to selectively upgrade our existing healthcare facilities and elevate our premium service capacity in order to meet the growing demand from patients who are willing to pay for higher quality, personalized healthcare services in a more upscale environment. Our most notable upgrade project consists of new structural developments for Wenzhou Kangning Hospital, which, upon the commencement of operations in 2017, we expect will not only increase overall patient capacity but also the proportion of operations dedicated to patients seeking premium healthcare services. We also plan to open Beijing Yining Hospital in the second half of 2015, which will be our first exclusively upscale psychiatric healthcare facility, designed to be comparable to luxury hotels. Going forward, we plan to roll out and scale up premium healthcare services in other markets that we determine to have substantial, unmet demand for premium psychiatric healthcare, including those where certain of our existing healthcare facilities are located. As

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an established industry leader, we believe we will be able to successfully leverage our reputation and experience to capture growth opportunities in China's premium psychiatric healthcare market.

Continue to attract, develop and retain a highly-skilled workforce to support our network expansion

We plan to continue to expand our workforce of talented hospital administrators, doctors and other medical staff in order to support the continued growth and expansion of our healthcare facility network. To this end, we plan to intensify our recruiting efforts for both experienced doctors and fresh graduates and further strengthen our reputation and appeal as an employer of choice in our field. For example, we will reinforce our partnerships with colleges and other higher level institutions, such as establishing a new psychiatric healthcare preparatory training program in conjunction with Wenzhou Medical University, in order to expand our pipeline of new medical professionals. We also plan to increase investment and participation in scientific research, which we believe will help raise our profile in the psychiatric healthcare industry and attract leading practitioners and specialists in the field to our network. With respect to management personnel, we intend to implement an internal rotation system to provide both development prospects and exposure to different environments for our healthcare facility administrators. We believe providing opportunities to grasp greater responsibilities and work with different employees will improve management capability. Furthermore, we may consider providing equity-based incentives to our core medical and management personnel to further bolster our appeal as an employer of choice.

Continue to enhance the quality of our medical treatments and service throughout our network by strengthening our research and training programs

In line with our corporate values, we intend to pursue not only the expansion and scaling up of our hospital network, but also the ability to provide the highest quality medical treatments and services in our industry. To achieve our vision, we intend to increase our research funding and, whether through hiring highly accomplished researchers or collaborating with top-tier research institutions, participate in research initiatives into the forefront areas of mental health research, such as biomarkers for the prediction, diagnosis, treatment and prognosis of schizophrenia and other psychiatric diseases. By incorporating new knowledge and findings into medical technologies and therapies, we believe we will be at the forefront of the clinical psychiatric treatment field. At the same time, we will also further strengthen our well-recognized teaching and training programs to elevate the treatment skills and service quality of our doctors and nurses. By ensuring that we have well-trained medical staff and advanced treatment techniques, we believe we will be able to further improve patient outcomes.

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Continue to enhance information technology infrastructure

We plan to upgrade our information systems network and improve our management processes in order to enhance the service capacity at our healthcare facility network. First, we intend to develop a web-based service platform accessible to mobile and other Internet users in order to improve convenience, responsiveness and the overall medical treatment experience. For example, our patients will be able to make online appointments through the platform and have online communications with our medical staff as part of the follow-up process after being discharged from our healthcare facilities. We also plan to enhance our network information technology to broaden the accessibility of our services, such as by providing remote diagnostic and medical advice across a mobile platform, which we believe will also enable us to effectively capture market opportunities from a larger customer base and address privacy concerns that may arise with respect with in-person consultations. Furthermore, we intend to strengthen our network communication and knowledge sharing capacity in order to improve our management efficiency and ensure further consistency in service quality across our network of healthcare facilities.

OUR BUSINESS OPERATIONS

Our business primarily focuses on providing psychiatric medical treatment at our psychiatric specialty healthcare facilities. As of December 31, 2014, our network consisted of six healthcare facilities in operation, comprising five psychiatric specialty hospitals and one psychiatric ward. In 2015, we commenced operations of two additional healthcare facilities through management agreements with third party private hospitals in Hebei and Chengdu. We derive our revenue primarily from providing treatment and general healthcare services and from pharmaceutical sales at our healthcare facilities.

We have benefited from our business model of operating a network of psychiatric healthcare facilities rather than a single hospital, which creates various synergies, including efficient resource utilization, centralized procurement, operational experience-sharing, group-level training and research and medical staff mobility. Each of our healthcare facilities offers both inpatient and outpatient psychiatric healthcare services.

The table below sets forth, as of the dates indicated, certain operating data on our healthcare facilities:

	As of or for the year ended December 31,		
	2012	2013	2014
Number of healthcare facilities	4	6	6
Number of beds in operation	1,360	1,680	1,900
Inpatient bed-days ⁽¹⁾	442,791	514,174	615,242
Outpatient visits ⁽¹⁾	103,928	114,293	119,425

Note:

(1) Excluding Pingyang Changgeng Ward.

We are in the process of developing a number of additional psychiatric healthcare facilities. See “— Our Healthcare Facilities — Pipeline Healthcare Facilities.”

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Our Psychiatric Healthcare Facility Network

As of the Latest Practicable Date, our network of psychiatric healthcare facilities includes: (i) five owned psychiatric specialty hospitals, comprising Wenzhou Kangning Hospital, Qingtian Kangning Hospital, Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital and (ii) three healthcare facilities managed by us under management agreements, comprising Yanjiao Furen Hospital, Pingyang Changgeng Ward and Chengdu Jihong Ward. We also have four pipeline healthcare facilities as of the Latest Practicable Date, of which three are planned to be psychiatric specialty hospitals owned by us and one is planned to be a psychiatric specialty hospital managed by us, in which we hold a 49% equity interest.

The map below sets out the locations of our healthcare facilities in operation and planned as of the Latest Practicable Date:



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Our five owned hospitals comprise one Grade A Class III hospital operating on a combination of owned and leased properties and four hospitals operating on leased properties. The table below sets forth, as of December 31, 2014, certain key information on our hospitals:

	Number of Beds in Operation	Total Number of Medical Staff	Date of Commencement of Operations
Wenzhou Kangning Hospital . .	1,000	463	February 1996
Qingtian Kangning Hospital . .	140	23	April 2011
Cangnan Kangning Hospital . .	320	44	June 2012
Yongjia Kangning Hospital . . .	200	26	December 2012
Yueqing Kangning Hospital . . .	100	21	September 2013
Total	1,760	577	

Our three managed healthcare facilities consist of one psychiatric specialty hospital and two psychiatric wards. The table below sets forth, as of the Latest Practicable Date, certain key information on our managed healthcare facilities:

	Number of Beds in Operation	Total Number of Medical Staff	Date of Management Agreement
Pingyang Changgeng Ward . . .	140	23	September 2010
Chengdu Jihong Ward	10	8	September 2014
Yanjiao Furen Hospital	100	44	March 2015
Total	250	75	

We have experienced significant growth over the Track Record Period, generating revenue of RMB170.8 million, RMB226.4 million and RMB296.3 in 2012, 2013 and 2014, respectively. The table below sets forth, for the periods indicated, a breakdown of our revenue by healthcare facility:

Revenue	Year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Wenzhou Kangning Hospital	152,113	89.1	175,787	77.7	215,918	72.9
Qingtian Kangning Hospital	7,575	4.4	11,026	4.9	13,895	4.7
Cangnan Kangning Hospital	5,100	3.0	20,651	9.1	31,039	10.5
Yongjia Kangning Hospital	–	–	11,012	4.8	18,178	6.1
Yueqing Kangning Hospital	–	–	252	0.1	6,972	2.3
Pingyang Changgeng Ward ⁽¹⁾	6,025	3.5	7,635	3.4	10,294	3.5
Total revenue	170,813	100.0	226,363	100.0	296,296	100.0

Note:

(1) Our revenue from Pingyang Changgeng Ward consists of management service fee income, net of applicable expenses and other deductions. See “— Our Psychiatric Healthcare Facility Network — Our Managed Healthcare Facilities.”

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Each of our healthcare facilities specializes in providing psychiatric healthcare, in particular through treatment and general healthcare services and pharmaceutical sales. The table below sets forth, for the years indicated, certain operating data on our inpatients and outpatients at our owned psychiatric specialty hospitals:

	For the year ended December 31,		
	2012	2013	2014
Owned psychiatric specialty hospitals			
Inpatients			
Total inpatient bed-days	442,791	514,174	615,242
Average inpatient spending per day per bed			
Treatment and general healthcare services (RMB)	217	264	312
Pharmaceutical sales (RMB)	50	54	57
Total (RMB)	267	318	369
Outpatients			
Number of outpatient visits	103,928	114,293	119,425
Average outpatient spending per visit			
Treatment and general healthcare services (RMB)	126	124	126
Pharmaceutical sales (RMB)	320	343	356
Total (RMB)	446	467	482

Wenzhou Kangning Hospital

Our flagship healthcare facility is a Grade A Class III psychiatric specialty hospital located in Wenzhou’s Lucheng District. As of December 31, 2014, Wenzhou Kangning Hospital is the only privately-owned Grade A Class III psychiatric specialty hospital in China.

Operational Capacity

We commenced operations at Wenzhou Kangning Hospital in 1996 with an initial capacity of 50 beds, which was increased to 200 beds as of December 31, 1998 when we relocated to our first owned, self-operated building. As of January 1, 2012 and as of December 31, 2012, 2013 and 2014, Wenzhou Kangning Hospital had 950, 950, 1,000 and 1,000 beds in operation, respectively. As of December 31, 2014, Wenzhou Kangning Hospital had a full-time staff of 707 employees, including 463 medical staff. As of the same date, the total GFA of facilities in operation at Wenzhou Kangning Hospital was 32,877 sq.m.

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The table below sets forth, for the years indicated, certain information on Wenzhou Kangning Hospital:

	For the year ended December 31,		
	2012	2013	2014
Wenzhou Kangning Hospital			
Inpatients			
Total inpatient bed-days	389,008	346,206	354,944
Average inpatient spending per day per bed			
Treatment and general healthcare services (RMB)	220	291	383
Pharmaceutical sales (RMB)	53	68	77
Total (RMB)	273	359	460
Outpatients			
Number of outpatient visits	101,004	104,321	102,151
Average outpatient spending per visit			
Treatment and general healthcare services (RMB)	129	134	145
Pharmaceutical sales (RMB)	318	342	356
Total (RMB)	447	476	501

We began implementing general renovation and upgrade plans for Wenzhou Kangning Hospital in 2010, and in 2013 initiated the largest phase of such plans by commencing construction of a new wing of Wenzhou Kangning Hospital to further increase operational capacity, which required the demolition of certain existing buildings. We intend to dedicate a portion of the new wing to premium healthcare services targeted towards mid- to high-income patients. We expect operations at the new wing to commence in 2017. Upon completion of such upgrades under development, Wenzhou Kangning Hospital is expected to have an estimated total GFA of approximately 82,000 sq.m. and an operational capacity of 1,400 beds, along with a full-time staff of approximately 800 medical professionals. In addition, we are in the process of developing the Louqiao Medical Area, located in the Ouhai District of Wenzhou, which will primarily serve as an expansion of the geriatric psychiatry subdepartment of Wenzhou Kangning Hospital and will increase our overall operational capacity for Wenzhou Kangning Hospital by a further 150 beds. We expect to commence operations at the Louqiao Medical Area in 2016, at which time we will relocate operations for the geriatric psychiatry subdepartment of Wenzhou Kangning Hospital to the Louqiao Medical Area.

During the construction period, we have leased the Shuangyu Medical Area, a nearby property, to serve as additional hospital space. Our lease for the Shuangyu Medical Area will expire in October 2017. As we expect the new wing of Wenzhou Kangning Hospital to commence operations before such expiration, we do not intend to renew the Shuangyu Medical Area lease.

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Staffing and Services

As the only privately-owned Grade A Class III psychiatric specialty hospital in China, the staff of Wenzhou Kangning Hospital includes highly-accomplished psychiatric doctors. Unlike the other healthcare facilities in our Group, we categorize our operations at Wenzhou Kangning Hospital into a number of departments and subdepartments due to the extensive range of treatment and services provided, including the psychiatry department, rehabilitation department, and the Judicial Appraisal Institution, plus six subdepartments under the psychiatry department. See “— Our Services and Treatment Departments.”

In addition to comprehensive psychiatric medical treatment, Wenzhou Kangning Hospital also provides full hospital services by way of a number of other non-psychiatric departments, such as emergency rooms and laboratories. While the services provided at the non-psychiatric departments of Wenzhou Kangning Hospital are open to the general public, their primary purpose is to provide supplementary healthcare services to psychiatric patients on-site.

Ratings, Classification and Recognition

As a specialty hospital, Wenzhou Kangning Hospital is subject to rating and review by the Health and Family Planning Commission of Zhejiang Province. See “Regulatory Overview — The Classification of Medical Institutions.” Wenzhou Kangning Hospital was initially rated as a Grade B Class III psychiatric hospital in 2006 and was upgraded to Grade A Class III in 2013, the highest grade attainable by hospitals in China.

Our achievements and capabilities with respect to Wenzhou Kangning Hospital have historically enjoyed significant recognition. For example, Wenzhou Kangning Hospital was designated as a Key National Hospital for Specialized Clinical Psychiatry (國家臨床重點專科建設單位(精神科)) by the NHFPC in 2011, and remains the only privately-owned hospital in China with such recognition. In 2013 and 2015, the clinical psychology and behavioral medicine subdepartments of Wenzhou Kangning Hospital were respectively designated as Key Departments for Non-public Healthcare Facilities with Respect to Special Clinical Disciplines in Zhejiang Province (浙江省非公立醫療機構臨床特色學科建設單位). In 2003, Wenzhou Kangning Hospital became a teaching base for psychiatry of Wenzhou Medical University, which reflects the strong reputation that we had already cultivated at a relatively early stage in our operational history. Wenzhou Kangning Hospital subsequently entered into cooperation relationships with Qiqihar Medical University in 2008 and Bengbu Medical College in 2009, which, along with its ongoing relationship with Wenzhou Medical University, has given Wenzhou Kangning Hospital strong ties to multiple medical colleges in the PRC. In both 2014 and 2015, Wenzhou Kangning Hospital gained TÜV SÜD certification for excellence in quality and strength of standardization after passing inspection and audit from the German TÜV SÜD certification body for international hospitals, which we intend to renew on an annual basis.

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Our Other Owned Hospitals

As of the Latest Practicable Date, in addition to Wenzhou Kangning Hospital, we own four other psychiatric specialty hospitals, each of which we operate on property that we leased from independent third parties and, through investing in leasehold improvements, subsequently renovated and converted into hospitals that meet our quality standards. As of the Latest Practicable Date, we had not applied for ratings and classifications for our other psychiatric specialty hospitals.

Qingtian Kangning Hospital

We established Qingtian Kangning Hospital in April 2011 in Qingtian County, Lishui City, Zhejiang Province. Qingtian Kangning Hospital currently occupies property and land leased from an independent third party and has a GFA of approximately 5,828 sq.m. As of December 31, 2014, Qingtian Kangning Hospital had 140 beds in operation and 47 full-time employees, including 23 medical staff.

The table below sets forth, for the years indicated, certain information on Qingtian Kangning Hospital:

	For the year ended December 31,		
	2012	2013	2014
Qingtian Kangning Hospital			
Inpatients			
Total inpatient bed-days	29,681	39,706	49,842
Average inpatient spending per day per bed			
Treatment and general healthcare services (RMB)	199	220	223
Pharmaceutical sales (RMB)	32	29	28
Total (RMB)	231	249	251
Outpatients			
Number of outpatient visits	1,982	3,177	4,366
Average outpatient spending per visit			
Treatment and general healthcare services (RMB)	9	9	14
Pharmaceutical sales (RMB)	376	344	317
Total (RMB)	385	353	331

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Cangnan Kangning Hospital

We established Cangnan Kangning Hospital in June 2012 in Cangnan County, Wenzhou. Cangnan Kangning Hospital currently occupies property and land leased from an independent third party and has a GFA of approximately 10,000 sq.m. As of December 31, 2014, Cangnan Kangning Hospital had 320 beds in operation and 86 full-time employees, including 44 medical staff.

The table below sets forth, for the years indicated, certain information on Cangnan Kangning Hospital:

	For the year ended December 31,		
	2012	2013	2014
Cangnan Kangning Hospital			
Inpatients			
Total inpatient bed-days	24,102	81,534	112,605
Average inpatient spending per day per bed			
Treatment and general healthcare services (RMB)	211	214	224
Pharmaceutical sales (RMB)	21	23	32
Total (RMB)	232	237	256
Outpatients			
Number of outpatient visits	942	4,635	7,064
Average outpatient spending per visit			
Treatment and general healthcare services (RMB)	16	20	23
Pharmaceutical sales (RMB)	368	358	408
Total (RMB)	384	378	431

Yongjia Kangning Hospital

We established Yongjia Kangning Hospital in December 2012 in Yongjia County, Wenzhou. Yongjia Kangning Hospital currently occupies property and land leased from independent third parties and has a GFA of approximately 3,637 sq.m. As of December 31, 2014, Yongjia Kangning Hospital had 200 beds in operation and 57 full-time employees, including 26 medical staff.

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The table below sets forth, for the years indicated, certain information on Yongjia Kangning Hospital:

	For the year ended December 31,		
	2012	2013	2014
Yongjia Kangning Hospital			
Inpatients			
Total inpatient bed-days	–	45,895	71,098
Average inpatient spending per day per bed			
Treatment and general healthcare services (RMB)	–	199	209
Pharmaceutical sales (RMB)	–	28	29
Total (RMB)	–	227	238
Outpatients			
Number of outpatient visits	–	2,084	3,874
Average outpatient spending per visit			
Treatment and general healthcare services (RMB)	–	14	11
Pharmaceutical sales (RMB)	–	323	352
Total (RMB)	–	337	363

Yueqing Kangning Hospital

We established Yueqing Kangning Hospital in September 2013 in Yueqing City, Wenzhou. Yueqing Kangning Hospital currently occupies property and land leased from an independent third party and has a GFA of approximately 9,500 sq.m., which can accommodate further expansion of operational capacity. As of December 31, 2014, Yueqing Kangning Hospital had 100 beds in operation and 42 full-time employees, including 21 medical staff.

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The table below sets forth, for the years indicated, certain information on Yueqing Kangning Hospital:

	For the year ended December 31,		
	2012	2013	2014
Yueqing Kangning Hospital			
Inpatients			
Total inpatient bed-days	–	833	26,753
Average inpatient spending per day per bed			
Treatment and general healthcare services (RMB)	–	278	212
Pharmaceutical sales (RMB)	–	35	28
Total (RMB)	–	313	240
Outpatients			
Number of outpatient visits	–	76	1,970
Average outpatient spending per visit			
Treatment and general healthcare services (RMB)	–	14	29
Pharmaceutical sales (RMB)	–	111	285
Total (RMB)	–	125	314

Our Managed Healthcare Facilities

As of the Latest Practicable Date, we manage three healthcare facilities through management agreements with third party private hospital owners.

Yanjiao Furen Hospital

We started to manage Yanjiao Furen Hospital, a not-for-profit hospital owned by independent third parties, in April 2015. The hospital is located in Sanhe, Yanjiao Economic Development Zone, Hebei Province near the Beijing border. Yanjiao Furen Hospital has a GFA of approximately 7,619 sq.m., with 100 beds in operation, and both inpatient and outpatient capability. As of the Latest Practicable Date, Yanjiao Furen Hospital had 85 full-time employees, including 44 medical staff. Two additional hospital structures are currently under construction, which upon completion in the second half of 2015, are expected to increase Yanjiao Furen Hospital’s GFA to approximately 15,132 sq.m. and total operational capacity to 500 beds. We are not responsible for the costs and expenditure in relation to such construction.

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We entered into an entrustment management agreement with Yanjiao Furen Hospital in March 2015 and a supplemental agreement in April 2015. Under the agreements, we have the rights to: (i) recommend the head of hospital administration; (ii) recommend the financial controller of the hospital; (iii) identify and propose for doctors and other medical staff to be hired; (iv) formulate rules and manuals for hospital management and operations; (v) provide training and instruction to the doctors and other medical staff; (vi) manage the sales and marketing activities of the hospital; and (vii) retain and manage all the licenses, medical properties and equipment.

The term of the entrustment management agreement is from April 2015 to December 2034, extendable if both parties agree three months prior to expiration. During the term of the agreement, we agree to meet a predetermined schedule of annual minimum performance targets. If the hospital fails to meet such target, we are required to contribute the shortfall. On the other hand, we are entitled to retain any portion of profit that exceeds the target as our management income from Yanjiao Furen Hospital. During the term of the agreement, we shall bear all construction, renovation and improvement costs of the hospital as needed to convert the relevant property into a psychiatric specialty hospital. With respect to the assets and liabilities, we agreed that all assets acquired and liabilities incurred before April 1, 2015 shall be fully owned and borne by the hospital owners, while all assets acquired and liabilities incurred on or after April 1, 2015 shall be fully owned and borne by us. Upon the expiration of the term of the agreement, we are entitled to the movable fixtures on properties of the hospital while the hospital retains ownership of the underlying property.

The parties agreed to customary termination rights, including upon mutual agreement or material default. In addition, we are entitled to terminate the agreement if the hospital fails to meet the minimum performance target for seven consecutive years or if the accumulated loss of the hospital reaches RMB20 million. If any party terminates the agreement before the expiration date without cause, the terminating party shall pay: (i) an aggregate of the minimum performance target amount for the five years subsequent to the year in which such early termination occurs, or the aggregate of the minimum performance target amount for the remaining years if there are less than five years left on the term of the agreement; and (ii) 30% of the revenue generated for the year in which early termination takes place.

Pingyang Changgeng Ward

We manage Pingyang Changgeng Ward, which is the psychiatric department of Pingyang Changgeng Hospital, an independent third party, pursuant to a management agreement entered into with such hospital. Located in Pingyang County, Wenzhou, Zhejiang Province, Pingyang Changgeng Ward has a GFA of approximately 1,932 sq.m., with 140 beds in operation and both inpatient and outpatient capability. As of December 31, 2014, Pingyang Changgeng Ward had 34 full-time employees, including 22 medical staff.

Under our management agreement with Pingyang Changgeng Hospital: (i) the hospital agrees to provide a portion of the hospital property to serve as a psychiatric healthcare ward; (ii) we manage the provision of inpatient and outpatient psychiatric healthcare services to the patients in the psychiatric ward, (iii) we provide training and supervision to its doctors, nurses and other medical staff and prepare psychiatric treatment guidelines and operation manuals;

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and (iv) we select and assign the management and core medical personnel for the ward, while other doctors and medical staff are recommended by us but enter into their employment contracts with Pingyang Changgeng Hospital.

We receive management service fees from Pingyang Changgeng Ward in accordance with the following formula: we receive all of the income or otherwise bear the loss generated from psychiatric healthcare services and other related services provided at the ward, after deducting from the relevant medical bill (w) a fixed fee to be paid to the third party hospital each year, (x) a percentage of the patient examination fee, (y) the cost of certain operational fees of the ward, including for utilities, supplies and consumables, employee and patient meals, emergency service fees, professional medical liability insurance premiums, compensation for medical incidents and other related logistics fees, and (z) the salary, bonus and other employee benefits of the doctors, nurses and other medical staff of the ward.

The term of our management agreement with Pingyang Changgeng Ward is from January 2011 to December 2020, and will automatically be renewed for one year unless either party provides at least two months written notice prior to the applicable expiration date. Neither party is entitled to early termination unless the other party breaches the agreement or if the ward incurs a loss for six consecutive months. Early termination without cause requires the terminating party to pay the other party an amount equal to such party's costs incurred for the ward plus three times the monthly average revenue of the ward for the past 12 months.

Chengdu Jihong Ward

We manage Chengdu Jihong Ward, which is the psychiatric department of Chengdu Jihong Hospital, an independent third party, pursuant to a management agreement entered into with such hospital. Located in Jinniu District, Chengdu, Sichuan Province, Chengdu Jihong Ward has a GFA of approximately 1,500 sq.m., with 10 beds in operation and both inpatient and outpatient capability. We commenced operations at Chengdu Jihong Ward in April 2015. As of the Latest Practicable Date, Chengdu Jihong Ward had eight full-time employees, all of whom were medical staff. We plan to ramp up the operations of Chengdu Jihong Ward to eventually have 80 beds and approximately 24 full-time employees, including 17 medical staff, by 2017.

Under our management agreement with Chengdu Jihong Hospital: (i) the hospital agrees to provide a portion of the hospital property to serve as a psychiatric healthcare ward; (ii) we manage the provision of inpatient and outpatient psychiatric healthcare services to the patients in the psychiatric ward, (iii) we provide training and supervision to its doctors, nurses and other medical staff and prepare psychiatric treatment guidelines and operation manuals; and (iv) we select and assign the management and core medical personnel for the ward, while other doctors and medical staff are recommended by us but enter into their employment contracts with Chengdu Jihong Hospital.

We receive management service fees, which we recognize as revenue, from Chengdu Jihong Ward in accordance with the following formula: we receive all of the income or otherwise bear the loss generated from psychiatric healthcare services and other related services provided at the ward after deducting from the relevant medical bill (w) a fixed fee to be paid to the third party hospital each year, (x) a percentage of the patient examination fee, (y) the cost of certain operational fees of the ward, including for utilities, supplies and consumables, employee and patient meals, emergency service fees, professional medical

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liability insurance premiums, compensation for medical incidents and other related logistics fees, and (z) the salary, bonus and other employee benefits of the doctors, nurses and other medical staff of the ward.

The term of our management agreement with Chengdu Jihong Ward is from October 2014 to September 2024, and will automatically be renewed for one year unless either party provides at least two months written notice prior to the applicable expiration date. Neither party is entitled to early termination unless the other party breaches the agreement or if the ward incurs a loss for six consecutive months. Early termination without cause requires the terminating party to pay the other party an amount equal to such party's costs incurred for the ward plus three times the monthly average revenue of the ward for the past 12 months.

Expansion of our Healthcare Facility Network

We carefully research and review expansion opportunities and undertake comprehensive vetting of potential targets. As of the Latest Practicable Date, we have four planned healthcare facilities.

Expansion Strategies

We prudently research and review potential expansion opportunities and carefully consider a number of factors in such assessment, including, among others, the local demand for psychiatric healthcare, quality of facilities required, potential market growth, policy initiatives and regulatory and licensing issues. We also emphasize identifying opportunities that we believe fit our business expansion models, which we have historically had success with. Historically, we have expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize management agreements to manage third party hospitals or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We expect to continue to leverage these models for a significant portion of our further expansion plans. We are also deeply mindful of our name and reputation and judiciously evaluate our capacity to undertake expansion plans without sacrificing the quality and expertise that we have become known for.

In addition, we will also strive to achieve geographical synergies between healthcare facilities by centrally positioning such facilities in their respective regions and subsequently opening more facilities in the surrounding areas, effectively expanding in a hub-and-spoke approach. We believe this model of prudent, strategic expansion will also allow us to effectively allocate resources where needed from a centralized location, which in turn may allow us to save labor costs and respond to market demand more efficiently.

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Pipeline Healthcare Facilities

Based on healthcare facilities that have begun development and agreements that we have entered into as of the Latest Practicable Date, we are in the process of developing four additional psychiatric healthcare facilities, of which three are planned to be psychiatric specialty hospitals owned by us and one is planned to be a psychiatric specialty hospital managed by us and in which we hold a 49% equity interest.

The table below sets forth certain key information on our pipeline hospitals upon commencement of their operations:

Healthcare Facility	Expected Number of Beds in Operation	Total Expected Number of Medical Staff	Expected Date of Commencement of Operations
Beijing Yining Hospital	38	20	2015
Linhai Kangning Hospital	80	35	2015
Hangzhou Yining Hospital	100	45	2016
Shenzhen Yining Hospital	100	45	2016
Total	318	145	

Beijing Yining Hospital

Beijing Yining Hospital is expected to be an upscale psychiatric specialty hospital featuring exclusively premium services for higher-income patients in Haidian District, Beijing. It is expected to have a GFA of approximately 4,197 sq.m. with 38 beds both inpatient and outpatient capability. It is expected to commence operations in the second half of 2015, with initially 20 full-time medical staff.

We have entered into a joint venture agreement with an independent third party and expect to make a total investment of RMB14.7 million and hold a 49% equity interest in the hospital. In addition, we expect to enter into a management service agreement with the hospital pursuant to which we will provide management services and earn management service fees as revenue. In addition, in recognition of our commitment to manage the day-to-day operation of the hospital, our joint venture partner agreed to pay us an aggregate of RMB5.1 million in 2015 and 2016 as compensation. We have the right to appoint two directors to the five-member board of the hospital.

As part of the joint venture agreement to establish Beijing Yining Hospital, we also agreed not to make investments in any business that may compete with the hospital in Beijing, unless (i) our joint venture partner also makes at most 30% of the total investment in such business, or (ii) we repurchase the remaining equity interest in Beijing Yining Hospital at a price yielding 12% of compound annual investment return based on our joint venture partner's initial investment.

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Linhai Kangning Hospital

We plan to establish Linhai Kangning Hospital in Linhai City, Taizhou, Zhejiang Province as a psychiatric specialty hospital. We incorporated Linhai Kangning, the subsidiary operating the hospital, in 2014 and held 80% of the equity interest as of the Latest Practicable Date. In September 2013, we entered into an agreement to lease the land and property for Linhai Kangning Hospital from an independent third party. We subsequently began constructing leasehold improvements and applying for relevant permits and licenses to ensure that such property will be fully suited to serve as a psychiatric specialty hospital that meets our standards. We expect to commence operations at Linhai Kangning Hospital in the second half of 2015, with initially 35 full-time medical staff and 80 beds. We plan to ramp up its operations to 80 full-time medical staff and 200 beds by 2018.

Hangzhou Yining Hospital

We plan to establish Hangzhou Yining Hospital in Hangzhou’s Yuhang District as a psychiatric specialty hospital. We expect to incorporate the subsidiary operating the hospital in the second half of 2014. In November 2014, we entered into an agreement to lease the land and property for the Hangzhou Yining Hospital from an independent third party. We plan to begin constructing leasehold improvements in the second half of 2015 and to apply for the relevant permits and licenses to ensure that such property will be fully suited to serve as a psychiatric specialty hospital that meets our standards. We expect to commence operations at Hangzhou Yining Hospital in 2016, with initially 45 full-time medical staff and 100 beds. We plan to ramp up its operations to 80 full-time medical staff and 220 beds by 2018.

Shenzhen Yining Hospital

We plan to establish Shenzhen Yining Hospital in Shenzhen as a psychiatric specialty hospital. We incorporated Shenzhen Yining, the subsidiary operating the hospital, in 2014 and held 70% of the equity interest as of the Latest Practicable Date. We are in the site selection process and plan to begin constructing leasehold improvements and applying for relevant permits and licenses after we enter into a leasing agreement. We expect to commence operations at Shenzhen Yining Hospital in 2016, with initially 45 full-time medical staff and 100 beds. We plan to ramp up its operations to 140 full-time medical staff and 400 beds by 2019.

Our Services and Treatment Departments

We advocate compassionate, patient-centric values in our business practices, which we incorporate into our day-to-day operations. We carefully study advanced overseas psychiatric healthcare systems for guidance and inspiration as to the best practices in our field. In particular, we have studied and implemented certain practices of top psychiatric healthcare facilities in Taiwan, which we believe is a well-developed psychiatric healthcare market, that reflect the patient-first approach that we strive to promote. For example, we have designed our psychiatric healthcare facilities with carefully designed interiors in order to convey to patients and their families the feeling of entering and living in a friendly environment. To that end, we ensure that hospital rooms and facilities offer ample space, quality furniture and extensive access to natural light and leisure activities. We also maintain restaurants, communal areas

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and various activity centers to encourage normal, ongoing day-to-day life and socialization. We believe that achieving the most favorable psychiatric treatment results begins with offering high quality of care to our patients. We also emphasize our philosophy and values at the staff level. In our recruitment and review process, we evaluate not only talent and skill as a medical practitioner, but also demonstrated fitness with our values and culture.

We organize our medical services at our healthcare facilities under various departments based on the type of facility and scope of services provided.

Psychiatry Department

The psychiatry department constitutes the main department of medicine in our psychiatric healthcare operations, and with the exceptions of Wenzhou Kangning Hospital and Yanjiao Furen Hospital, is the sole department at each of our healthcare facilities.

At Wenzhou Kangning Hospital, we organize the psychiatry department into a number of specialized subdepartments. While our other healthcare facilities do not organize their services under such subdepartments due to the smaller scale of their operations, in general the basic services offered at each subdepartment of Wenzhou Kangning Hospital are also available through the psychiatry department of our other owned hospitals and psychiatric wards.

General Psychiatry Subdepartment

Our general psychiatry subdepartment provides comprehensive psychiatric treatment and healthcare services, which aim to ensure a speedy recovery and return to society for the patient, while utilizing methods that emphasize patient safety and enhance the patient treatment experience. Conditions treated in this subdepartment include, among others, bipolar disorder, refractory mental illness, acute psychiatric treatment and critical care of psychiatric patients. Treatments provided in the general psychiatry subdepartment include drug therapy, physical therapy, EEG biofeedback, transcranial magnetic stimulation, psychotherapy, occupational and recreational therapy, modified electroconvulsive therapy (MECT) and others.

Research efforts with respect to the general psychiatry subdepartment focus on mental illness epidemiology, early diagnosis and treatment processes, psychosocial rehabilitation of mental disorders, relapse intervention and mental illness prevention.

Geriatric Psychiatry Subdepartment

Our geriatric psychiatry subdepartment serves elderly patients who often have special treatment and other needs compared to the general psychiatric patient population. Conditions treated in this subdepartment include, among others, senile dementia, vascular dementia, geriatric depression, geriatric sleep disorders, elderly schizophrenia and mental disorders attributable to physical illness.

Treatments provided in the geriatric psychiatry subdepartment include medical treatment, special occupational and recreational therapy, group therapy, EEG biofeedback therapy, cognitive training, traditional Chinese medicine therapy, herbal fumigation treatment

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and others. We also strive to provide a high quality patient treatment experience to our elderly patients. To that end, our geriatric psychiatry facilities at Wenzhou Kangning Hospital offer therapeutic traditional fumigation chambers, a dedicated spa, special heating and bathing facilities and various other facilities and services designed to care for elderly patients.

Behavioral Medicine Subdepartment

Our behavioral medicine subdepartment primarily focuses on the diagnosis and treatment of alcohol addiction, illicit and prescription drug addiction and psychotropic substance poisoning, as well as the mental health complications that arise from or relate to the above conditions. We utilize advanced methods and technology in our analysis process, including various qualitative and quantitative tests such as high performance liquid chromatography to identify each component in a patient’s blood work. We also aim to provide effective alleviation of physical and mental withdrawal symptoms by rationally combining Chinese and Western medicine in a holistic manner, in conjunction with behavioral therapy, psychotherapy and psychosocial intervention as part of the relapse prevention system. To these ends, we also conduct motivational interview therapy, family therapy, addiction group psychotherapy, addicts anonymous self-help groups and crisis intervention.

Research efforts with respect to the behavioral medicine subdepartment focus on psychoactive substances and diagnosis and treatment of substance-induced psychotic disorders. In 2015, our behavioral medicine subdepartment was designated as a Key Department for Non-public Healthcare Facilities with Respect to Special Clinical Disciplines in Zhejiang Province (浙江省非公立醫療機構臨床特色學科建設單位).

Psychosomatic Disorder Subdepartment

Our psychosomatic disorder subdepartment primarily focuses on two functions: (i) early evaluation and treatment of mental disorders and (ii) diagnosis and treatment of neurological diseases attributable to mental disorders, mental disorders attributable to physical illness and joint mental and physical disorders. In both cases, this subdepartment focuses on early diagnosis and treatment, which we believe is conducive towards higher recovery rates as well as reducing relapse rates. With respect to first-episode schizophrenia, we focus on studying the underlying biological causes, clinical characteristics, individualized drug treatment, psychosocial rehabilitation of mental disorders and other aspects in order to develop intervention methods specifically suited to addressing first-episode schizophrenia.

Clinical Psychology Subdepartment

Our clinical psychology subdepartment serves as a key base for the research and teaching functions of Wenzhou Kangning Hospital, as well as for psychological crisis intervention. Medical students from the various universities and other institutions that we partner with primarily study and train in this subdepartment. The primary focus of the clinical psychology subdepartment is to provide medical treatment and psychotherapy addressing the psychological aspects of various neurotic disorders, affective/mood disorders, sleep disorders, eating disorders, stress-related disorders and child and adolescent mental disorders. Doctors, counselors and nurses collaboratively provide diagnosis and treatment services to patients, including for, among other things, anxiety disorders, sleep disorders, adolescent psychology

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and marriage counseling. In 2013, our clinical psychology subdepartment was designated as a Key Department for Non-public Healthcare Facilities with Respect to Special Clinical Disciplines in Zhejiang Province (浙江省非公立醫療機構臨床特色學科建設單位).

Rehabilitation Department

The rehabilitation department, which is a stand-alone department only available at Wenzhou Kangning Hospital, consists of inpatient rehabilitation facilities and occupational therapy centers, with comprehensive facilities and integrated functions. Inpatient rehabilitation services include EEG biofeedback training transcranial magnetic stimulation and electromagnetic field treatment. Occupational therapy services include physical exercise treatment, arts and calligraphy treatment, musical, cultural and entertainment treatment and at-home treatment.

Judicial Appraisal Institution

The Judicial Appraisal Institution, which is a stand-alone institution available at Wenzhou Kangning Hospital, focuses on identifying and tracking mental health status in individuals. We founded the Judicial Appraisal Institution in 2006. Its core functions are: (i) identification of psychiatric status, (ii) identification of legal capacity, (iii) identification of legal relationship, (iv) evaluation of psychiatric disability level, (v) identification of mental disability and (vi) identification of mental disability for medical parole.

Other Departments

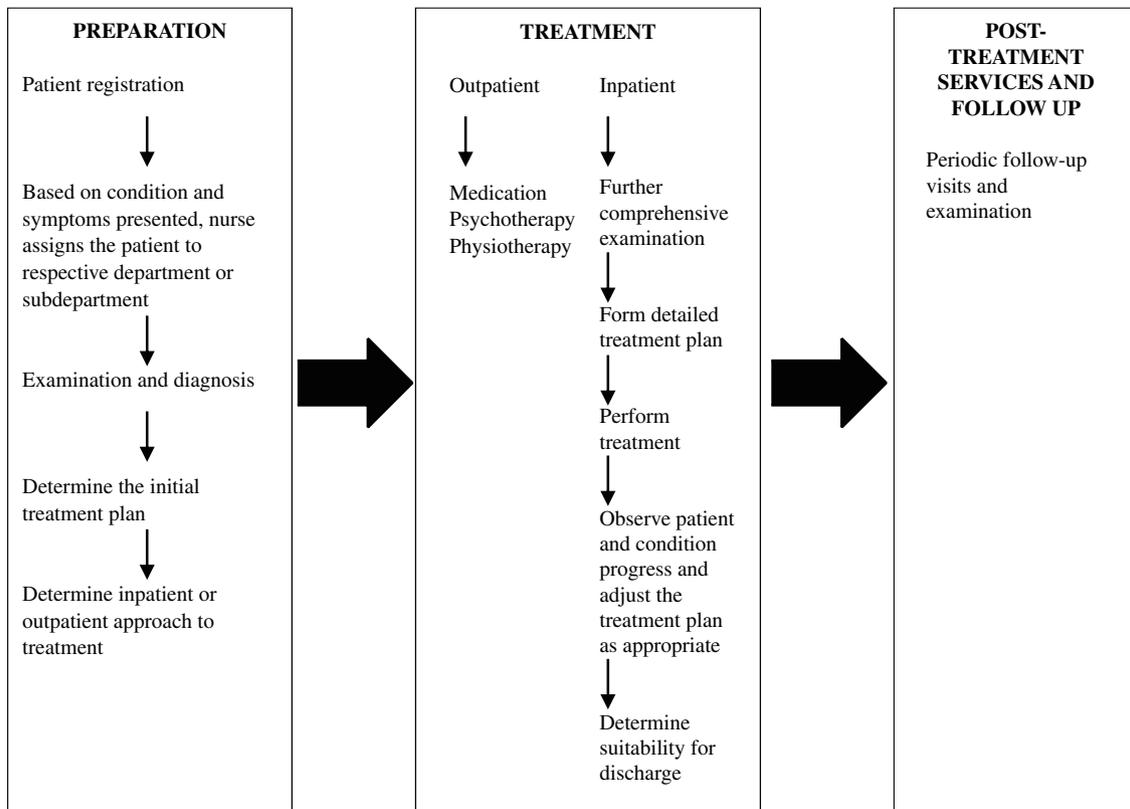
As a Grade A Class III Hospital, we operate Wenzhou Kangning Hospital as a full-service hospital offering comprehensive healthcare services in support of its psychiatric healthcare capabilities. Accordingly, in addition to the operations of the psychiatric departments, Wenzhou Kangning Hospital also provides a number of other general and specialized medical services through other departments, including emergency, surgery, orthopedics, obstetrics and gynecology, dermatology, stomatology and hemodialysis. Moreover, Wenzhou Kangning Hospital operates a number of laboratories on-site, including for pharmacy and radiology, as well as a clinical laboratory and a special examination and inspection laboratory. While the services provided at the non-psychiatric departments of Wenzhou Kangning Hospital are accessible to the general public, their primary purpose is to provide supplementary healthcare services to psychiatric patients on-site. As we continue to implement upgrades and other ramping up activities to increase patient treatment capacity at Wenzhou Kangning Hospital, we expect to generate increased revenue from its other departments in line with the growth in overall patient volume.

Our Yanjiao Furen Hospital operates an internal medicine department as a complementary component to its psychiatric healthcare focus. As of the Latest Practicable Date, aside from Wenzhou Kangning Hospital and Yanjiao Furen Hospital, we do not have any non-psychiatric departments at any of our other healthcare facilities in operation.

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Our Psychiatric Treatment Process

Based on years of industry experience and accumulated know-how, we have developed and implemented highly standardized treatment procedures across the psychiatry department, and continuously review such procedures for areas of potential improvement. Our treatment process focuses on treating the patients with the most suitable doctors and qualified nurses at every treatment stage in order to maximize patient recovery. The following diagram illustrates our typical treatment process:



Our psychiatric treatment process begins with patient registration at any of our healthcare facilities, after which, in the case of Wenzhou Kangning Hospital, a nurse assigns the patient to the respective psychiatric subdepartment based on an initial analysis of the patient's condition and symptoms or, in the case of our other healthcare facilities, admits the patient to the general psychiatry department.

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Next, the doctor conducts an initial examination and diagnosis of the patient by (i) asking about the medical history of the patient, (ii) conducting a psychiatric exam, physical exam, laboratory exam and other supplemental examinations and (iii) where appropriate, conducting a mental competency exam. After obtaining the preliminary diagnostic result, the doctor determines the appropriate treatment plan and whether such plan should be carried out on an outpatient or inpatient basis. As our medical professionals are well-trained and knowledgeable with respect to both medical theory and clinical experience, treatment plans for patients are highly individualized, which we believe is beneficial towards achieving high success rates. Outpatients are scheduled to visit our healthcare facilities periodically to receive psychotherapy, physiotherapy and other treatments. Inpatients are hospitalized and receive further, more comprehensive examination from the attending doctor, who will then determine the detailed treatment plan. In accordance with the Mental Health Act of 2013, inpatient enrollment must be voluntary unless the patient's behavior poses a danger to him or herself or to others. Unless that condition is met, we respect the wishes of the patients or their families. For first-time patients, an associate chief doctor shall be responsible for the diagnosis and treatment.

For each treatment plan, the responsible doctor explains to the patient, among other things, the treatment plan, the goal and expected timetable, potential side effects and the patient's legal rights. Prior to commencing treatment, we also require each patient or a close family member to sign a consent form that details the specific risks and potential side effects associated with the recommended treatment. Finally, the doctor performs the selected treatments with the support of qualified nurses. After the doctor determines that the inpatient has recovered based on monitoring and examination of the inpatient's condition and progress, the inpatient is discharged from the healthcare facility. For inpatients, the length of stay depends on the complexity of the treatment and the patient's response to such treatment. A patient is generally considered to have been successfully treated if the evaluating doctor determines that the patient's symptoms have ceased or that the patient has recovered full social function with respect to ability to perform in school or work. After being discharged, the patient generally undergoes a post-treatment follow-up period during which he or she is expected to return to the healthcare facility for periodic follow-up examinations.

OUR OTHER ACTIVITIES AND FUNCTIONS

We undertake various activities at and through our psychiatric healthcare facilities that are outside the scope of normal, revenue-generating business activities.

Medical Research

As the owner and operator of a leading, top-rated psychiatric hospital, we strive to contribute quality research and advancements in the medical fields in which we operate. Wenzhou Kangning Hospital provides research hospital functions and all of its full-time doctors are encouraged to contribute to research studies based on the work they perform for us. We believe engaging in various medical research activities enhances our service quality and provides valuable learning and development prospects for our medical staff at all levels of experience and seniority, as well as opportunities to promote our image, awareness, reputation and prestige. We maintain a research budget that is reviewed annually by our research committee, which consists of three members of our central management team. In 2012, 2013

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and 2014, our annual research budget was RMB2.1 million, RMB2.3 million and RMB3.0 million, respectively. We participate in research under the Kangning name rather than that of our individual doctors, which we believe raises our profile and recognition as a leading research hospital.

In 2003, we established the Kangning Mental Health Institution, which today serves as an important center for collaborative medical research activities with, among other institutions, the Wenzhou Medical University. The Kangning Mental Health Institution has its own specialized laboratories for molecular biology, biochemistry, cell biology and model organisms. Among its directors is Dr. Zhang Xiangyang, an associate professor of psychiatry at the University of Texas Houston Medical School. Through these partnerships and other efforts, we have conducted significant clinical research and produced an increasing volume of academic publications. We have authored, under the Wenzhou Kangning Hospital name, a number of scientific studies and articles, which have been published in respected academic journals, such as the *Journal of Clinical Psychiatry* and *Psychiatry Research*. Since 2014, we have authored six Scientific Citation Index publications under the Wenzhou Kangning Hospital name. Going forward, we believe our healthcare facilities and partnerships will continue to yield high-quality research and publications in respected academic journals.

Teaching and Training

One of our core goals is to contribute to the progress and advancement of psychiatric healthcare in China as a whole. To that end, we have actively pursued partnerships and collaborations with a variety of major institutions for teaching and training purposes. We began undertaking teaching hospital activities in 2003, when we established a cooperation partnership with Wenzhou Medical University to serve as a teaching base for psychiatry, and since then have accepted a generally increasing number of medical students per year for clinical internships and apprenticeships, most recently reaching approximately 750 in 2014. We later expanded our partnerships to include Bengbu Medical College and Qiqihar Medical University, resulting in us having close relationships with multiple medical colleges in the PRC. In 2014, we also began providing clinical psychiatric training for undergraduate medical students of Wenzhou Medical University. Furthermore, Wenzhou Kangning Hospital serves as a training base for the Zhejiang Standardized Resident Doctors of Psychiatry Institution and for the National Mental Consultant Qualification Examination.

In addition to undertaking teaching and training functions for other organizations, we also engage in active teaching and training for all of our full-time doctors and medical staff. Through establishing the infrastructure and corporate culture for promoting teaching and training activities, we believe we are able to elevate the knowledge and technical skill of our medical staff, as well as raise our industry profile as a center of skills-based development, which benefits our ability to recruit and retain quality medical professionals and students.

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Community Outreach Programs and Corporate Social Responsibility

We have been a responsible member of the Wenzhou community, as well as in Zhejiang Province more broadly, and believe that our corporate social responsibility efforts reflect our corporate values. We actively strive to be socially responsible and believe in giving back to local communities and supporting charitable causes. We frequently engage in community outreach efforts on both a voluntary basis and as required by government as part of social responsibility for being a Grade A Class III hospital. We are well-regarded in Wenzhou and the surrounding area for our social outreach efforts, particularly with respect to partnering with various institutions in order to offer free or low cost medical examination and screening services to underprivileged populations. We aim to continue to proactively organize community clinic activities and promote mental illness prevention. Moreover, we actively engage in emergency relief efforts and dispatch medical teams to render on-site assistance for natural disasters, such as the 2008 earthquake in Wenchuan, Sichuan Province.

Furthermore, we make frequent donations to charities that aim to cover healthcare costs incurred by patients who are unable to pay their out-of-pocket medical bills. In 2012, 2013 and 2014, such charitable contributions amounted to RMB2.1 million, RMB2.4 million and RMB1.8 million, respectively. However, as we also receive a portion of the payments for our medical bills from charities, a small amount of our payments from charities are attributable to our own donations.

EMPLOYEES

Our number of full-time employees increased from 849 as of December 31, 2012 to 973 as of December 31, 2013 and remained at 973 as of December 31, 2014. The table below sets forth the total number of our employees by function as of December 31, 2014:

	As of December 31,
	2014
Management ⁽¹⁾	10
Administrative staff	71
Doctors	146
Other medical staff	447
Others	299
Total	973

Note:

(1) Includes six management members who also serve as doctors and other medical staff.

Qualification of Our Medical Professionals

The qualification and expertise of doctors at our psychiatric healthcare facilities is vital to the quality of healthcare services we are able to provide to our patients, and in turn have a significant impact on our competitiveness and reputation.

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In China, licensed doctors are subject to various trainings and periodic assessment of their professional skills, achievements and professional ethics by institutions or organizations entrusted by the public health department. There are three professional qualification ranks for doctors in China, which are, from lowest to highest rank: (i) junior qualification for resident doctors (住院醫師), (ii) medium qualification for attending doctors (主治醫師) and (iii) senior qualification for associate chief doctors (副主任醫師) and chief doctors (主任醫師). See “Regulatory Overview — Rules on Medical Personnel of Medical Institutions.” The table below sets forth, as of the dates indicated, the number of each rank of doctors employed by us at each of our psychiatric health facilities:

	For the year ended December 31,		
	2012	2013	2014
Chief doctors and associate chief doctors	22	23	23
Attending doctors	36	39	38
Resident doctors	66	67	89
Total	124	129	150

We utilize a centralized clerical management system to handle qualification registration for our medical professionals and to maintain license records. The human resources department conducts periodic examinations to ensure each medical professional’s practice is within the scope of his or her license. It also reminds doctors to apply for next professional rank when they become eligible.

Recruitment and Benefits

A central consideration in our recruitment process for both new and experienced medical personnel is to identify doctors and staff who are willing and able to conscientiously fulfill their professional duties as medical practitioners and to do so with respect and compassion for patients and their families.

Our recruitment process begins at the medical graduate-level, where we focus on candidates majoring in fields such as psychiatry, psychology and nursing, including those who have studied or received training in equivalent fields overseas. Our candidate selection process emphasizes factors such as talent, academic performance, moral character, dedication to psychiatric healthcare as a career and fitness within our corporate culture. In 2014, we began sponsoring scholarships for 28 selected medical students specializing in psychiatry at Wenzhou Medical University, and plan to increase the annual scholarship class going forward. Such scholarships cover one-half of tuition fees and provide certain additional incentives for academic achievement in return for the students agreeing to join our Group after graduation for a period of five years, assuming that they successfully meet our academic standards. We believe that by sponsoring talented students with a demonstrated dedication to psychiatry, we will be able to establish a strong pipeline of future doctors to join our healthcare facility network.

We also recruit high-caliber medical personnel from other public and private hospitals in China. When evaluating such candidates, our key criteria include strong medical ethics, sound technical skills and successful achievement of a certain degree of academic standing or expertise in the psychiatric healthcare field. We impose particularly high standards when recruiting senior medical personnel.

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We provide competitive employment packages, including stable salaries, bonuses and benefits. We tie a significant portion of total employee compensation to performance-based bonuses, which we believe provides strong performance incentives. Benefits include paid vacation leave, which includes holiday leave, sick leave, personal leave, maternity leave, and family visitation, as well as social insurance as mandated by the PRC Social Insurance Law. Social insurance comprises the Five Insurances and One Fund (五險一金) and consists of pension, basic medical insurance, maternity insurance, work-related injury insurance and unemployment insurance, plus housing provident fund.

Training and Development

We believe that prioritizing the highest quality training and development practices will enable us to maintain and strengthen our position as a center for research and specialists in psychiatric medical treatment. As a result, we dedicate significant attention to providing high-quality training and development to our doctors and other medical staff.

We utilize a variety of channels to promote training, research, knowledge-sharing and research article publication. For example, we actively encourage and provide training and development for our employees, including both general skills and specialized skills training specific to the employee’s role and responsibilities. Individuals whom we have identified as having particularly high potential and aptitude are afforded management courses and short-term study opportunities, which we believe allows them to maximize their operational capability and management skill.

We encourage active participation in academic conferences both domestic and abroad, as well as submission of academic papers for publication. Our doctors are required to publish research and treatment results, which we believe is instrumental to keeping our staff apprised of the latest developments and best practices in their respective fields. We also encourage our staff to cultivate their talent by taking advantage of our open-door policy of allowing doctors and nurses to transfer between our healthcare facilities and external facilities operated by third parties, which we believe fosters adaptability to new environments and broadens the scope of training opportunities.

Furthermore, we plan to implement a rotation system between our healthcare facilities for our management-level staff in order to expand opportunities to gain experience in different environments and with different colleagues. We believe these programs also provide us with clearer outlook on our competitive positioning and needs.

Retention

We believe that we are able to maintain high retention rates for our personnel due to (i) our ability to provide the resources and platforms for self-improvement and career advancement, (ii) our extensive training, research and teaching opportunities, both internally and with external partners and (iii) our competitive compensation and benefits packages. As a result of having stable and high-quality staff, we are able to better serve patients, improve treatment outcomes and enhance our market competitiveness.

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During the Track Record Period, we did not experience any strikes, work stoppages, or labor disputes or actions which had a material adverse effect on our business and operations.

QUALITY CONTROL

We are subject to high standards of quality control, in line with the PRC healthcare industry as a whole. Wenzhou Kangning Hospital utilizes three tiers of quality control that operate together in a unified system. The first tier consists of various committees that set forth guiding policies and conduct review of top-level, network-wide matters, such as academic research, ethics, medical quality management, medical safety management, resource management, hospital infection control, medical equipment management, medical record management and others. The respective committees meet regularly to identify and resolve issues that arise, and in turn contribute to the continuous improvement of our healthcare facility network.

The second tier is department-level quality control, which is carried out by full-time staff responsible for daily management and organization of various department-level functions, such as medical services, product quality, equipment maintenance, pharmacy operations and others. Second-tier quality control staff are also responsible for updating the first tier committees and arranging committee-level meetings.

The third level consists of quality control groups within each department that is responsible for implementing measures relating to medical quality and for administering an evaluation system for healthcare quality and review.

Standardized Medical Services

To ensure the high-quality of our services, we standardize our treatment services and operating protocol across all of our psychiatric healthcare facilities. Our standardized safety measures are based on detailed implementation steps as set forth in the relevant medical safety regulations issued by the relevant government authorities, as well as on best industry practice guidelines.

With respect to the opening of new healthcare facilities, we closely oversee the layout, design, equipment procurement, staff working environment and other aspects to ensure that the new facility conforms to the same high standards that we impose across our network. For all incoming personnel, we require enrollment in training programs on ethics and our code of conduct in order to rapidly acclimate them to our corporate culture and to help them understand the level and quality of service expected of our employees. Moreover, we require all of our staff, regardless of which of our healthcare facility they serve in, to undergo initial training at Wenzhou Kangning Hospital, with frequent follow-up training as needed in line with new developments in our industry and recommendations in the staff review process. In particular, management staff are required to undergo training and development under the guidance of our central management team at Wenzhou Kangning Hospital. Once such managers have gained sufficient experience through such programs, we assign them to our other healthcare facilities to implement uniform standards and protocols. We also require most new hires to undergo one to three months of standardized training at Wenzhou Kangning Hospital to ensure that they understand and are able to implement our uniform

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operating protocols. Furthermore, all of our employees are required to regularly inspect and investigate whether their respective areas of responsibility are compliant with our internal controls and procedures. We believe these standardization processes help to ensure that we provide consistent, high quality services throughout our network.

Product Safety

We do not manufacture any of our own pharmaceuticals and other medical consumables and instead rely on third party suppliers to fulfill our procurement needs. We exercise a stringent and prudent approach to selecting our pharmaceutical suppliers. Our selection criteria include a variety of factors, including quality, service, overall track record, product selection and price. We generally work with reputable suppliers that are able to meet the requirements of our purchases. Upon delivery, inspections are conducted by our staff to ensure strict quality control, including examination as to expiration dates, packaging, product description and other quality indicators. Each of our healthcare facilities has quality control staff responsible for such tasks. In case of defective or otherwise unsatisfactory products, we are able to return such products to the supplier, according to the terms of our supply contracts and historical experience with our suppliers.

During the Track Record Period, we did not encounter any product quality issues or receive any defective products that would have a material adverse effect on our business, financial condition or results of operations.

Industry Regulation Standards

The PRC maintains strict standards for medical institutions and professionals. Medical institutions in the PRC are graded based on the assessment of competent authorities. Medical professionals are also subject to extensive regulations on their qualification and face potential liabilities and disciplinary action for malpractice. Moreover, the National Health and Family Planning Association has promulgated certain measures governing various aspects of psychiatric medical institutions, including their services. See “Regulatory Overview — Regulatory Supervision of Healthcare Sector in China — Rules on Mental Health Area.”

MARKETING AND PRICING

We primarily rely on our reputation as a leading psychiatric healthcare facility network in China and word-of-mouth to attract patients. We also generate name recognition and goodwill through our social programs and community outreach initiatives. See “— Our Other Activities and Functions — Community Outreach Programs and Corporate Social Responsibility.” As a result, we utilize a disciplined and prudent approach to marketing and generally only engage in limited marketing activities.

Price Control and Pricing

We are generally entitled to set fees for our medical services and pharmaceutical products at our own discretion. However, to maintain our market position, compete effectively with public hospitals in the areas where we operate and benefit from enhanced reimbursement coverage from public medical insurance programs, we price our services and products based on

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the pricing policies of public hospitals, which are generally subject to national and local pricing regulations. For example, in 2013, our Wenzhou Kangning Hospital voluntarily joined a government-led program aimed to reform the pricing mechanism of medical products and services in Wenzhou. As part of the program, by electing to sell pharmaceuticals at the procurement bidding price for public hospitals without any mark-up, we are permitted to implement up to a 30% price increase on certain of our medical services covered by public medical insurance. However, the higher priced services are only eligible for reimbursement through such program if the pricing of our services and products remain compliant with the pricing guidance adopted under such programs. See “Regulatory Overview — Regulatory Supervision of Healthcare Sector in China — Reform on Price of Medicine and Medical Services.” We subsequently expanded our participation in such programs to Pingyang Changgeng Ward in late 2013, Yongjia Kangning Hospital in 2014 and Cangnan Kangning Hospital in early 2015. As a result, despite being a privately-owned hospital operator, PRC regulations and insurance programs exert significant influence over the pricing of our services and products.

OUR CUSTOMERS

During the Track Record Period, our largest customer was Pingyang Changgeng Ward, from which we derived management service fee revenue. Other than Pingyang Changgeng Ward, all of our other customers during the Track Record Period were individual patients, of whom each of the five largest customers contributed to less than 1% of our total revenue in each year. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

Our customers settle their medical bills through multiple sources, including government medical insurance, out-of-pocket payments and other channels. The table below sets forth, for the periods indicated, the medical bill settlement amounts received from each of the above payers:

	Year ended December 31,					
	2012		2013		2014	
	Payments Received					
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
Government medical insurance	53,332	31.5	81,457	42.1	134,248	51.0
Patient out-of-pocket	101,810	60.2	85,543	44.2	107,449	40.8
Others ⁽¹⁾	13,965	8.3	26,447	13.7	21,598	8.2
Total payments received	169,107	100.0	193,447	100.0	263,295	100.0

Note:

(1) Primarily consist of supplemental civil administration funds for low-income patients, commercial medical insurance and charities.

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During the Track Record Period, payments from government medical insurance constituted an increasing percentage of our medical fees, reflecting the efforts of the PRC government to establish universal insurance coverage for essential psychiatric healthcare services, which is a key component of the ongoing development of the private psychiatric healthcare industry in China. As a result, the proportion of out-of-pocket payments for our medical bills decreased over the Track Record Period. We believe that such near-term trends benefit our business operations due to the relative stability and reliability of the PRC government as a significant payer of medical fees compared to individual patients. We also believe that as we continue to diversify our service offering, enhance our capability to provide higher-margin premium services and expand geographically, as a leading private psychiatric healthcare provider, we will also continue to benefit from patients paying medical bills out-of-pocket.

Settlement cycles may vary significantly depending on the payer. For example, the settlement cycle for government medical insurance is approximately one to six months following demand for payment, which we typically serve at the time of completion of a treatment visit for outpatients and at the time of check-out for inpatients. However, settlement from supplemental civil administration funds for low-income patients may require one to two years. See “Financial Information — Description of Major Line Items in Our Consolidated Balance Sheets — Trade Receivables.”

OUR SUPPLIERS

We primarily rely on our suppliers for (i) various pharmaceutical products, medical equipment and medical consumables and (ii) construction and renovation services with respect to our healthcare facilities.

In 2012, 2013 and 2014, our five largest suppliers together accounted for 63.8%, 73.1% and 83.6% of our total purchases, respectively, and our single largest supplier accounted for 33.4%, 32.9% and 34.2% of our total purchases during the same periods, respectively. As of the Latest Practicable Date, none of our Directors or any shareholder, who to the knowledge of our Directors, owns more than 5% of our issued share capital immediately following completion of the [REDACTED] (but without taking into account the exercise of the [REDACTED]) nor any of their respective associates has any interest in any of our five largest suppliers.

We have a stringent system for selecting reliable, high-quality suppliers. We select and appraise our suppliers based on pricing, reputation, service quality, delivery schedule and product and service offerings. We routinely review and assess our suppliers’ performance and follow-up on their qualification status with respect to any necessary renewals or new qualifications required in order to ensure the legality and quality of our supplies. Our suppliers generally grant us credit periods ranging from 90 to 180 days or more, which reflects our sound reputation for reliability and liquidity.

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We have entered into long-term contracts with certain of our suppliers. For example, in May 2013, we entered into a long-term supply agreement with Sinopharm, which became our second largest supplier of pharmaceuticals and medical consumables in 2013 and our largest supplier for such products in 2014. Under the terms of our agreement with Sinopharm: (i) pharmaceuticals subject to national and provincial drug catalogs maintained by the PRC government authorities are sold to us by reference to the procurement bidding price of public hospitals, while the prices for pharmaceuticals not subject to such catalogs are negotiated; (ii) Sinopharm is responsible for any quality issues, defects or uncertainties with respect to delivered products; (iii) termination by either party requires 30-day notice; and (iv) we may terminate the agreement and hold Sinopharm liable if Sinopharm fails to make two consecutive deliveries. Our supply agreement with Sinopharm was most recently supplemented in September 2014 to extend the effective term of the agreement to September 2016, and is further renewable by consent of both parties. Sinopharm grants us a credit period of 75 days.

In addition, during the Track Record Period, our largest supplier for services has been Kunpeng Construction Group Co., Ltd. ("**Kunpeng**"), a contractor for construction services. Substantially all of our procurement from Kunpeng occurred in 2014, primarily in connection with the upgrades under development for Wenzhou Kangning Hospital. Under the terms of our agreement with Kunpeng: (i) Kunpeng will undertake construction of the upgrade and expansion project adjacent to Wenzhou Kangning Hospital, for which we will pay RMB126.9 million, adjustable subject to negotiation between the parties; (ii) we will hold Kunpeng liable if it cannot complete the project within the duration of the agreement, which is 1,200 calendar days starting from May 8, 2013, or to an acceptable standard; (iii) we will be held liable if we do not timely make installment payments based on construction progress; and (iv) in addition to customary termination rights available to both parties, Kunpeng can terminate the agreement if construction has been suspended for at least 56 days and we do not make further installment payments, and we can terminate the agreement if Kunpeng assigns or subcontracts the project in its entirety to another party.

During the Track Record Period, we did not encounter any major problems in meeting our supply needs. We believe that we have maintained sound business relationships with our suppliers. During the Track Record Period, we did not encounter any business disruption due to shortage of pharmaceuticals, medical devices or consumables. We believe any shortage or delay in our supplies will not have any material impact on us as we can find replacement suppliers with comparable quality and prices.

Inventory and Procurement

Our inventory primarily consists of pharmaceuticals and medical consumables. While each of our psychiatric healthcare facilities maintains its own inventory, we carry out overall inventory management through a centralized system located at Wenzhou Kangning Hospital. We maintain strict control over our inventory and generally maintain a rapid turnover of inventory to minimize costs while meeting the procurement needs of psychiatric healthcare facilities. In 2012, 2013 and 2014, our inventory turnover days were 25 days, 19 days and 15 days, respectively.

We periodically review our inventories on hand and identify obsolete and slow-moving inventories. Inventories are carried at the lower of cost and net realizable value. Full provision will be made for inventory items which are damaged or defective. We did not have any inventory provisions during the Track Record Period.

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We have a centralized procurement management team based in Kangning Hospital that is responsible for selecting and negotiating the terms for substantially all of our supplies, which consist of products such as pharmaceuticals, medical equipment and consumables, as well as services from construction and renovation contractors. We source our supplies for pharmaceuticals, medical equipment and consumables from both within and outside of the PRC and engage construction and renovation contractors mainly inside China.

COMPETITION

The psychiatric healthcare industry in China is highly fragmented. We compete with a number of private and public healthcare providers in the psychiatric healthcare industry both in local regions where we operate and at a national level. At the national level, our principal competitors primarily include public hospitals, most notably Shanghai Mental Health Center (上海市精神衛生中心) and Beijing Anding Hospital (北京安定醫院). We also compete with regional players where we have substantial operations. To a lesser degree, we also indirectly compete with psychiatric healthcare facilities overseas, in particular in Taiwan, Hong Kong and Singapore, which may attract patients in the PRC who wish to receive psychiatric treatment abroad, or which may seek to establish branch or partnership operations in the PRC.

Participants in the psychiatric healthcare industry generally compete on the bases of perceived expertise, availability of specialists, price, quality of service, and for inpatients, living conditions. Psychiatric healthcare facilities also compete with each other as well as universities and other institutions for talented workforces, in particular with respect to doctors of various levels, nurses and new medical graduates.

We may also face competition from newer entrants in the industry in which we operate, though there are significant barriers to entry, including the high cost of recruiting talented doctors and other medical staff from established industry participants and the extensive experience and specialization that hospital managers are required to have.

Furthermore, we endeavor to keep ourselves informed and up to date regarding best practices in the psychiatric healthcare industry, as well as the professional medical service industry more generally, including with respect to, among other things, standards of service, latest medical studies, technologies and developments, trends in patient expectations, etc. To this end, we encourage our doctors and other staff to actively follow the latest news and developments in the sectors in which they operate. We also keep ourselves up to date on the practices of industry participants overseas, with prudent consideration for any significant cultural differences which may serve as barriers to effective implementation in our own practices.

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INFORMATION TECHNOLOGY

Our business relies on efficient, uninterrupted operation of our information technology systems. Our information systems primarily include hospital information systems (HIS), electronic medical records (EMR), laboratory information systems (LIS), picture and archiving communication systems (PACS) and office automation (OA). We engage independent third parties to develop and implement our information systems, which are then maintained by our information technology team to support our business operations.

All of our healthcare facilities are interconnected by way of the HIS network, allow data-sharing at the Group level and facilitating more informed decision making at the central management level. We plan to implement upgrades and other improvements to our information technology system in order to support our business development. In particular, we believe that utilizing an advanced information system will facilitate our treatment procedures, improve medical staff efficiency and reduce operating costs.

We have developed and made available an online service platform accessible to the public. Existing and prospective patients can book appointments through the platform, communicate with doctors, request medical reports and pay their medical bills. We are current working to expand both accessibility of the platform to mobile users as well as the scope of services and information available.

INTELLECTUAL PROPERTY

We have registered or applied for registration of certain trademarks in the PRC and Hong Kong relating to the names and logos of certain of our properties, our Company and our subsidiaries. As of the Latest Practicable Date, we have (i) one trademark registered in the PRC, (ii) six pending trademark applications in the PRC, (iii) two pending trademark applications in Hong Kong and (iv) four registered domain names. See “Appendix VII — Statutory and General Information — 2. Further Information about our Business — B. Our Intellectual Property Rights.”

As of the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. Our Directors confirm that we did not infringe any other third-parties’ intellectual property rights during the Track Record Period that would have a material adverse impact on our operations and financial position and, as of the Latest Practicable Date, we did not have any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

As of the Latest Practicable Date, we held building ownership rights to a portion of Kangning Hospital with a total GFA of approximately 14,677 sq.m., and the underlying land-use rights with a total site area of approximately 18,760.02 sq.m.

As of the Latest Practicable Date, we leased or occupied properties with an aggregate GFA of approximately 121,380 sq.m. under 16 lease agreements. We primarily use such properties for the operation of our self-operated psychiatric specialty hospitals, as well as for office premises and staff dormitories.

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For our four self-operated psychiatric specialty hospitals located on leased properties, namely Qingtian Kangning Hospital, Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital, we have entered into underlying property lease agreements from third parties. The material terms of such agreements are as follows: (i) lease durations range from eight to 15 years; (ii) fixed annual rental fee; (iii) rental fees typically must be paid in advance; (iv) we are permitted to invest leasehold improvement into leased buildings in order to renovate and convert such buildings into psychiatric hospitals, for which we bear the associated costs. Upon lease termination, we are permitted to remove such leasehold improvements prior to returning the leased properties to the lessor. We are required to notify the lessor at least three months prior to the scheduled expiration dates whether we wish to renew the lease agreements. Due to our strong track record and industry reputation, we do not expect to face significant obstacles towards renewing such agreements with the relevant counterparties, while retaining flexibility to relocate such operations elsewhere if desired. Generally, our lease agreements do not provide any party with the right to terminate prior to the scheduled expiration dates, and if either party breaches prior to expiration, such party is liable for paying penalties and any loss suffered by the other party as a result of the breach. Certain lease agreements permit early termination with three months written notice and consent of the counterparty.

We have had certain incidents of non-compliance with respect to two of our hospitals. See “Business — Legal Compliance and Proceedings — Non-compliance Incidents” and “Risk Factors — Risks Relating to Our Business and Industry — We are not in material compliance with certain regulatory requirements with respect to two hospitals that utilize leased properties.”

AWARDS AND RECOGNITION

We have earned significant acclaim for our high-quality, patient-centric services and various contributions to the PRC psychiatric healthcare industry. The table below sets forth recent major awards and recognition conferred on us:

Year	Recipient	Award and Recognition	Award Issuing Body
2012	Wenzhou Kangning Hospital	Leading Medical Administration Group of Zhejiang Province (浙江省醫政工作先進集體)	Zhejiang Provincial Health Department (浙江省衛生廳)
2012, 2014	Wenzhou Kangning Hospital	National Trustworthy Hospital (全國百佳百姓放心醫院)	Chinese Hospital Association (中國醫院協會)
2012	Wenzhou Kangning Hospital	Zhejiang Red Cross Merit Award (浙江省紅十字博愛功勳獎)	Zhejiang Red Cross (浙江省紅十字會)
2014	Wenzhou Kangning Hospital	Zhejiang Innovative Charity Project Award (浙江省慈善總會第二屆浙江慈善項目創新獎)	Zhejiang Charity Federation

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LICENSES, PERMITS AND APPROVALS

During the Track Record Period, we have not been in compliance with all material requisite licenses, permits and approvals that are required for our operations. See “— Legal Compliance and Proceedings — Non-compliance Incidents.”

The table below sets forth the material licenses, permits and approvals we held that are necessary for our operation as of the Latest Practicable Date:

<u>License</u>	<u>Healthcare Facility</u>	<u>Effective Date</u>	<u>Expiration Date</u>
Medical Institution Practicing License	Wenzhou Kangning Hospital	April 15, 2015	November 24, 2029
Medical Institution Practicing License	Qingtian Kangning Hospital	March 27, 2015	March 26, 2019
Medical Institution Practicing License	Cangnan Kangning Hospital	June 13, 2012	June 12, 2027
Medical Institution Practicing License	Yueqing Kangning Hospital	August 29, 2013	August 29, 2018
Medical Institution Practicing License	Yongjia Kangning Hospital	December 29, 2014	December 31, 2017

In addition to the above licenses and certificates, we have also obtained other licenses and permits relevant to our business operations, such as License for the Deployment of Large Medical Equipment (大型醫用設備配置許可證), License for Radiotherapy (放射診療許可證), Radiation Security License (輻射安全許可證) and Judicial Appraisal Institution license (司法鑒定許可證). See “Regulatory Overview — Regulatory Supervision of Healthcare Sector in China.”

Our PRC legal adviser, Tian Yuan Law Firm, has confirmed that, except as disclosed in “— Properties,” “— Environmental Matters” and “— Legal Compliance and Proceedings,” as of the Latest Practicable Date, we were in compliance in all material respects with applicable PRC laws and PRC and local regulations. See “Appendix IV — Summary of Principal Legal and Regulatory Provisions - Laws and Regulation of the PRC.”

In the event of any material non-compliance, we may encounter difficulties in continuing to conduct our normal business operations, and our business, financial condition and results of operations could be materially and adversely affected. See “Risk Factors — Risks Relating to Our Business and Industry — We conduct our business in a heavily regulated industry, in particular with respect to Grade A Class III hospitals such as our Wenzhou Kangning Hospital, and cannot assure you that we will be able to obtain or renew the various licenses, permits, approvals and certificates required for our operations.”

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WORKPLACE HEALTH AND SAFETY

We are subject to the health and safety requirements of the PRC. We have instituted internal policies and systems in place designed with a view to implementing and ensuring compliance with such requirements. We believe that we are, and have been, in compliance with such requirements during the Track Record Period up to the Latest Practicable Date. Potential liabilities to our employees are covered by insurance, which we are required by law to purchase. During the Track Record Period, our employees did not experience any material accidents in the course of our business operations.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented.

As of December 31, 2014, our finance team consisted of 13 employees, and is headed by our chief financial officer, Ms. Wang Hongyue, who has extensive experience in public company financial reporting. Other senior members of our finance department are all experienced in finance and accounting.

Human Resource Risk Management

We have established internal control policies covering various aspects of human resource management, such as recruiting, training, work ethics and legal compliance. We adopt high standards in recruitment with strict procedures to ensure the quality of new hiring, and implement rigorous training and research programs, which we believe are effective in equipping them with the skill set and work ethics that we require of our employees. See “— Employees.”

Our employee handbook contains summaries of the relevant laws and regulations governing our business and industry, as well as guidelines regarding best commercial practice, work ethics and the prevention of fraud, negligence, anti-bribery and corruption. We have also made available an anonymous reporting channel through which actual or potential violations of our internal policies or illegal acts at all levels of our Group can be timely reported to management and appropriate measures can be taken to minimize damage.

Legal Compliance Risk Management

Compliance with PRC laws and regulations, especially laws and regulations governing the healthcare industry, as well as the prevention and addressing of liabilities arising from potential medical incidents, are major focus areas of our operational risk management. We

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have a dedicated legal team that is responsible for monitoring any changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC law. In situations where the relevant laws and regulations are not clear as to what action should or should not be taken, we opt for the conservative approach to avoid triggering potential compliance issues.

Implementation of new treatment procedures or introduction of new pharmaceutical drugs to be prescribed to patients are subject to review by our legal department, and require final approval from our senior management. Our legal department also ensures timely applications and filings for necessary licenses, permits and approvals for our operations and expansion plans. From time to time, we also engage external counsel to assist our legal department.

Information and Patient Data Risk Management

We have adopted measures, which our information management department is responsible for implementing and reviewing, to protect patient data in accordance with relevant laws and regulations and to prevent technical issues in our network infrastructure and information management system. As of December 31, 2014 our information management team consisted of six employees, led by our deputy general manager, Mr. Wang Qian, who has over 20 years of experience in the information technology industry.

To strengthen patient privacy, we have adopted internal policies to ensure that authorization to access various information systems is tailored to employee seniority and department function so that certain information can only be obtained on an as-need basis. We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situations. Furthermore, most of our full-time employees are required to sign confidentiality agreements under which they undertake to keep confidential any patient data and operational, financial and other information that they obtain by virtue of their employment with us.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee and senior management monitor the implementation of our risk management policies across our Group on an ongoing basis to ensure that our internal controls and risk management policies are effective in identifying, managing and mitigating risks involved in our operations.

Corporate Governance

We are committed to a high standard of corporate governance and prudent management. We believe that exercising a high standard of corporate governance will serve to enhance the interests of our Shareholders. Our Board has established procedures on corporate governance that will comply with the requirements of the Code on Corporate governance Practices in Appendix 14 to the Listing Rules.

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INSURANCE

We currently purchase medical institution liability insurance (醫療機構責任保險) for all of our owned psychiatric specialty hospitals, generally renewable on a semi-annual basis for Wenzhou Kangning Hospital and an annual basis for our other hospitals. We expect to include our planned psychiatric specialty hospitals in our insurance coverage upon the commencement of their respective operations. We began purchasing such insurance, covering Yongjia Kangning Hospital initially. We expanded such coverage to Qingtian Kangning Hospital and Cangnan Kangning Hospital in 2014 and to Yueqing Kangning Hospital in early 2015. We started to purchase medical institution liability insurance for Wenzhou Kangning Hospital in 2015. In addition, we generally require our managed healthcare facilities to purchase medical institution liability insurance.

We do not maintain product liability insurance for our medical devices and equipment, nor do we maintain business interruption insurance or key employee insurance for our executive officers. We believe that our policies with respect to insurance are in line with industry practice in the PRC. However, we cannot assure you that we will have sufficient insurance coverage for all liabilities, losses or damages that may arise in our business operations. See “Risk Factors — Risks Relating to Our Business and Industry — We may not carry adequate insurance for the professional and other liabilities which may arise in our business.”

During the Track Record Period, there were no significant or unusual excess or deductible amounts under these policies and the Directors are of the view that the insurance coverage under these policies is adequate and customary for our industry.

ENVIRONMENTAL MATTERS

We are conscious of our environmental protection obligations and actively seek to implement eco-friendly technologies and solutions where feasible. With respect to medical waste management, we have engaged qualified third parties to arrange proper disposal for all of our healthcare facilities in accordance with applicable laws and regulations.

During the Track Record Period, we have not been in full compliance with environmental laws and regulations. See “— Legal Compliance and Proceedings — Non-compliance Incidents.” In 2012, 2013 and 2014, our total cost of compliance with applicable environmental laws and regulations was RMB0.4 million, RMB0.5 million and RMB0.4 million, respectively.

Our PRC legal adviser, Tian Yuan Law Firm, has confirmed that, except as disclosed in “— Legal Compliance and Proceedings — Non-compliance Incidents,” our operations as of the Latest Practicable Date were in compliance with applicable PRC environmental and safety laws and related PRC and local regulations in all material respects.

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LEGAL COMPLIANCE AND PROCEEDINGS

Non-compliance Incidents

During the Track Record Period, we had certain non-compliance incidents that arose in the operation of our business. The table below sets forth the material incidents, the reason for non-compliance, legal consequences and penalties (including maximum potential penalties) and measures taken or to be taken:

Incident of Non-compliance	Reason for Non-compliance	Legal Consequences (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
1. <i>Leased properties at Qingtian Kangning Hospital</i>	<p>We had not conducted environmental protection verification, which we were required to complete prior to opening Qingtian Kangning Hospital.</p> <p>Such non-compliance was due to our management focusing primarily on the commercial aspects of our efforts to expand and scale up our healthcare facility network and failing to devote sufficient attention to the underlying legal requirements.</p>	<p>We may be requested to cease our operations until we are compliant with the environmental protection verification and may be fined up to RMB500,000.</p> <p>Based on (i) the representation from the Company, (ii) the confirmation obtained from the relevant government authority and (iii) the Deed of Indemnity the Controlling Shareholders have entered into in favor of the Company in regard to any loss we may sustain as a result of such non-compliance, our PRC legal advisers are of the view that the lack of environmental protection verification will not have any material impact on the business operations of our Group.</p>	<p>We have obtained written confirmation from the Environmental Protection Bureau of Qingtian County that in the past three years, we did not receive any administrative penalties with respect to environmental protection. Further, we did not receive any notifications from the relevant authorities alleging that we had not conducted environmental protection verification and which requested us to cease our operations. Our PRC legal advisers are of the view that the Environmental Protection Bureau of Qingtian County is the competent authority to issue such confirmation.</p> <p>We derived no more than 5% of our revenue from Qingtian Kangning Hospital during the Track Record Period.</p> <p>If we are forced to cease operations at Qingtian Kangning Hospital before the replacement hospital is completed, we will temporarily relocate the operations to Yueqing Kangning Hospital. Based on our management’s experience, we estimate that such relocation would require one week to complete and the estimated cost of relocation is RMB300,000. Our Directors are of the view that such relocation would not have a material adverse effect on our business, financial position and results of operations.</p>

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Incident of Non-compliance	Reason for Non-compliance	Legal Consequences (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
	<p>The underlying land is zoned for industrial use and has not obtained governmental approval for hospital use.</p> <p>Such non-compliance was due to our management focusing primarily on the commercial aspects of our efforts to expand and scale up our healthcare facility network and failing to devote sufficient attention to the underlying legal requirements.</p>	<p>We may be forced to relocate Qingtian Kangning Hospital.</p> <p>Based on (i) the representation from the Company and (ii) the Deed of Indemnity the Controlling Shareholders have entered into in favor of the Company in regard to any loss we may sustain as a result of such non-compliance, our PRC legal advisers are of the view that such property defects will not have any material impact on the business operations of our Group.</p>	<p>In addition to our relocation plan, we have initiated plans to construct a replacement hospital in Qingtian County, which will serve as the new site of Qingtian Kangning Hospital. We have entered into a non-binding memorandum of understanding with the Health Bureau of Qingtian County, which agreed to provide regulatory support in regard to our plan and identified suitable property in Qingtian County on which to construct the replacement hospital.</p> <p>We have obtained the written confirmation from the Housing and Urban and Rural Planning and Construction Bureau of Qingtian County that in the past three years, we did not receive any administrative penalties from the bureau. Further, we did not receive any notifications from the relevant authorities to request us to cease our operations. Our PRC legal advisers are of the view that the Housing and Urban and Rural Planning and Construction Bureau of Qingtian County is the competent authority to issue such confirmation.</p> <p>We have formulated temporary relocation plans for Qingtian Kangning Hospital and are in the process of obtaining suitable land for permanent relocation as described above.</p>

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Incident of Non-compliance	Reason for Non-compliance	Legal Consequences (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
<p>We had not conducted fire safety verification for Qingtian Kangning Hospital due to our improper use of the property as described above.</p> <p>Such non-compliance was due to our management focusing primarily on the commercial aspects of our efforts to expand and scale up our healthcare facility network and failing to devote sufficient attention to the underlying legal requirements.</p>	<p>We had not conducted fire safety verification for Qingtian Kangning Hospital due to our improper use of the property as described above.</p> <p>Such non-compliance was due to our management focusing primarily on the commercial aspects of our efforts to expand and scale up our healthcare facility network and failing to devote sufficient attention to the underlying legal requirements.</p>	<p>We may be requested to cease our operations and may be fined up to RMB300,000.</p> <p>Based on (i) the representation from the Company and (ii) the Deed of Indemnity the Controlling Shareholders have entered into in favor of the Company in regard to any loss we may sustain as a result of such non-compliance, our PRC legal advisers are of the view that such property defects will not have any material impact on the business operations of our Group.</p>	<p>Based on an interview with the responsible officer of the Fire Safety Bureau of Qingtian County, the relevant government authority is aware of the lack of fire safety verification and we were not subject to any penalty in the past. Our Directors are of the view that the relevant properties are safe to occupy as the building was designed and constructed in compliance with applicable fire safety standards and it has not experienced any safety issue.</p> <p>We have also formulated temporary relocation plans for Qingtian Kangning Hospital and are in the process of obtaining suitable land for permanent relocation as described above.</p>

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Incident of Non-compliance	Reason for Non-compliance	Legal Consequences (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
<p>2. <i>Leased properties at Cangnan Kangning Hospital</i></p>	<p>We had not completed the fire safety verification for Cangnan Kangning Hospital, which we were required to obtain from the relevant government authority prior to opening Cangnan Kangning Hospital</p> <p>Such non-compliance was due to our management focusing primarily on the commercial aspects of our efforts to expand and scale up our healthcare facility network and failing to devote sufficient attention to the underlying legal requirements.</p>	<p>We may be requested to cease our operations and may be fined up to RMB300,000.</p> <p>Based on written confirmation obtained from the Fire Safety Bureau of Cangnan County, our PRC legal advisers are of the view that the likelihood of being ordered to relocate the current Cangnan Kangning Hospital prior to the relocation of Cangnan Kangning Hospital is remote if we are able to rectify the fire safety deficiencies and implement fire safety management measures in accordance with the requirements set forth by the Fire Safety Bureau of Cangnan County.</p>	<p>We have obtained confirmation from the Fire Safety Bureau of Cangnan County that they are aware that the underlying property for Cangnan Kangning Hospital cannot fulfill the fire safety verification requirement, and taking into consideration that (i) we are in the process of applying and preparing for the establishment of a new Cangnan Kangning Hospital, and (ii) we agreed to rectify the fire safety deficiencies, they will continue to allow us to use the current property of Cangnan Kangning Hospital before relocation of the hospital is completed.</p> <p>Our PRC legal advisers are of the view that the Fire Safety Bureau of Cangnan County is the competent authority to issue such confirmation.</p> <p>We do not expect to incur any significant costs in complying with the requirements set forth in the confirmation issued by the regulatory authority. We expect to be able to complete such rectification measures in August 2015. In addition, we did not experience any safety issue in regard to our use of properties at Cangnan Kangning Hospital.</p> <p>In addition, we are in the process of identifying alternative property in the local region suitable for permanently relocating Cangnan Kangning Hospital.</p>

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Incident of Non-compliance	Reason for Non-compliance	Legal Consequences (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
	<p>The landlord did not obtain ownership title to the properties leased by us.</p> <p>Such non-compliance was due to our management focusing primarily on the commercial aspects of our efforts to expand and scale up our healthcare facility network and failing to devote sufficient attention to the underlying legal requirements.</p>	<p>We may be required to vacate the property due to the landlord’s lack of valid ownership certificate.</p> <p>Based on the confirmation from the relevant government authority, our PRC legal advisers are of the view that the likelihood of us being subject to any regulatory punishment prior to the relocation of the Cangnan Kangning Hospital, including cessation of operations or property demolition, is remote.</p>	<p>We derived approximately 10% of our revenue from Cangnan Kangning Hospital in 2014. In light of the confirmation received from the regulatory authority, the expected costs of complying with the requirements set forth in such confirmation and our plan to relocate Cangnan Kangning Hospital, our Directors are of the view that we would not be subject to any material adverse effect in relation to the title defects of the properties of Cangnan Kangning Hospital.</p> <p>We have obtained a confirmation from the Housing and Urban and Rural Planning and Construction Bureau of Cangnan County that we would not be ordered to cease to use such property until we complete the relocation of the hospital to the new property.</p> <p>In light of our plan to relocate Cangnan Kangning Hospital as well as the confirmation received from the regulatory authority, our Directors are of the view that we would not be subject to any material adverse effect in relation to the title defect of the properties of Cangnan Kangning Hospital.</p>

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Incident of Non-compliance	Reason for Non-compliance	Legal Consequences (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
<p>3. Failure to fully pay social insurance and housing provident funds.</p>	<p>We failed to make mandatory contributions to social insurance and housing provident funds for certain of our employees, which amounted to RMB5.1 million and RMB0.7 million, respectively, during the Track Record Period. Over the same period, such employees declined to participate in the social insurance and housing provident funds programs and as a result, did not make payments to such programs in accordance with the applicable laws and regulations.</p>	<p>According to the relevant PRC laws and regulations:</p> <p>(i) with respect to social insurance, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period with a late charge at the daily rate of 0.05% on the outstanding amounts, and they may impose a maximum fine or penalty equivalent to three times the outstanding amounts if such payment is not made within the prescribed time period.</p> <p>(ii) with respect to housing provident funds, the relevant authorities may order us to pay the outstanding amounts of the housing provident funds within the prescribed time period. If we fail to do so, the relevant authorities may apply to a competent court for enforcement of the unpaid amounts. Other than the outstanding amounts, no additional late charges are provided for in the relevant regulations.</p>	<p>We have not historically received any notification from the relevant local social insurance and housing provident fund authorities alleging that we had not make full contributions to social insurance and/or housing provident funds, nor have we received any request for payment of any outstanding amounts by a stipulated deadline. We have obtained written confirmations from the relevant authorities for all of our owned psychiatric specialty hospitals that no administrative penalty has been imposed with respect to any violation of the relevant social insurance and housing provident fund laws and regulations. We have been advised by our PRC legal advisers that such authorities are the competent authorities to issue such confirmations.</p> <p>We have made a provision of RMB5.8 million, recorded under the accruals and other payables component of our balance sheet, as of December 31, 2014, to reflect the relevant amounts for social insurance and housing provident funds. Our Directors are of the view that if we are required to pay such amounts, such payment would not have a material adverse effect on our financial condition or results of operations.</p>
		<p>Based on (i) our provision in respect of our associated liability on our financial statements, (ii) the Deed of Indemnity the Controlling Shareholders have entered into in favor of the Company in regard to any loss we may sustain as a result of such non-compliance and (iii) the fact that no administrative penalty has been imposed on the Company, our PRC legal advisers are of the view that such non-compliance will not have any material impact on the business operations of our Group.</p>	

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Internal Control Findings and Rectification Measures

We have engaged a reputable internal controls consultant which conducted a review of our internal controls. With respect to the material non-compliance incidents identified above, the internal controls consultant recommended certain rectification measures, including conducting prudent review of future properties before entering into property agreements, including legal due diligence with respect to the nature, designated usage and title certificates of such properties.

In May 2015, our central management completed the implementation of the updated policies regarding the protocol for establishing new healthcare facilities. Specifically, such policies require that prior to entering into any arrangement in regard to property use for a new hospital, we shall conduct research and verification procedures to ensure that:

- (i) the target property is in material compliance with (x) all applicable business, land and building rights and certificates, (y) fire and environmental protection requirements and (z) other key inspection requirements, such as applicable fees and taxes and commercial registration;
- (ii) a detailed analysis report of the findings under part (i) above shall then be submitted to our management for review and discussion;
- (iii) relevant filings, approvals and inspections are arranged with the local health authorities; and
- (iv) we obtain documented proof of the landlord's ownership of the property as well as documented confirmation that the underlying property is zoned for, or is readily convertible to or otherwise available for, medical use.

Based on (i) the facts and circumstances leading to our non-compliance incidents as described in "— Non-compliance Incidents," (ii) the remedial actions taken to address such incidents and (iii) the foregoing internal control measures, our Directors are of the view, and the Joint Sponsors, after reviewing the above internal control measures, are satisfied, that (a) the above measures will effectively ensure a proper internal control system to prevent future similar non-compliance with the PRC laws and regulations and (b) our non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 on the Listing Rules and the suitability of our Company under Rule 8.04 of the Listing Rules.

Litigation Matters

As of the Latest Practicable Date, except as disclosed above, we were not aware of any material legal proceedings, claims or disputes, and our PRC legal adviser, Tian Yuan Law Firm, confirmed that there were no material legal proceedings, claims or disputes, currently existing or pending against us which may have a material adverse impact on our business, financial condition or results of operations. During the Track Record Period, we have not made any provision for litigation claims.

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MEDICAL INCIDENTS

Due to the nature of the healthcare industry and the inherent risks in treating patients, especially psychiatric patients, with varying degrees of general medical conditions, we have experienced certain material instances of medical incidents at our healthcare facilities involving patient death or resulting in monetary compensation of RMB50,000 or above.

We believe the medical incidents that we have historically experienced reflect risks inherent in our business and industry. For example, according to the Frost & Sullivan Report, in 2012, (i) for all hospitals in China, medical incidents involving inpatient death represented approximately 0.42% of total admitted inpatients and (ii) for psychiatric specialty hospitals in China, medical incidents involving inpatient death represented approximately 0.32% of total admitted inpatients for such hospitals. By comparison, our number of medical incidents involving patient death represented approximately 0.05%, 0.08% and 0.05% of the total number of inpatients admitted to our healthcare facilities in 2012, 2013 and 2014, respectively. Our significantly lower patient fatality rates reflect our continued efforts to treat the safety of our patients and employees with the utmost priority, as well as our efforts to fine-tune our treatment protocols and procedures over years of operations to ensure that they incorporate the best practices in our industry.

Based on a written confirmation issued by the Wenzhou branch of the NHFPC, during the Track Record Period, (i) we had not been involved in any significant medical incidents in which we were found to be primarily responsible for the incident and (ii) we had not been subject to any administrative penalty from the Wenzhou branch of the NHFPC. During the Track Record Period and up to the Latest Practicable Date, none of our doctors were involved in any disciplinary proceedings or otherwise determined to be liable for any medical malpractice incidents. In addition, in 2013, Wenzhou Kangning Hospital was rated as a Grade A Class III psychiatric hospital, the highest grade attainable by hospitals in China. We believe that such grade reflects our compliance with the stringent regulations applicable to us as well as our substantial efforts to continuously improve and maintain what we believe are the best practices for safety of medical facilities in our field.

The table below sets forth, for the periods indicated, the number of and the compensation paid in relation to material medical incidents at our healthcare facilities:

	For the year ended December 31,						For the five months ended May 31,	
	2012		2013		2014		2015	
	Number of material medical incidents	Total compensation paid	Number of material medical incidents	Total compensation paid	Number of material medical incidents	Total compensation paid	Number of material medical incidents	Total Compensation paid
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Wenzhou Kangning Hospital	6	1,275	5	679	4	663	1	200
Other healthcare facilities	1	140	3	267	2	185	1	230
Total	7	1,415	8	946	6	848	2	430

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The table below sets forth further details of such material medical incidents.

<u>Healthcare Facility Involved</u>	<u>Settlement Method</u>	<u>Nature of Incident</u>	<u>Date of Incident</u>	<u>Compensation Paid by Us</u> RMB
<i>I. Incidents for which we were not primarily or secondarily liable⁽¹⁾</i>				
Wenzhou Kangning Hospital	Mediation	Patient fatality due to cerebral hemorrhage	January 2012	74,900
Wenzhou Kangning Hospital	Private negotiation / settlement	Patient fatality due to pulmonary infection	August 2012	100,000
Cangnan Kangning Hospital	Mediation	Patient fatality due to cardiogenic shock	September 2012	140,000
Wenzhou Kangning Hospital	Private negotiation / settlement	Patient fatality due to myocardial infarction	November 2012	300,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to acute suppurative cholangitis	November 2012	315,000
Cangnan Kangning Hospital	Mediation	Patient fatality due to obstructive sleep apnea	March 2013	102,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to sudden unexpected death syndrome	June 2013	260,000
Wenzhou Kangning Hospital	Private negotiation / settlement	Patient fatality due to suicide	August 2013	135,000
Wenzhou Kangning Hospital	Private negotiation / settlement	Newborn fatality due to asphyxiation on breast milk	August 2013	55,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to suicide	October 2013	165,000
Cangnan Kangning Hospital	Mediation	Patient fatality due to viral myocarditis	October 2013	90,000
Cangnan Kangning Hospital	Private negotiation / settlement	Patient fatality due to obstructive sleep apnea	December 2013	75,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to obstructive sleep apnea	February 2014	120,000
Yueqing Kangning Hospital	Private negotiation / settlement	Patient fatality due to stroke	July 2014	135,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to sudden cardiac death	October 2014	200,000
Wenzhou Kangning Hospital	Private negotiation / settlement	Patient fatality due to agranulocytosis	February 2015	200,000
<i>II. Incidents for which we were not primarily liable⁽²⁾</i>				
Wenzhou Kangning Hospital	Litigation	Patient injury due to brain injury following sudden cardiac arrest ⁽³⁾	June 2012	343,491
Wenzhou Kangning Hospital	Mediation	Patient injury due to falling when attempting to flee the hospital ⁽⁴⁾	August 2012	141,801
Wenzhou Kangning Hospital	Mediation	Patient fatality due to heart failure following acute pneumonia ⁽⁵⁾	October 2013	64,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to pleurisy, peritonitis and septic shock ⁽⁶⁾	January 2014	280,000

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Healthcare Facility Involved	Settlement Method	Nature of Incident	Date of Incident	Compensation Paid by Us
Yongjia Kangning Hospital	Mediation	Patient injury due to being attacked by another patient ⁽⁷⁾	February 2014	RMB 50,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to suicide after experiencing obstipation ⁽⁸⁾	July 2014	62,893
Yongjia Kangning Hospital	Mediation	Patient fatality due to falling off the bed ⁽⁹⁾	January 2015	230,000

Notes:

- (1) For medical incidents for which we were not primarily or secondarily liable, we from time to time pay no-fault compensation to the counterparties of such incidents, especially those resulting in fatality, as part of our efforts to undertake social responsibility and to expedite the resolution of any potential claims from such parties. In such incidents, we were not at fault based on the findings of the relevant mediating body or based on the settlement agreement with the counterparty of the incident.
- (2) Based on findings of the relevant judicial or mediating body, as applicable. According to a written confirmation issued by the Wenzhou branch of the NHFPC, we were not found to be primarily responsible for any of these medical incidents.
- (3) On June 8, 2012, an outpatient admitted to Wenzhou Kangning Hospital suffered from stomach pain and was diagnosed with kidney stones. After staying at Wenzhou Kangning Hospital for two hours, the patient experienced sudden cardiac arrest due to cerebral ischemia and hypoxia, requiring resuscitation and resulting in ongoing brain injury. The patient filed a complaint to the people’s court of Lucheng District of Wenzhou City and requested a medical accident appraisal. The appraisals were conducted by the Wenzhou Medical Association (溫州市醫學會) and the Zhejiang Medical Association (浙江省醫學會), which concluded that there was causation between our fault and the injury sustained by the patient and the hospital was secondarily responsible for the injury. Based on the conclusion, the people’s court of Lucheng district of Wenzhou City ordered us to pay a compensation of RMB343,491.41 to the patient, which we fully settled in July 2014.
- (4) On July 22, 2012, a patient was admitted to Wenzhou Kangning Hospital and diagnosed with mental disorder associated with intoxication. On August 11, 2012, the patient fell off the third floor of the inpatient building by opening the window of the washroom, and suffered serious injury. The patient together with his wife and Wenzhou Kangning Hospital applied for mediation from the Wenzhou Medical Disputes People’s Mediation Committee (溫州市醫療糾紛人民調解委員會). The committee concluded that the hospital breached its duty of care and there was causation between the breach and the injury sustained by the patient. We subsequently entered into a mediation agreement with the patient in December 2012 in which we agreed to pay a compensation of RMB141,801. We fully settled such compensation in December 2012.
- (5) On April 9, 2013, a patient was admitted to Wenzhou Kangning Hospital and diagnosed with and treated as undifferentiated schizophrenia and diabetes. On October 24, 2013, the patient presented with symptoms of shortness of breath and coughing, and was diagnosed with acute pneumonia and died later that day. The patient’s family and Wenzhou Kangning Hospital applied for mediation from the Wenzhou Medical Disputes People’s Mediation Committee (溫州市醫療糾紛人民調解委員會). The committee concluded that the hospital breached its duty owed to the patient. We subsequently entered into a mediation agreement with the family member of the patient in December 2013 and agreed to pay a compensation of RMB64,000 to the family member of the patient. We fully settled such compensation in December 2013.
- (6) On December 30, 2013, a patient was admitted to Wenzhou Kangning Hospital and diagnosed with schizophrenia, for which she subsequently received treatment. On January 5, 2014, the patient experienced shortness of breath and lethargy consistent with pleurisy and peritonitis, and as a result was transferred to a third-party public hospital for emergency care where she received further treatment and died the next day. The patient’s family and Wenzhou Kangning Hospital applied for mediation from the Wenzhou Medical Disputes People’s Mediation Committee (溫州市醫療糾紛人民調解委員會). The patient’s family members then requested a medical accident appraisal, which was conducted by Wenzhou Medical University and Wenzhou Medical Association Medical Accident Appraisal Committee (溫州市醫學會醫療鑒定委員會). Both Wenzhou Medical Colleague and the Committee concluded that the hospital had fault in the treatment process and there was causation between the fault and the death of the patient. The hospital was held secondarily liable for the death. We subsequently entered into a mediation agreement with the patient in June 2014 and agreed to pay a compensation of RMB280,000 to the family of the patient. We fully settled such compensation in June 2014.
- (7) In February 2014, a patient at Yongjia Kangning Hospital was attacked by another patient, resulting in rib fractures, facial lacerations and dental injuries to the former. The injured patient and Yongjia Kangning Hospital applied for mediation from the Shangtang People’s Mediation Committee (上塘鎮人民調解委員會). The committee concluded that the injury was caused by insufficient patient supervision

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- by the hospital. We subsequently entered into a mediation agreement with the patient in June 2014 and agreed to pay compensation of RMB50,000. We fully settled such compensation in June 2014.
- (8) In May 2010, a patient was admitted to Wenzhou Kangning Hospital and diagnosed with schizophrenia, for which he subsequently received treatment. On June 17, 2014, the patient suffered from stomach pain with fever and vomiting due to intestinal obstruction and was transferred to the surgery department, where he gradually improved. On July 24, 2014, the patient committed suicide by jumping from the window of Wenzhou Kangning Hospital. The family of the patient and Wenzhou Kangning Hospital applied for mediation from the Wenzhou Medical Disputes People’s Mediation Committee (溫州市醫療糾紛人民調解委員會). The committee concluded that the hospital breached its duty of care and there was causation between the breach and the death of the patient. We subsequently entered into the mediation agreement with the patient in August 2014 and agreed to pay a compensation of RMB62,893 to the family members of the patient. We fully settled such compensation in August 2014.
- (9) On December 26, 2014, a patient was admitted to Yongjia Kangning Hospital and diagnosed with an acute stress reaction, for which she subsequently received treatment and showed improvement. On January 3, 2015, she fell off her bed onto the hospital floor and died. The family of the patient and Yongjia Kangning Hospital applied for mediation from the Yongjia Medical Disputes People’s Mediation Committee (永嘉縣醫療糾紛人民調解委員會). The committee preliminarily concluded that there was a certain degree of causation between our fault and the injury sustained by the patient. We subsequently entered into a mediation agreement with the patient’s family in January 2015 and agreed to pay compensation of RMB230,000. We fully settled such compensation in January 2015.

The decrease in the number of material medical incidents during the Track Record Period reflected our continued efforts to strengthen our risk management and improve our operating protocols based on the incidents that occurred. Our management regularly conducts further review and analysis, detects weakness in our healthcare service and management procedures, proposes solutions to the administrators of each healthcare facility and follows up with the relevant departments to ensure timely rectification of any weaknesses. The central management of Wenzhou Kangning Hospital also holds regular meetings to analyze the issues identified through the incidents to understand the underlying reasons and propose and execute rectification measures. We have also implemented, among other things, the following preventive measures to enhance our control measures:

- enhancing the safety of our healthcare facilities, such as by reinforcing windows on higher floors and in non-psychiatric departments;
- improving treatment procedures and protocols and using more strict security measures towards certain designated patients, such as separating patients with violent or unstable tendencies for isolated treatment and giving less weight to the patient or family’s request when determining the proper departmental assignment for the patient, if such patient’s condition warrants it;
- conducting more frequent physical examinations for patients suffering from severe psychiatric disorders; and
- conducting more frequent patrols of patient rooms by our medical staff.

Save as otherwise disclosed above in this subsection, during the Track Record Period and up to the Latest Practicable Date, we did not have any other medical incidents (i) which involved patient fatality, (ii) which involved material monetary settlement of more than RMB50,000, or (iii) in which we were found to be at fault by a relevant judicial, administrative or meditating authority or based on a settlement reached with the counterparties to such incidents. In addition, as of the Latest Practicable Date, we did not have any ongoing or unsettled medical incidents that would have a material adverse effect on our business, financial condition or results of operations. However, the psychiatric healthcare industry remains one in which the risk of patient fatality cannot be eliminated entirely. See “Risk Factors — Risks Relating to Our Business and Industry — We are exposed to inherent risks of medical incidents and legal proceedings arising from our operations, and resolving such incidents and proceedings could result in significant costs and materially and adversely affect our reputation and business.”

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] (without taking into account any H Shares which may be allotted and issued upon any exercise of the [REDACTED]), Mr. Guan Weili (“**Mr. Guan**”) and Ms. Wang Lianyue (“**Ms. Wang**”) (the spouse of Mr. Guan) will directly hold approximately [REDACTED]% and [REDACTED]% of our issued share capital, respectively. Accordingly, Mr. Guan and Ms. Wang, will be deemed to control together more than 30% of our issued share capital, and hence, for the purpose of the Listing Rules, they will be our Controlling Shareholders. For the background of Mr. Guan and Ms. Wang, please refer to the section headed “Directors, Supervisors and Senior Management” in this [REDACTED].

Except as disclosed in this [REDACTED], neither our Controlling Shareholders nor any of our Directors is, as of the Latest Practicable Date, interested in any business, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION AGREEMENT

Non-competition

We entered into the Non-Competition Agreement with the Controlling Shareholders on May 11, 2015, under which the Controlling Shareholders agreed not to, and to procure his/her respective close associate(s) (as appropriate) (other than our Group) not to, either directly or indirectly, compete with our principal business and granted to our Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

The Controlling Shareholders have further irrevocably undertaken in the Non-Competition Agreement that, during the term of the Non-Competition Agreement, he/she (as appropriate) will not, and will also procure his/her respective close associate(s) (as appropriate) (other than our Group) not to, alone or with a third party, in any form, directly or indirectly, engage in, participate in, support to engage in or participate in any business that competes, or is likely to compete, directly or indirectly, with our principal business. The foregoing restrictions are subject to the fact that our Company may waive certain new business opportunities pursuant to the terms and conditions under the Non-Competition Agreement.

The foregoing restrictions do not apply to (1) the purchase by the Controlling Shareholders or his/her close associate(s) (as appropriate) for investment purpose of not more than 10% equity interests in other listed companies whose business competes or is likely to compete with our principal business; or (2) the holding by the Controlling Shareholders or his/her close associate(s) (as appropriate) of not more than 10% equity interests in other companies whose business competes or is likely to compete with our principal business, as a result of a debt restructuring of such companies (collectively referred to as “**Invested Companies**” for scenarios (1) and (2)). For the avoidance of doubt, the exceptions above do not apply to such Invested Companies which the Controlling Shareholders or his/her close associate(s) (as appropriate) are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Invested Companies are being held by the Controlling Shareholders or his/her close associate(s) (as appropriate).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Options for New Business Opportunities

The Controlling Shareholders have undertaken in the Non-Competition Agreement that, during the term of the Non-Competition Agreement, if the Controlling Shareholders become aware of a business opportunity which competes, or may compete, directly or indirectly, with our principal business, the Controlling Shareholders will notify us in writing immediately and provide us with all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity (“**Offer Notice**”). The Controlling Shareholders are also obliged to use their best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable. We are entitled to decide whether or not to take up such business opportunity within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period to 60 business days), subject to compliance with the applicable requirements under the Listing Rules.

The Controlling Shareholders will use their best efforts to procure their respective close associate(s) (as appropriate) (other than our Group) to offer us an option to acquire any new business opportunity which competes, or is likely to complete, directly or indirectly, with our principal business according to the terms of the Non-Competition Agreement.

If we decide not to take up the new business opportunity for any reason or do not respond to the Controlling Shareholders within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period to 60 business days), we should be deemed to have decided not to take up such new business opportunity, and the Controlling Shareholders and/or his/her close associate(s) (as appropriate) may operate such new business opportunity on its own.

Option for Acquisitions

In relation to any new business opportunity of the Controlling Shareholders referred to in the Non-Competition Agreement, which has been offered to, but has not been taken up by, our Company and has been retained by the Controlling Shareholders, which competes, or may lead to competition, directly or indirectly, with our principal business, the Controlling Shareholders have undertaken to grant us the option, which is exercisable at any time during the term of the Non-Competition Agreement, subject to applicable laws and regulations, to purchase at one or more times any equity interests, assets or other interests of the new business as described above, or to operate the new business as described above by way of, including but not limited to, entrusted operation, lease or contracting operation. However, if a third party has the pre-emptive right, in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and a shareholders’ agreement), our option for acquisitions shall be subject to such third party’s right. In this case, the Controlling Shareholders will use their best efforts to procure the third party to waive its pre-emptive right. As of the Latest Practicable Date, the Directors are not aware of any existing third parties’ pre-emptive rights.

The Controlling Shareholders shall use their best efforts to procure his/her close associate(s) (as appropriate) (other than our Group) to grant the option to us as described above.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Pre-emptive Right

The Controlling Shareholders have undertaken that, during the term of the Non-Competition Agreement, if it intends to transfer, sell or lease to a third party, or license or otherwise permit such third party to use, any new business opportunity of the Controlling Shareholders referred to in the Non-Competition Agreement, which has been offered to, but has not been taken up by, our Company and has been retained by the Controlling Shareholders, which competes, or may lead to competition, directly or indirectly, with our principal business, the Controlling Shareholders shall notify us by a written notice (“**Selling Notice**”) in advance. The Selling Notice shall contain the terms of the transfer, sale, lease or license and any information which may be reasonably required by our Company. We shall reply to the Controlling Shareholders within 30 business days after receiving the Selling Notice (subject to our request to extend the notice period to 60 business days). Each of the Controlling Shareholders has undertaken that until it receives the reply from us, it shall not notify any third party of the intention to transfer, sell, lease or license the business. If our Company decides not to exercise its pre-emptive right or if our Company does not reply within the agreed time period, or if our Company does not accept the terms as set out in the Selling Notice and issues to the Controlling Shareholders a written notice within the agreed time period stating acceptable conditions which, however, are not acceptable to the Controlling Shareholders following negotiation between the parties under the fair and reasonable principle, the Controlling Shareholders is entitled to transfer the business to a third party pursuant to the terms stipulated in the Selling Notice. However, if a third party has the pre-emptive right, in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and a shareholders’ agreement), our pre-emptive right shall be subject to such third party’s right. In this case, the Controlling Shareholders will use their best efforts to procure the third party to waive its pre-emptive right.

The Controlling Shareholders shall use their best efforts to procure his/her close associate(s) (as appropriate) (other than our Group) to grant the pre-emptive right to us as described above.

Decision-making as to Whether to Take Up the Options or Pre-emptive Right

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the option for new business opportunity or the option for acquisitions or our pre-emptive right. In assessing whether or not to exercise such option(s) or pre-emptive right, the independent non-executive Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our business and the legal, regulatory and contractual landscape and form their views based on the best interest of the Shareholders and our Company as a whole. Where necessary, our independent non-executive Directors will consider to engage an independent third party valuer to conduct evaluation. Our independent non-executive Directors are also entitled to engage a financial advisor, at the cost of our Company in this regard.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Controlling Shareholders' Further Undertakings

Each of the Controlling Shareholders has further undertaken that:

- (i) It will provide all information necessary for our independent non-executive Directors to review the Controlling Shareholders' compliance with and enforcement of the Non-Competition Agreement;
- (ii) It consents to our disclosure of the decision made by the independent non-executive Directors in relation to the compliance with and enforcement of the Non-Competition Agreement in our annual report, or by way of announcement; and
- (iii) It will make a declaration annually regarding its compliance with the Non-Competition Agreement for our disclosure in our annual report.

The Non-Competition Agreement will become effective upon the completion of [REDACTED] and remain in full force and be terminated upon the earlier of:

- (i) The Controlling Shareholders and his/her close associate(s) (as appropriate) (other than our Group), directly and/or indirectly in aggregation, holding less than 10% of our total issued share capital; or
- (ii) Our H Shares no longer being [REDACTED] on the Stock Exchange.

Our PRC Legal Advisers are of the view that the Non-Competition Agreement does not violate any applicable PRC laws, and the Controlling Shareholders' undertakings pursuant to the Non-Competition Agreement are valid and binding obligations of the Controlling Shareholders under PRC laws after the Non-Competition Agreement takes effect, and may be enforced by us in the courts of the PRC thereafter.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage the conflicts of interest arising from the potential competing business and to safeguard the interests of the Shareholders, including:

- (a) The independent non-executive Directors will review, on an annual basis, the compliance with the undertakings by each of our Controlling Shareholders and/or his/her associates under the Non-Competition Agreement;
- (b) Our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-Competition Agreement;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) Our Company will disclose decisions, with basis, on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the undertaking of the Non-Competition Agreement, including decisions reached in respect of exercising the options for New Business Opportunities, in our annual reports or by way of announcement to the public in compliance with the requirements of the Listing Rules;
- (d) Each of our Controlling Shareholders will provide an annual confirmation that it is in compliance with its undertakings under the Non-Competition Agreement in our annual report;
- (e) We believe that our Board has a balanced composition of executive Director, non-executive Directors and independent non-executive Directors that can facilitate the exercise of independent judgment. With the expertise in their respective professional fields, our Directors believe that the independent non-executive Directors have the necessary caliber and expertise to form and exercise independent judgment in the event that conflicts of interest between our Company and the Controlling Shareholders arise;
- (f) In the event that any potential conflict of interest arises, i.e. where a Director has an interest in a company that will enter into an agreement with our Group, the Director(s) with an interest in the relevant transaction(s) shall abstain from attending and voting and shall not be counted towards the quorum in respect of the relevant resolution(s) at such Board meeting;
- (g) In the event any potential conflict of interest arises at the shareholders' level, our Controlling Shareholders shall abstain from voting in the Shareholders' meeting of our Company with respect to the relevant resolution(s);
- (h) Only our independent non-executive Directors will be involved in determining whether our Company should exercise the options for New Business Opportunities; and our Company will disclose in the annual report the decision of the independent non-executive Directors, with basis, in respect of the exercise of such option;
- (i) Pursuant to the Corporate Governance Code and Corporate Governance Report in accordance with Appendix 14 of the Listing Rules, our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost;
- (j) Any proposed transaction between us and connected persons will be subject to Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders' approval requirements of such rules; and
- (k) We have appointed REORIENT Financial Markets Limited as our compliance adviser, which is expected to provide advice and guidance to us in respect of compliance with applicable laws and the Listing Rules, including various requirements relating to directors' duties and internal controls.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independent of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

(a) Financial Independence

We have established our own finance department with a team of independent financial staff, who are responsible for financial control, accounting, financial reporting and credit functions of our Group independent from the Controlling Shareholders. We can make financial decisions independently and the Controlling Shareholders do not intervene with our use of funds. We have also established independent standardized financial and accounting system and a complete financial management system. In addition, we maintain bank accounts with banks independently and the Controlling Shareholders do not share any bank accounts with us.

We are capable of obtaining financing from third parties without relying on any guarantee or security provided by the Controlling Shareholders or other connected persons.

Our Directors are of the view that there is no financial dependence by us on our Controlling Shareholders and we have sufficient capital to operate our business independently from our Controlling Shareholders after the [REDACTED].

(b) Operational Independence

We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We do not rely on our Controlling Shareholders or their respective close associates for our operations. We have independent access to suppliers and customers and an independent management team to handle our daily operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently. Save for the related party transactions disclosed under note 35 to the Accountants' Report set out in Appendix I to this [REDACTED], there have been no business transactions between our Group and our Controlling Shareholders or their close associates and our Directors do not expect that there will be any connected transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after [REDACTED].

Our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders and we are able to operate independently from our Controlling Shareholders after the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(c) Management Independence

We maintain an independent Board to oversee our Group’s business. Our Board is responsible for contemplating and approving business plans and strategies of the Group, monitoring the implementation of business plans and strategies and supervising the management of our Group. Our Group has an independent management team, which is led by a team of senior management with extensive experience and expertise in our business, to implement our Group’s business plans and strategies in the daily operations.

Our Board consists of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. For details, please refer to the section headed “Directors, Supervisors and Senior Management” of this [REDACTED].

Our Directors are of the view that our Board and senior management will function independently from our Controlling Shareholders for the following reasons:

- (i) Each of our Directors is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and does not allow any conflict between his/her duties as a director and his/her personal interests to exist;
- (ii) In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in the quorum;
- (iii) Our independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decision of the Board are made only after due consideration of independent and impartial opinions; and
- (iv) Our Company has also established internal control mechanism to identify related party transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions.

Based on the above, our Directors are of the view that each Director is able to perform his/her roles in our Company independently and our Board is able to operate independently from our Controlling Shareholders after the [REDACTED].

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board of Directors consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. According to the Articles of Association, all the Directors shall be elected by the general meeting for a term of three years, and are eligible for re-election upon expiry of their terms. The terms of reference of the Board of Directors includes, but not limited to, convening the general meetings, reporting on the performance of the Board of Directors at the general meeting, implementing the resolutions passed at the general meetings, formulating business plans and investment plans, preparing annual budget and final accounts, preparing proposals on profit distribution and increase or decrease in registered capital as well as performing the other authorities, functions and responsibilities granted by the Articles of Association.

The following table presents certain information in respect of our Directors:

Name	Age	Position/ Title	Date of Joining the Group	Date of Appointment ⁽¹⁾	Role and Responsibility	Relationship with other Directors, Supervisors and senior management
<i>Executive Directors</i>						
Mr. Guan Weili (管偉立)	46	Executive Director and Chairman of the Board	February 7, 1996	September 22, 2014	Overall business operation and strategic planning of our Company	Spouse of Ms. Wang Lianyue, brother-in-law of Ms. Wang Hongyue
Ms. Wang Lianyue (王蓮月)	46	Executive Director and General Manager	January 1, 1998	September 22, 2014	Overall hospital operation and business development	Spouse of Mr. Guan Weili, sister of Ms. Wang Hongyue, sister-in-law of Mr. Xu Yi
Ms. Wang Hongyue (王紅月)	42	Executive Director and Chief Financial Officer	February 7, 1996	September 22, 2014	Overall financial management and capital investment of our Company	Spouse of Mr. Xu Yi, sister of Ms. Wang Lianyue, sister-in-law of Mr. Guan Weili
<i>Non-executive Directors</i>						
Mr. Yang Yang (楊揚)	59	Non-executive Director	April 8, 2015	April 8, 2015	Overseeing the corporate development and strategic planning	N/A
Ms. He Xin (何欣)	43	Non-executive Director	June 9, 2014	September 22, 2014	Overseeing the corporate development and strategic planning	N/A

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position/ Title	Date of Joining the Group	Date of Appointment ⁽¹⁾	Role and Responsibility	Relationship with other Directors, Supervisors and senior management
<i>Independent non-executive Directors</i>						
Mr. Chong Yat Keung (莊一強)	51	Independent non-executive Director	April 8, 2015	April 8, 2015	Supervising and providing independent judgement to our Board	N/A
Mr. Huang Zhi (黃智)	32	Independent non-executive Director	April 8, 2015	April 8, 2015	Supervising and providing independent judgement to our Board	N/A
Mr. Wong Raymond Fook Lam (黃福霖)	60	Independent non-executive Director	April 8, 2015	April 8, 2015	Supervising and providing independent judgement to our Board	N/A

Note:

- (1) The appointments refer to the relevant appointments of our Company which were approved and effective at the inaugural shareholders' meeting of our Company held on September 22, 2014 when our Company was converted to a joint stock limited company under the PRC laws, except for the appointment of Mr. Yang Yang and three independent non-executive Directors, which were approved and effective at the Shareholders' meeting held on April 8, 2015.

DIRECTORS

Executive Directors

Mr. Guan Weili (管偉立), aged 46, is the chairman of our Board and our executive Director. He is primarily responsible for the overall business operation and strategic planning of our Company. Mr. Guan has approximately 25 years of experience in the medical industry. He founded our Company in February 1996 and became our executive Director since then. Mr. Guan was appointed as the chairman of our Board and executive Director in September 2014 after our Company was converted into a joint stock limited company. Mr. Guan also serves as the executive director of our subsidiaries, including Qingtian Kangning since April 2011, Cangnan Kangning since June 2012, Yongjia Kangning since December 2012, Yueqing Kangning since September 2013, Shenzhen Yining since September 2014 and Linhai Kangning since February 2015, where he is primarily responsible for the overall supervision of the business operations of these subsidiaries. Prior to joining our Company, Mr. Guan served as a clinician at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, from August 1987 to December 1993, where he was primarily responsible for the medical treatment of psychiatric patients.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Guan graduated from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州衛生學校)) in Wenzhou in August 1987 majored in medical assistance. Mr. Guan obtained his senior business operator certificate from Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

Ms. Wang Lianyue (王蓮月), aged 46, is our executive Director and our general manager. She is primarily responsible for the overall hospital operation and business development of our Company. Ms. Wang has more than 26 years of experience in the medical industry. She joined our Company in January 1998 and has served as our general manager since September 7, 2011 and our executive Director since April 22, 2013. Ms. Wang was appointed as our executive Director in September 2014 after our Company was converted into a joint stock limited company. Prior to joining our Company, from August 1988 to December 1997, she was a nurse at Wenzhou Mental Hospital (溫州市精神病院), where she was primarily responsible for general patient care.

Ms. Wang received two associate degrees from Wenzhou Medical University in June 2004 and the Party School of Wenzhou CPC Municipal Committee Party School (溫州市委黨校) in Wenzhou in June 2002, where she majored in nursing and economic administration, respectively. She graduated from Xi'an Jiaotong University Education College (西安交通大學網路教育學院), through long-distance education, with a bachelor's degree in law in July 2007. She also completed part-time hospital management courses at the China Europe International Business School (中歐國際工商學院) in Shanghai in September 2006. She was accredited as secondary psychological consultant (二級心理諮詢師) by the Ministry of Human Resources and Social Security of China (人力資源和社會保障部) in December 2004.

Ms. Wang Hongyue (王紅月), aged 42, is our executive Director and our chief financial officer. She is primarily responsible for the overall financial management and capital investment of our Company. Ms. Wang has more than 20 years of experience in the financial management of medical industry. She joined our Company in January 1996 and worked in our finance department from January 1996 to December 1999. She became the head of our finance department in January 2000. Ms. Wang was appointed as our executive Director in April 2013 and chief financial officer in September 2014 after our Company was converted into a joint stock limited company. Ms. Wang also served as our supervisor from September 2011 to April 2013, and has been serving as the supervisor of Cangnan Kangning since June 2012 and Shenzhen Yining since September 2014, where she is primarily responsible for monitoring their operations, management and compliance with laws and regulations. Prior to joining our Company, from July 1994 to December 1995, she worked in the finance department of Wenzhou City Kangning Medicine Wholesale Company of Longwan District (溫州市龍灣區康寧醫藥批發公司), which engages in the medicine wholesale business, where she was responsible for accounting work.

Ms. Wang graduated from Xi'an Jiaotong University Online Education College (西安交通大學網路教育學院), through long-distance education, with a bachelor's degree in accounting in July 2007.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Director

Mr. Yang Yang (楊揚), aged 59, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of our Company. Ms. He has more than 31 years of experience in the investment and international trade industry. He joined our Company in April 2015 and has served as our non-executive Director since then. Mr. Yang currently also serves as a director of GL Capital Investments HK Limited since January 2010, a company engaging in private equity services for investment business, where he is primarily responsible for hospital management and investments. Prior to joining our Company, from May 1988 to December 2009, Mr. Yang has served as the general manager of Long Nice Industries Ltd. (長立實業有限公司), which is a company in Hong Kong engaging in the business of trading and the provision of investment services, where he was primarily responsible for businesses including investment, foreign trade and manufacturing.

Mr. Yang graduated from Nanjing Naval College (南京海軍學院) with an associate degree in operational commanding in Nanjing in March 1982.

Ms. He Xin (何欣), aged 43, is our non-executive Director. She is primarily responsible for overseeing the corporate development and strategic planning of our Company. Ms. He has more than 10 years of experience in the medical industry. She joined our Company in June 2014 and has served as our non-executive Director since then. Ms. He was appointed as our non-executive Director in September 2014 after our Company was converted into a joint stock limited company. Ms. He has also served as a partner in Beijing CDH Innovation Investment Consulting Co., Ltd. (北京鼎暉創新投資顧問有限公司) since August 2011, a company engaging in investment services such as private equity investment and wealth management, where she is primarily responsible for medical investments. Prior to joining our Company, from January 2003 to January 2008, she served as the chief executive officer of RHEI Pharmaceuticals HK Ltd., which is a company engaging in global pharmaceuticals business, where she was primarily responsible for the company’s business operations in the U.S. and the PRC.

Ms. He graduated from University of Science and Technology of China (中國科學技術大學) with a bachelor’s degree in physical chemistry in Hefei in July 1994 and graduated from Yale University with a doctorate degree in immunology in June 2002.

Independent Non-executive Directors

Mr. Chong Yat Keung (莊一強), aged 51, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Chong has approximately 18 years of experience in the medical industry. He joined our Company in April 2015 and has served as our independent non-executive Director since then. From February 2012 to February 2015, Mr. Chong served as the deputy secretary-general of Chinese Hospital Association (中國醫院協會), where he was primarily responsible for hospital accreditation. From January 2004 to January 2012 and since March 2015, he has served as the president of Guangzhou Ailibi Management Consulting Co., Ltd (廣州艾力比管理顧問有限公司) which is a company engaging in the provision of hospital consultation services, where he was primarily responsible for hospital management consulting, training and hospital rating. From November 1994 to May 2000, he held various positions in a number of pharmaceutical

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

companies including AstraZeneca Pharmaceutical Co., Ltd (阿斯利康(中國)), Beijing Novartis Pharmaceuticals Co., Ltd (北京諾華製藥有限公司), which are companies engaging in the sales and marketing of medicine, where he was primarily responsible for the sales and marketing of medicine.

Mr. Chong graduated from Sun Yat-Sen University (中山大學) with a bachelor degree in medical science in Guangzhou in July 1986. He graduated from North Western University Kellogg School of Management-Hong Kong University of Science and Technology Business School with an EMBA degree in Hong Kong and Evanston, Illinois in May 2004, where he majored in business administration. He also graduated from ISCTE-Lisbon University Institute with a doctorate degree in management in November 2013.

Mr. Huang Zhi (黃智), aged 32, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Huang has more than 11 years of experience in the finance industry. He joined our Company in April 2015 and has served as our independent non-executive Director since then. Mr. Huang currently also serves as an independent director in Wuhan East Lake High-tech Group Co., Ltd. (武漢東湖高新集團股份有限公司) since November 17, 2014, which is a company listed on the Shanghai Stock Exchange (Stock code: 600133.SH) engaging in the investment and operation in the high-tech industry, where he is primarily responsible for supervising the its internal audit system and its implementation. He also serves as an as independent director in Zhejiang Aishida Electric Co., Ltd. (浙江愛仕達電器股份有限公司) since February 22, 2014, which is a company listed on Shenzhen Stock Exchange (Stock code: 002403.SZ) engaging in research, development and sales of cookers and small kitchen electrical appliance, where he is primarily responsible for the director of the audit committee. Mr. Huang also serves as the partner at Shanghai Infaith Consulting Co., Ltd. (上海信公企業管理諮詢有限公司) since September 2014, which is a company engaging in the provision of consultation services for listed companies, where he is primarily responsible for general management of the business. Prior to joining our Company, from August 2013 to July 2014, he served as the general manager of merger and financing department at Tianfeng Securities Co., Ltd., (天風證券股份有限公司), which is a company engaging in the provision of services including securities brokerage, investment and asset management for futures companies, where he was primarily responsible for the management of the merger and financing department. From July 2011 to July 2013, he served as the manager of the first department of listed companies' regulation at the Shanghai Securities Exchange, where he was primarily responsible for supervising the compliance of listed companies. From July 2004 to June 2011, he served as the manager at PricewaterhouseCoopers Zhong Tian LLP, where he was primarily responsible for risk and quality management.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Huang graduated from Fudan University (復旦大學) with a bachelor’s degree in economics in Shanghai in July 2004. He was accredited as the Chinese Certified Public Accountant by the China Certified Public Accountant Association (中國註冊會計師協會) in September 2011.

Mr. Wong Raymond Fook Lam (黃福霖), aged 60, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Wong has over 15 years of experiences in financial management, treasury, internal control and investment in the commercial field. He joined our Company in April 2015 and has served as our independent non-executive Director since then. Mr. Wong has been the managing director and chief financial officer of SOCAM Development Ltd. (“SOCAM”) of the Shui On Group (瑞安集團) since July 2013, which is a company listed on the Hong Kong Stock Exchange (Stock code: 983.HK) engaging in property, construction and construction materials businesses, where he is primarily responsible for all financial, treasury and legal and secretarial functions, as well as investment decisions, investor relationship and corporate governance matters. Mr. Wong is one of the trustees of the Shui On Provident and Retirement Scheme. From February 1997 to June 2007, he served as an executive director of SOCAM, where he was primarily responsible for the financial and treasury matters, corporate restructuring, mergers and acquisitions as well as the sourcing of capital and syndicated loans for major contracts of SOCAM. In March 2007, Mr. Wong led the initial public offering of China Central Properties Ltd., an affiliated company of SOCAM, in its listing on the alternative investment market of the London Stock Exchange Plc and was appointed its executive director thereafter. Following the privatization of China Central Properties Ltd. in June 2009, he rejoined SOCAM. From April 1992 and January 1995, he served as the group finance director of Shun On Group.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of Directors that need to be brought to the attention of our Shareholders, nor is there any information relating to our Directors that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules, including matters relating to directorship held by Directors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this [REDACTED].

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF SUPERVISORS

The table below provides certain information in respect of our Supervisors:

Name	Age	Position/ Title	Date of Joining the Group	Date of Appointment ⁽¹⁾	Role and Responsibility	Relationship with other Directors and senior management
Mr. Sun Fangjun (孫方俊)	64	Chairman of the board of Supervisors	May 1, 2011	September 22, 2014	Supervising our daily operations and management	N/A
Ms. Huang Jingou (黃靖歐)	37	Supervisor	April 22, 2013	September 22, 2014	Supervising our daily operations and management	N/A
Mr. Xie Tiefan (謝鐵凡)	36	Employee representative Supervisor	May 1, 2000	September 22, 2014	Monitoring our compliance with laws and regulations	N/A

Note:

- (1) The appointments refer to the relevant appointments of our Company which were approved and effective at the inaugural meeting of our Company held on September 22, 2014 when our Company was converted to a joint stock limited company under the PRC laws.

Mr. Sun Fangjun (孫方俊), aged 64, is the chairman of our board of Supervisors. He is primarily responsible for supervising our daily operations and management. Mr. Sun has more than 26 years of experience in medical industry. He joined our Company in May 2011 and served as the vice president of our Company from May 2011 to September 2014. He was appointed as the chairman of our board of Supervisors in September 2014 after our Company was converted into a joint stock limited company. Prior to joining our Company, from April 1996 to October 2010, Mr. Sun worked at the Health Bureau of Lucheng District, Wenzhou (溫州市鹿城區衛生局) where he was primarily responsible for medical administrative management. From April 1992 to April 1996, he was the president of Wenzhou Hongqi Hospital (溫州市紅旗醫院), which is a local hospital in Wenzhou, where he was primarily responsible for the overall operations of the hospital. From August 1988 to April 1992, he served as the vice president of the Eighth People’s Hospital of Wenzhou (溫州市第八人民醫院) which is a local hospital in Wenzhou, where he was primarily responsible for various medical affairs.

Mr. Sun graduated from Jixi Medical School in Heilongjiang Province (黑龍江省雞西衛校) with secondary vocational diploma in Jixi City, Heilongjiang Province in August 1974, where he majored in medicine. He was accredited as chief physician in internal medicine by Wenzhou Municipal Bureau of Personnel (溫州市人事局) in January 1995.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Huang Jingou (黃靖歐), aged 37, is our Supervisor. She is primarily responsible for supervising our daily operations and management. Ms. Huang has more than 11 years of experience in the legal industry. She joined our Company in April 2013 and has served as our Supervisor since then. She was appointed as our Supervisor in September 2014 after our Company was converted into a joint stock limited company. Ms. Huang currently serves as the vice president of GL Capital Group (德福資本) since November 2011, which is a company engaging in private equity investment, where she is primarily responsible for investment. Prior to joining our Company, from August 2009 to November 2011, she served as the project director of the China Medical Board (美國中華醫學基金會), which is trust foundation in the U.S. focusing on medical charity affairs, where she was primarily responsible for project implementation. From June 2003 to December 2006, she was an attorney at Woo Kwan Lee & Lo (胡關李羅律師行) where she was primarily responsible for various legal affairs.

Ms. Huang graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in law in Guangzhou in July 2001.

Mr. Xie Tiefan (謝鐵凡), aged 36, is our Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie has more than 15 years of experience in medical industry. He joined our Company in May 2000 as our employee and from May 2010 to September 2014, has served in a variety of positions in our Company including the deputy chief of information department, the deputy chief of equipment department, and the chief of equipment department, where he was primarily responsible for equipment purchase and management. He was appointed as our Supervisor in September 2014 after our Company was converted into a joint stock limited company.

Mr. Xie graduated from the Open University of China (中央廣播電視大學) with an associate degree in finance in Beijing in December 2004. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of our Supervisors that need to be brought to the attention of our Shareholders, nor is there any information relating to our Supervisors that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules, including matters relating to directorship held by our Supervisors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this [REDACTED].

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets out certain information relating to our senior management members:

Name	Age	Position/ Title	Date of Joining the Group	Date of Appointment ⁽¹⁾	Role and Responsibility	Relationship with other Directors and senior management
Mr. Wang Qian (王謙)	50	Deputy General Manager	July 1, 2014	September 22, 2014	Assisting the general manager in the management of medical service and informatization	N/A
Mr. Zhou Chaoyi (周朝毅)	53	Vice General Manager	February 16, 2005	September 22, 2014	Assisting the general manager in infrastructure and human resources	N/A
Mr. Ye Minjie (葉敏捷)	41	Vice General Manager	October 1, 2013	September 22, 2014	Assisting the general manager in the management of research and teaching	N/A
Mr. Xu Yi (徐誼)	40	Vice General Manager	October 1, 2002	September 22, 2014	Assisting the general manager in facility logistics and management	Spouse of Ms. Wang Hongyue, brother-in-law of Ms. Wang Lianyue
Ms. Zhang Feixue (章飛雪)	45	Vice General Manager	February 1, 2004	March 24, 2015	Handling the nursing works	N/A
Mr. Wang Jian (王健)	30	Secretary of the Board	July 9, 2014	September 22, 2014	Overseeing public affairs and investment relationship, corporate financing and listing-related matters	N/A

Note:

- (1) The appointments refer to the relevant appointments of our Company which were approved and effective at the Board meeting of our Company held on September 22, 2014 when our Company was converted to a joint stock limited company under the PRC laws, except for the appointment of Ms. Zhang Feixue, which was approve and effective at the Board meeting of our Company held on March 24, 2014.

Mr. Wang Qian (王謙), aged 50, is our deputy general manager. He is primarily responsible for assisting the general manager in the management of medical service and informatization of our Company. Mr. Wang has more than 27 years of experience in the medical industry. He joined our Company in July 2014 and has served as the deputy general manager since then. Prior to joining our Company, from February 1990 to June 2014, Mr. Wang has served in various positions at the People’s Hospital of Wenzhou (溫州市人民醫院) which is a local hospital in Wenzhou; from December 2005 to June 2014, he served as the vice president where he was primarily responsible for assisting the president in hospital management; from January 2000 to November 2005, he served as the head of the internal

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medicine department where he was primarily responsible for the management of internal medicine departments; from January 1995 to December 1999, he served as the doctor in charge where he was primarily responsible for hematology; from February 1990 to December 1994, he served as a physician where he was primarily responsible for pediatrics. From August 1987 to January 1990, Mr. Wang served as a physician in pediatrics at the People's Hospital of Taishun County (泰順縣人民醫院), which is a local hospital in Wenzhou, where he was primarily responsible for providing medical treatment to children.

Mr. Wang obtained a bachelor's degree from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School(溫州衛生學校)) in medicine in Wenzhou in July 1987. Mr. Wang was accredited as associate chief physician in internal medicine by Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in December 2004.

Mr. Zhou Chaoyi (周朝毅), aged 53, is our vice general manager. He is primarily responsible for assisting the general manager in infrastructure of our Company. Mr. Zhou has more than 33 years of experience in the medical industry. He joined our Group in February 2005 and has served as our vice general manager since then. He was appointed as our vice general manager in September 2014 after our Company was converted into a joint stock limited company. Prior to joining our Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital (溫州心血管醫院) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief (科長) of human resources and social security section at the Wenzhou Traditional Chinese Medicine Hospital (溫州市中醫院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium (溫州市氣功療養院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and youth work organization.

Mr. Zhou completed the advanced study class (高級研修班) at Zhejiang University in modern health management in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as the radiologist by the Wenzhou Municipal Bureau of Health (溫州市衛生局) in December 1989 and was accredited as clinical assistant medical practitioner by the Zhejiang Health Bureau (浙江省衛生廳) in April 2000.

Mr. Ye Minjie (葉敏捷), aged 41, is our vice general manager. He is primarily responsible for assisting the general manager in the management of research and teaching of our Company. Mr. Ye has more than 20 years of experience in the medical industry. He joined our Company in October 2013 as the vice president. He was appointed as our vice general manager in September 2014 after our Company was converted into a joint stock limited company. Prior to joining our Company, from July 1994 to September 2013, he was the section chief (科長) at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, where he was primarily responsible for research and teaching.

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Mr. Ye graduated from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州衛生學校)) with a bachelor’s degree in clinical medicine in Wenzhou in July 1994 and graduated from Xinxiang Medical College (新鄉醫學院) with a master degree in psychiatry and mental health in Xinxiang, Henan Province in July 2007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in January 2014.

Mr. Xu Yi (徐誼), aged 40, is our vice general manager. He is primarily responsible for assisting the general manager in facility and logistics management of our Company. Mr. Xu has more than 13 years of experience in the medical industry. He joined our Company in October 2002 and served as the section chief (科長) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of our Company. He was appointed as our vice general manager in September 2014 after our Company was converted into a joint stock limited company. He also serves as the supervisor of Qingtian Kangning since April 2011, Yueqing Kangning since September 2013, and Shenzhen Yining since September 2014, where he is primarily responsible for monitoring their daily operations and compliance with laws and regulations. Prior to joining our Company, from April 1999 to September 2002, he was a teacher at Wenzhou CPC Municipal Committee Party School (溫州市委黨校), where he was primarily responsible for teaching IT courses.

Mr. Xu graduated from the Beijing Institute of Economics and Management (北京經濟管理職業學院) with a college diploma in art design through long-distance education in July 2005.

Ms. Zhang Feixue (章飛雪), aged 45, is our vice general manager. She is primarily responsible for handling the nursing works of our Company. Ms. Zhang has more than 27 years of experience in the medical industry. She joined our Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang serves as the vice president of our Company, where she was primarily responsible for assisting the president managing nursing affairs. Ms. Zhang serves as the deputy general manager of our Company since March 2015. Prior to joining our Company, Ms. Zhang held various positions at the Fifth People’s Hospital of Yueqing (樂清市第五人民醫院); from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, from January 1993 and September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management.

Ms. Zhang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a bachelor’s degree in nursing through long-distance education in July 2005. Mr. Zhang obtained the certificate of advanced training class of modern health management in Zhejiang University (浙江大學現代衛生管理高級研修班) in Hangzhou, Zhejiang Province in November 2014; Mr. Zhang was admitted as the candidate of master of public administration of Zhejiang Normal University (浙江師範大學) in Jinhua, Zhejiang Province in May 2015. She

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

was accredited as senior nurse by the Human Resources and Social Security Bureau in Zhejiang Province (浙江省人力資源和社會保障廳) in November 2013.

Mr. Wang Jian (王健), aged 30, is our secretary of the Board. He is primarily responsible for overseeing public affairs and investment relationship, corporate financing and listing-related matters. Mr. Wang has approximately 10 years of experience in the finance industry. He joined our Group in July 2014 and has served as our secretary of the Board since then. Prior to joining our Company, from June 2009 to July 2014, he served as a staff member (科員) and a senior staff member (副主任科員) in the China Securities Regulatory Commission Xiamen Regulatory Bureau (中國證券監督管理委員會廈門監管局) where he was primarily responsible for the corporate governance and information disclosure supervision of listed companies in the Xiamen area. From February 2007 to March 2008, he was a senior auditor at Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合伙)), where he was primarily responsible for audit work. From August 2005 to February 2007, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合伙)), where he was primarily responsible for audit work.

Mr. Wang obtained a bachelor’s degree in management from Guanghua School of Management at Peking University in Beijing in July 2005, where he majored in business administration. He also obtained a minor degree in French from the School of Foreign Languages, Peikcing University (北京大學外國語學院) in Beijing in July 2004. Mr. Wang was recognized as a non-practicing certified public accountant (註冊會計師非執業會員) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, none of the above members of senior management has been a director of any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this [REDACTED].

JOINT COMPANY SECRETARIES

Mr. Wang Jian (王健), one of our joint company secretaries, is also a member of our senior management. Please refer to “— Senior Management” in this section for his biography.

Ms. Ng Wing Shan (吳詠珊) was appointed as a joint company secretary of our Company on March 24, 2015. She also serves as an assistant vice president of SW Corporate Services Group Limited, where she is primarily responsible for assisting Hong Kong listed companies in professional company secretarial work. She has over 10 years of professional experience in handling corporate secretarial and compliance matters for listed companies in Hong Kong. Ms. Ng is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom since since April 30, 2010.

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BOARD COMMITTEES

We have established the following committees in accordance with the relevant PRC laws and regulations and the corporate governance practice under the Hong Kong Listing Rules including: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Risk Management Committee. These committees operate in accordance with the terms of reference established by our Board.

Audit Committee

The Audit Committee of the Company consists of three Directors: Mr. Huang Zhi, Mr. Wong Raymond Fook Lam and Ms. He Xin. Mr. Huang Zhi currently serves as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are reviewing and supervising our financial reporting procedures, including proposing on appointing or changing the external auditors; supervising the Company’s internal audit system and its implementation; communication between the internal auditors and external auditors; auditing the financial information and its disclosure; reviewing the Company’s internal control system and auditing the significant connected transactions; nominating the heads of the internal audit department; other matters that the Board has authorized it to deal with.

Nomination Committee

The Nomination Committee of the Company consists of three Directors: Mr. Guan Weili, Mr. Chong Yat Keung, and Mr. Wong Raymond Fook Lam. Mr. Guan Weili currently serves as the chairman of the Nomination Committee.

The primary responsibilities of the Company’s Nomination Committee are preparing the procedures and criteria for determining the candidates for the directors and senior management of the Company and conducting preliminary review on their qualifications and credentials, including proposing to the Board on its size and composition in accordance with the Company’s operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for the Directors and general managers of the Company and make proposals to the Board; looking for the qualified candidates for the Directors and general managers; reviewing and making proposals on the candidates for the Directors and general managers; reviewing and making proposals on the candidates for the other senior management such as the vice general managers, secretary to the Board and chief accountant, on which the Board of Directors need to resolve; other matters that the Board has authorized it to deal with.

Remuneration Committee

The Remuneration Committee of the Company consists of three Directors: Mr. Chong Yat Keung, Mr. Huang Zhi, and Mr. Yang Yang. Mr. Chong Yat Keung currently serves as the chairman of the Remuneration Committee.

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The primary responsibilities of the Remuneration Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in the other comparable companies; the remuneration plans and proposals include, but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; other matters that the Board has authorized it to deal with.

Strategy and Risk Management Committee

The Strategy and Risk Management Committee currently consists of Mr. Wong Raymond Fook Lam, Mr. Huang Zhi and Mr. Yang Yang. Mr. Wong Raymond Fook Lam currently serves as the chairman of the Risk Management Committee.

The primary responsibilities of the Strategy and Risk Management Committee include reviewing and providing suggestions on our Company's long term strategic plan and significant investment decision, reviewing our Company's risk management policies and standards, supervising and monitoring our Company's exposure to legal risks.

COMPENSATION OF THE DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT

As of December 31, 2012, 2013 and 2014, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors and Supervisors were RMB755,799, RMB1,031,503 and RMB1,072,452, respectively. Our Directors and Supervisors' remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

The remuneration and benefits in kind (if applicable) received by the five highest-paid individuals (including Directors and Supervisors) as of December 31, 2012, 2013 and 2014 were RMB916,000, RMB1,085,000 and RMB1,214,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of the Company.

None of our Directors or Supervisors waived any remuneration for any of the last three years. Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Under the remuneration policy of the Company, the Remuneration Committee will consider factors such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance of our Directors, Supervisors and the senior management as the case may be, in assessing the amount of remuneration payable to our Directors, Supervisors and such employees. It is estimated that under the arrangements currently in force, the aggregate remuneration payable to the Directors and Supervisors for the year ending December 31, 2015, is estimated to be approximately RMB1,190,000 and RMB268,000, respectively.

COMPLIANCE ADVISER

We have appointed REORIENT Financial Markets Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where our business activities, developments or results deviate from any forecast, estimate or other information in this [REDACTED]; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment will commence on the [REDACTED] Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED] Date, or until the agreement is terminated, whichever is the earlier.

As of the Latest Practicable Date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from provisions in the Corporate Governance Code under Appendix 14 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] (without taking into account the H Shares which may be issued upon the exercise of the [REDACTED]), the following persons will have an interest or short position in Shares or underlying shares of our Company, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares held immediately after the [REDACTED]	Approximate percentage of shareholding in the total share capital of our Company as of the date of this [REDACTED]	Approximate percentage of shareholding in the relevant class of Shares immediately after the [REDACTED]	Approximate percentage of shareholding in the total issued share capital of the Company immediately after the [REDACTED] (assuming [REDACTED] is not exercised)	Approximate percentage of shareholding in the total issued share capital of the Company immediately after the [REDACTED] (assuming [REDACTED] is fully exercised)
Mr. Guan Weili ⁽¹⁾	Beneficial owner/ Interest of spouse	23,604,750 Domestic Shares ^(L)	44.71%	[REDACTED]	[REDACTED]	[REDACTED]
Ms. Wang Lianyue ⁽¹⁾	Beneficial owner/ Interest of spouse	23,604,750 Domestic Shares ^(L)	44.71%	[REDACTED]	[REDACTED]	[REDACTED]
Ms. Wang Hongyue ⁽²⁾	Beneficial owner/ Interest in a controlled corporation	6,847,350 Domestic Shares ^(L)	12.96%	[REDACTED]	[REDACTED]	[REDACTED]
Defu Fund	Beneficial owner	15,384,541 Domestic Shares ^(L)	29.14%	[REDACTED]	[REDACTED]	[REDACTED]
Guangzhou GL Capital GP L.P. ⁽³⁾	Interest in a controlled corporation	15,384,541 Domestic Shares ^(L)	29.14%	[REDACTED]	[REDACTED]	[REDACTED]
Guangzhou Automobile Group Capital Co., Ltd. ⁽⁴⁾	Interest in a controlled corporation	15,384,541 Domestic Shares ^(L)	29.14%	[REDACTED]	[REDACTED]	[REDACTED]
CDH Huatai ⁽⁵⁾	Interest in a controlled corporation	6,506,359 Domestic Shares ^(L)	12.32%	[REDACTED]	[REDACTED]	[REDACTED]
Beijing CDH Weixin	Beneficial owner	3,838,754 Domestic Shares ^(L)	7.27%	[REDACTED]	[REDACTED]	[REDACTED]
Beijing CDH Weisen	Beneficial owner	2,667,605 Domestic Shares ^(L)	5.05%	[REDACTED]	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Notes:

(L) Long Position.

- (1) Mr. Guan Weili is the spouse of Ms. Wang Lianyue and therefore, Mr. Guan Weili is deemed to be interested in the Domestic Shares held by Ms. Wang Lianyue, and Ms. Wang Lianyue is deemed to be interest in the Domestic Shares held by Mr. Guan Weili by virtue of Part XV of the SFO.
- (2) Ms. Wang Hongyue is the general partner of Xinshi Kangning, which is a limited liability partnership and holds approximately 13.73% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. Wang Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in our Company. Mr. Xu Yi is the spouse of Ms. Wang Hongyue and is a limited partner of Xinshi Kangning, who holds approximately 6.19% interest in Xinshi Kangning.
- (3) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is limited liability partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in our Company.
- (4) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in our Company.
- (5) CDH Huatai is the general partner of both Beijing CDH Weixin and Beijing CDH Weisen, which are limited liability partnerships. Therefore, by virtue of Part XV of the SFO, CDH Huatai is deemed to be interested in all the Domestic Shares held by Beijing CDH Weixin and Beijing CDH Weisen in our Company.

Except as disclosed above, we are not aware of any person who will, immediately following the [REDACTED], have an interest or short position in Shares or underlying shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SHARE CAPITAL

As at the date of this [REDACTED], the registered share capital of our Company is RMB52,800,000 divided into 52,800,000 Shares with a nominal values of RMB1.00 per Share.

Assuming the [REDACTED] is not exercised, the share capital of the Company immediately after the [REDACTED] will be as follows:

Number of Shares	Description of Shares	Approximately percentage of issued share capital (%)
52,800,000	Domestic Shares ⁽¹⁾	[REDACTED]%
[REDACTED]	H Shares to be issued under the [REDACTED]	[REDACTED]%
<u>[REDACTED]</u>	Total	<u>[REDACTED]%</u>

Note:

- (1) As at the date of this [REDACTED], these Domestic Shares are held by Mr. Guan Weili, Ms. Wang Hongyue, Ms. Wang Lianyue, Defu Fund, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning, and Renai Kangning.

Assuming the [REDACTED] is exercised in full, the share capital of the Company immediately after the [REDACTED] will be as follows:

Number of Shares	Description of Shares	Approximately percentage of issued share capital (%)
52,800,000	Domestic Shares ⁽¹⁾	[REDACTED]%
[REDACTED]	H Shares to be issued under the [REDACTED]	[REDACTED]%
[REDACTED]	H Shares to be issued upon full exercise of [REDACTED]	[REDACTED]%
<u>[REDACTED]</u>	Total	<u>[REDACTED]%</u>

Note:

- (1) As at the date of this [REDACTED], these Domestic Shares are held by Mr. Guan Weili, Ms. Wang Hongyue, Ms. Wang Lianyue, Defu Fund, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning, and Renai Kangning.

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which [REDACTED] is sought and for a sufficient public float of an issuer’s listed securities to be maintained. This normally means that (i) at least 25% of the issuer’s total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which [REDACTED] is

SHARE CAPITAL

sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of [REDACTED] must be at least 25% of the issuer's total issued share capital. However, the class of securities for which [REDACTED] is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalization at the time of [REDACTED] of not less than HK\$50 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Listing Rules after the completion of the [REDACTED] (whether or not the [REDACTED] is exercised in full).

OUR SHARES AND RANKING

Our Domestic Shares and H Shares are all ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and transferred between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. Dividends and other payments payable by the Company to holders of Domestic Shares shall be denominated and declared in Renminbi, and payable in Renminbi within three months following the announcement of dividends distribution. Dividends and other payments payable to holders of H Shares shall be denominated and declared in Renminbi and payable in Hong Kong dollars within three months following the announcement of dividends distribution.

As at the date of this [REDACTED], our promoters hold all existing Domestic Shares as promoters' shares (as defined in the PRC Company Law) which constitute the entire issued share capital of our Company. Under the PRC Company Law, promoter shares may not be sold within a period of one year from October 15, 2014, on which we were organized as a joint stock limited company. This lock-up period expired on October 16, 2015. The PRC Company Law further provides that in relation to the [REDACTED] of a company, the shares of the company which have been issued prior to the [REDACTED] shall not be transferred within one year from the date of the [REDACTED] on any stock exchange.

Except as described in this [REDACTED] and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this [REDACTED], our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this [REDACTED]. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the [REDACTED], we do not propose to carry out any public or private issue or to place securities simultaneously with the [REDACTED] or within the next six months from the [REDACTED] Date. We have not approved any share issue plan other than the [REDACTED].

SHARE CAPITAL

INCREASE IN SHARE CAPITAL

As advised by our PRC Legal Advisers, pursuant to the Articles of Association and relevant PRC laws and regulations, the Company, upon [REDACTED] of its H Shares, is eligible to enlarge its share capital by issuing either new H Shares or new Domestic Shares on condition that such proposed issuance shall be approved by a special resolution of Shareholders in general meeting and by holders of Shares of that class of shareholders whose interest is affected at a separate meeting conducted in accordance with the provisions of the Articles of Association and that such issuance complies with the Listing Rules and other relevant laws and regulations of Hong Kong. To adopt a special resolution of Shareholders in general meeting, more than the two thirds votes represented by the Shareholders (including proxies) present at the shareholders’ general meeting must be exercised in favor of the resolution. Resolutions of a class of Shareholders shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the class Shareholders’ meeting. For details, see “Appendix V — Summary of the Articles of Association of our Company.”

PRC Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organization; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council. The [REDACTED] requires the approval of the CSRC.

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Conversion of Unlisted Shares

Upon the completion of the [REDACTED], we will have two classes of ordinary shares, H Shares and Domestic Shares. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange, therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange.

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such converted H Shares, the requisite internal approval processes (but without the necessity of Shareholders’ approval by class) have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, have been obtained. In addition, such conversion, trading and [REDACTED] shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of our unlisted Shares are to be converted and to be traded as H Shares on the Stock Exchange, such conversion will be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the [REDACTED] of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and

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delivery of shares for entry on the H Share register. As any [REDACTED] of additional shares after our initial [REDACTED] on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for [REDACTED] at the time of our initial [REDACTED] in Hong Kong.

No Shareholder voting by class is required for the [REDACTED] and trading of the converted Shares on an overseas stock exchange. Any application for [REDACTED] of the converted Shares on the Stock Exchange after our initial [REDACTED] is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our existing Shareholders currently proposes to convert any of the Domestic Shares held by it into H Shares. Our PRC Legal Adviser, Tian Yuan Law Firm, advised that the Articles of Association is not inconsistent with the relevant laws and regulations with respect to the laws and regulations regarding the conversion.

TRANSFER OF SHARES ISSUED PRIOR TO [REDACTED] DATE

The PRC Company Law provides that in relation to the [REDACTED] of a company, the shares issued by a company prior to the [REDACTED] of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the [REDACTED] Date shall be subject to this statutory restriction and not be transferred within a period of one year from the [REDACTED] Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon [REDACTED].

CONVENING OF GENERAL AND CLASS MEETINGS

See “Appendix V — Summary of Articles of Association of our Company” in this document for details of the circumstances under which general meetings and class meetings of our Company are required.

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You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, set out in Appendix I to this [REDACTED]. Our audited consolidated financial information have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. Historical results are not indicative of future performance.

The following discussion and analysis and other parts of this [REDACTED] contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed “Risk Factors” in this [REDACTED]. Furthermore, our future results could differ materially from projected forward-looking statements. See “Forward-looking Statements.”

OVERVIEW

We are the largest private psychiatric healthcare group in China as measured by revenue in 2014, and the second largest in the overall psychiatric healthcare market in China by the same metric, according to the Frost & Sullivan Report. We operate and manage a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care. As of December 31, 2014, we had six healthcare facilities in operation, including the only privately-owned Grade A Class III psychiatric specialty hospital in China, with a total of 1,900 beds in operation across our network.

We believe we are well-positioned to capture significant opportunities in the high-growth PRC psychiatric healthcare market, and have a successful track record of utilizing a highly-flexible expansion strategy to rapidly enter and ramp up psychiatric healthcare facilities in new markets across China. We established our first healthcare facility, Wenzhou Kangning Hospital, in 1996, and have developed it into the only privately-owned psychiatric specialty hospital in China to achieve a Grade A Class III rating, which is the highest attainable classification for all PRC hospitals. Subsequently, we expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize management agreements to manage third party hospitals or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We believe that our multi-pronged expansion model allows us to accelerate expansion plans efficiently by limiting upfront capital investments, lowering risks and shortening the development period and path to profitability for new healthcare facilities. Our healthcare facilities established under these business expansion models have typically become operational within one year after commencing development.

Under our diverse expansion models, we have rapidly grown our network presence from the city of Wenzhou to across Zhejiang Province, one of the wealthiest provinces in China, and further to key population centers in other major economic regions in the PRC, including the Bohai Economic Rim and the Southwest China region. In the process, we expanded our network from three healthcare facilities in early 2012 to eight as of the Latest Practicable Date, consisting of five psychiatric specialty hospitals that we own and operate and three

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health care facilities that we manage through management agreements with third parties. In line with our network expansion, we nearly doubled our operational capacity from 1,090 beds as of January 1, 2012 to 1,900 beds as of December 31, 2014. We have pipeline healthcare facilities in Beijing, the Pearl River Delta Economic Region and the Yangtze Delta Economic Region.

We grew significantly during the Track Record Period. Our revenue increased from RMB170.8 million in 2012 to RMB226.4 million in 2013 and further to RMB296.3 million in 2014, representing a CAGR of 31.7%. Our net profit increased from RMB13.2 million to RMB36.2 million and further to RMB51.2 million over the same period, respectively, representing a CAGR of 96.9%. During the Track Record Period, we derived the majority of our revenue from treatment and general healthcare services, which amounted to RMB108.9 million in 2012, RMB150.1 million in 2013 and RMB206.8 million in 2014, respectively, representing 63.8%, 66.3% and 69.8% of our total revenue in the same years, respectively. Reflecting the nature of the psychiatric healthcare industry, we primarily focus on treatment and general healthcare services as the core aspect of our operations and expect this trend to continue going forward.

BASIS OF PREPARATION

Our consolidated financial information has been prepared in accordance with IFRS. Our consolidated financial statements include the financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2012, 2013 and 2014. 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 Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, including those set forth below, some of which are beyond our control:

Demand for Psychiatric Medical Services

Driven by the economic boom in China over the last few decades, individuals in China have attained tremendous growth in disposable income, leading to greater emphasis on quality of life and in turn, heightened awareness of the importance of mental health. According to the

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Frost & Sullivan Report, currently over 180 million people in China suffer from psychiatric disorders. According to the same source, from 2010 to 2014, the approximate annual number of outpatient visits to psychiatric healthcare institutions increased from 24.9 million to 38.8 million, representing a CAGR of 11.7%, while the number of inpatients increased from 1.2 million to 2.1 million, representing a CAGR of 15.3%. The forecast number of outpatients is projected to grow from 43.2 million in 2015 to 68.3 million in 2019, representing a CAGR of 12.1%, while the number of inpatients is projected to grow from 2.4 million to 4.5 million during the same period, representing a CAGR of 16.7%. However, psychiatric healthcare remains a critically underserved industry. According to the Frost & Sullivan Report, in 2011, the national average of psychiatrists and psychiatric beds per 10,000 persons in China was 0.15 and 1.47, respectively. By comparison, in G7 countries, the median ratio of psychiatrists and psychiatric beds per 10,000 persons was 1.2 and 7.4, respectively, in the same year. As a result, there is significant unmet demand in China.

Currently, the PRC national psychiatric healthcare market significantly relies on services provided by public hospitals. However, there is large demand in the PRC market for premium psychiatric healthcare services, which are generally offered by private psychiatric healthcare institutions like those operated by our Group. In 2014, private hospitals accounted for approximately one-tenth of the beds in the PRC psychiatric healthcare market, but contributed nearly one-fifth of the total revenue in the same market, according to the Frost & Sullivan Report, reflecting the higher average patient spending attributable to such providers. Going forward, average spending for private psychiatric healthcare is expected to further increase with the growth in demand for premium services and in disposable income of Chinese patients. According to the Frost & Sullivan Report, the overall market for private psychiatric healthcare institutions in China grew from RMB2.2 billion in 2010 to RMB5.1 billion in 2014, representing a CAGR of 23.8%, and is projected to grow from an estimated RMB6.2 billion in 2015 to RMB13.6 billion in 2019, representing a CAGR of 21.8%.

The growth in market demand for psychiatric healthcare has historically driven our business growth, and during the Track Record Period, our performance growth has largely mirrored that of the private psychiatric healthcare sector as a whole. For example, our revenue increased from RMB170.8 million in 2012 to RMB296.3 million in 2014, representing a CAGR of 31.7%, due in large part to our success in expanding and scaling up our operations in regions with sizable unmet demand for private psychiatric healthcare.

Regulatory Policies and Developments

In recent years, in line with the growth in demand for psychiatric healthcare in China, the NHFPC and other PRC government bodies have enacted various policies and official plans aimed at encouraging healthcare infrastructure development and improving access to healthcare services. In particular, growth in population coverage and funding for public medical insurance programs have significantly improved patients' ability to pay for medical treatment, including for psychiatric healthcare, resulting in considerable growth in both patient enrollment and average spending. According to the Frost & Sullivan Report, PRC government medical insurance coverage for urban and rural residents combined reached over 1.3 billion people in 2013, and funding for medical insurance programs rose from RMB367.0 billion in 2008 to RMB1,122.1 billion in 2013.

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The increasing coverage of public medical insurance and other favorable policies enacted by the government have driven growth in both our patient treatment volume and average spending. From 2012 to 2014, our total inpatient bed-days for our owned psychiatric specialty hospitals increased from 412,653 to 581,157, representing a CAGR of 18.7%, and our total outpatient visits for our owned psychiatric specialty hospitals increased from 66,108 to 80,749, representing a CAGR of 10.5%. During the same period, our medical bills settled through PRC government medical insurance programs significantly increased from RMB53.3 million to RMB134.2 million, representing a CAGR of 58.7%.

PRC regulations and insurance programs also exert significant influence over the pricing of our services and products. We are generally entitled to set fees for our medical services and pharmaceutical products at our own discretion. However to maintain our market position and to compete effectively with public hospitals in the areas where we operate, we price most of our services and products based on the pricing policies of public hospitals, which are generally subject to national and local pricing regulations. Bills for medical services and products that are eligible for the coverage under government medical insurance programs may only be settled through such programs if the pricing of such services and products is compliant with the pricing guidance adopted under such programs.

In addition, in 2013, our Wenzhou Kangning Hospital voluntarily joined a government-led program aimed to reform the pricing mechanism of medical products and services in Wenzhou. As part of the program, by electing to sell pharmaceuticals at the procurement bidding price of public hospitals without any mark-up, we are permitted to implement up to a 30% price increase on our medical services covered by public medical insurance. See "Regulatory Overview — Regulatory Supervision of Healthcare Sector in China — Reform on Price of Medicine and Medical Services." As a result, we experienced an increase in our average prices for services, which became a primary driver of our overall profitability in 2014. We subsequently expanded our participation in such programs to Pingyang Changgeng Ward in late 2013, Yongjia Kangning Hospital in 2014 and Cangnan Kangning Hospital in early 2015. We intend to utilize the new pricing regime to offer diversified treatment services at higher prices, as well as explore further medical service offerings, which we believe will generate profitability that will more than offset the lower gross profit margins we expect to have for pharmaceutical sales.

As we continue to grow our business, we expect to rely heavily on medical services and products covered by public medical insurance or which may be generally available in public hospitals. As a result, the pricing of our products and services will continue to be significantly affected by rules, regulations and policies governing public medical insurance coverage and the pricing practices of public hospitals. Furthermore, to continue to penetrate into the premium psychiatric healthcare market, we plan to continue to scale up our healthcare offerings to meet the rapidly-growing market demand from patients who have private medical insurance coverage or are otherwise able to pay for premium treatment costs out of pocket. Reflecting our efforts to capture market share in this sector, we expect to commence operations at Beijing Yining Hospital, which exclusively provides premium psychiatric healthcare, in the second half of 2015.

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Expansion of Our Healthcare Facility Network and Our Operational Capacity

The scale of our healthcare facility network has a considerable impact on our results of operations. During the Track Record Period we have significantly expanded our healthcare network in terms of both the number of healthcare facilities and beds in operation. Our network consisted of two healthcare facilities with 1,090 total beds in operation as of January 1, 2012. By December 31, 2014, we had grown our network to six healthcare facilities with 1,900 total beds in operation. We attribute much of our revenue increase during the Track Record Period to such growth, which in turn has diversified our revenue sources. Revenue from healthcare facilities other than Wenzhou Kangning Hospital, and including Pingyang Changgeng Ward, significantly increased from RMB18.7 million in 2012 to RMB50.6 million in 2013 and further to RMB80.4 million in 2014. Over the same period, the percentage of revenue from such healthcare facilities increased from 10.9% to 22.3% and further to 27.1%, respectively. Going forward, we expect these trends to continue in line with the ongoing expansion and scaling up of our network.

Utilization and Operational Efficiency

Our results of operations are primarily affected by the number of inpatient bed-days and average spending per inpatient at our healthcare facility network. Our ability to attract patient enrollment and spending depends on the success of our efforts to maximize our provision of high-quality medical treatment services in line with our reputation as a premier psychiatric hospital operator. By increasing patient enrollment and spending, we are able to achieve greater utilization of our operational capacity and increased operational scale.

In 2012, 2013 and 2014, the overall utilization rate of our healthcare facilities, as measured by inpatient bed-days for the year divided by our effective annual service capacity, was 95.2%, 92.1% and 95.7%, respectively. The decline in 2013 was attributable to the initially low utilization rates of Yongjia Kangning Hospital and Cangnan Kangning Hospital, which had newly opened that year. In the same years, average inpatient spending per bed-day for treatment and general healthcare services increased from RMB217 to RMB264 and further to RMB312, respectively. As a result of improved operational efficiency brought on by the overall increase in the bed utilization rate and in average inpatient spending per bed-day for treatment and general healthcare services, our gross profit margin for treatment and general healthcare services increased from 36.3% in 2012 to 45.0% in 2014.

Our utilization and operational efficiency depends substantially on our ability to ramp up our healthcare facilities in a timely and cost-effective manner. During the establishment and ramping up stages, we typically undertake various structural upgrades and renovations, as well as implement our highly standardized operating protocols and policies. As a result, at the early stages of operation, our new healthcare facilities may have lower utilization and efficiency compared to our more established facilities. Our ability to timely complete the processes necessary to bring our healthcare facilities up to our operational standards affects how quickly such healthcare facilities can achieve their designed operating capacity and in turn, elevate our revenue and profit generating capability. Moreover, scaling up our utilization and operational efficiency also requires attracting and retaining high-quality medical staff to accommodate our increased operational needs and our efforts to maintain consistent treatment quality across our network. Historically, in line with the expansion and scaling up

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of our network, our number of doctors increased from 124 as of December 31, 2012 to 150 as of December 31, 2014, while our number of other medical staff increased from 378 to 449 as of the same dates, respectively. Going forward, we expect to continue to increase our hiring of both graduates and experienced professionals in order to meet our network expansion requirements, and have cultivated talent pipelines through our teaching and other collaborations with various medical colleges. We will also continue to provide ongoing, centralized training at Wenzhou Kangning Hospital to our medical staff to ensure adherence to our standardized treatment services and protocol, regardless of which healthcare facility such staff are assigned to.

Revenue Mix

Our overall gross margin is affected by our revenue mix, due to considerable differences among the gross margins of our service and product offerings. During the Track Record Period, we experienced variation in the gross profit margins of the different components of our revenue, as well as in the different proportionate contributions of each component to our total revenue. For example, from 2012 to 2013, our gross margin for treatment and general healthcare services increased from 36.3% to 42.1%, respectively, while that of our pharmaceutical sales decreased to a lesser degree from 26.5% to 25.1%, respectively, resulting in an increase in our overall gross margin from 34.6% to 38.4%, respectively. From 2013 to 2014, our gross margin for treatment and general healthcare services increased from 42.1% to 45.0%, while that of our pharmaceutical sales decreased from 25.1% to 17.1%, resulting in an increase in our overall gross margin from 38.4% in 2013 to 38.8% in 2014.

In addition, we derive the majority of our revenue and gross profit from treatment and general healthcare services, much of which is attributable to inpatients. As a result, we focus our revenue generation on providing psychiatric medical services and rely to a lesser extent on pharmaceutical sales. We believe that our future profitability will largely be affected by our profit from medical treatment services, particularly in light of our election for Wenzhou Kangning Hospital, Pingyang Changgeng Hospital, Yongjia Kangning Hospital and Cangnan Kangning Hospital to join a government-led pricing regime that allows higher pricing for services in return for reduced pricing on pharmaceutical products. Furthermore, we will continue to explore opportunities to manage third party hospitals and psychiatric wards and increase our management service fees income from such operations, which generally yield higher gross profit margins and may further enhance our overall profitability. As we continue to expand and scale up our business operations, our mix of components of revenue with varying gross profit margins may continue to change, which could materially affect our overall gross margin.

Ability to Control Our Costs and Expenses

During the Track Record Period, pharmaceuticals and consumables used represented the largest component of our cost of revenue, representing 41.9%, 41.7% and 41.6% in 2012, 2013 and 2014, respectively. The use of pharmaceuticals and consumables forms a key aspect of many of our medical treatment procedures. Meanwhile, employee benefits and expenses constituted the largest component of our administrative expenses, amounting to 46.8%, 46.4% and 36.4% in 2012, 2013 and 2014, respectively, and the second largest component of our cost of revenue, amounting to 32.9%, 35.0% and 36.5% in the same years, respectively. Our

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employee costs and expenses are primarily attributable to our capacity to offer competitive wages and other benefits to recruit and retain high-caliber medical professionals. As a result, we expect that costs and expenses relating to our employees, pharmaceuticals and consumables to continue to be our most significant costs and expenses going forward, particularly in light of the continued expansion and ramping up of our healthcare facilities. Our ability to effectively control such costs and expenses may materially affect our profitability.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Our significant accounting policies are set forth in detail in note 2 to the Accountants' Report included in Appendix I to this [REDACTED].

Revenue Recognition

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

Treatment and General Healthcare Services and Ancillary Hospital Services

Revenue from service income, including treatment and general healthcare services income and ancillary hospital services income, is recognized when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to us and such benefit could be reliably measured. Transactions are settled by payment via social insurance card, bank card or cash.

Pharmaceutical Sales

Revenue from pharmaceutical sales is recognized at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by payment via social insurance card, bank card or cash.

Management Service Fees

Management fee is recognized when services are rendered and when it is probable that the economic benefits from the service rendered will flow to us and such benefit could be reliably measured.

Property, Plant and Equipment

Property, plant and equipment are 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.

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

- Leasehold improvements: shorter of remaining lease term or eight years of its useful life.
- Buildings: 35 years.
- Motor vehicles: four to 10 years.
- Furniture and office equipment: three to 10 years.
- Medical equipment: three to 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. See note 2.8 to the Accountants’ Report in Appendix I to this [REDACTED].

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within “other losses” in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business.

Trade and Other Receivables

Trade receivables are amounts due from patients, government social insurance schemes and other sources for services rendered and pharmaceutical sales 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 than one year), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or in equity, respectively.

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. We periodically evaluate 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

Inside Basis Differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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Outside Basis Differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Offsetting

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Some of our significant accounting policies involve subjective assumptions and estimates, as well as complex judgments by our management relating to accounting items. The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) the judgment and other uncertainties affecting the application of such policies and (ii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires our judgment based on information and financial data that may change in future periods, and as a result, actual results could differ from those estimates and may require a material adjustment to the carrying amounts of the affected assets or liabilities in the future. Our critical accounting estimates and judgments are set forth in detail in note 4 to the Accountants' Report in Appendix I to this [REDACTED]. Estimates and judgments 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.

Provision for Impairment of Trade and Other Receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires our judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables and the amount of doubtful debt expenses or write-back of provision for impairment of receivables in the period in which such estimate has been changed. We have certain receivables overdue but not considered impaired. These balances are due from local social insurance bureaus and other government bodies which are responsible for the reimbursement of medical

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expenses for patients covered by government medical insurance schemes. Our management considers that based on past payment history from such sources, these amounts can be recovered in a reasonable period of time.

For the remaining balance not covered by social insurance scheme, which represents receivables that we have determined to be impaired, we assessed the collectability based on historical patterns and data. Based on such assessment, we made an impairment provision of approximately RMB3.0 million, RMB3.7 million and RMB5.0 million as of December 31, 2012, 2013 and 2014, respectively.

Current and Deferred Income Taxes

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from us 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.

We recognize 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 utilized. The recognition of deferred tax assets mainly involved our judgments and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

Recognition of Share-based Compensation Expenses

Our founding shareholders granted restricted shares to our employees and consultants under the Restricted Share-Based Payment Scheme during the years ended December 31, 2014. See note 17 to the Accountants' Report in Appendix I to this [REDACTED]. Our Directors have used the discounted cash flow model to determine the total fair value of the restrictive shares granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as gross margin, discount rate and growth rate, is required to be made by the directors in applying the discounted cash flow model.

Useful Lives of Property, Plant and Equipment

The estimate of useful lives of property, plant and equipment was made by our management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by us. It could change significantly when the actual useful life is different with the previous estimate.

If the estimated useful lives of property, plant and equipment had been higher by 10% from our management's estimates, the depreciation charge would have decreased by RMB0.3 million, RMB0.4 million and RMB0.7 million for the years ended December 31, 2012, 2013 and 2014, respectively. If the estimated useful lives of property, plant and equipment had been lower by 10% from management's estimates, the depreciation charge would have increased by RMB0.2 million, RMB0.5 million and RMB0.2 million for the years ended December 31, 2012, 2013 and 2014, respectively.

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Estimation of the Lease Term in Lease Agreements

We lease several properties from third parties to serve as our operating premises. The lease agreements for such properties usually contain termination clauses, under which we are free to terminate the agreement after a certain time with payment of applicable penalties to the lessor, usually in the amount of one to three months of rental fees. We estimate the lease terms by considering the following factors:

- The amount of penalties to be paid;
- The balance of leasehold improvements to be written off; and
- The availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts.

Consolidation

We have exercised significant judgment in determining whether we have control over other entities in which we have interests. In exercising such judgment, we consider the purpose and business of the investee entities, what the relevant activities are, how decisions about those activities are made, whether our rights give us the current ability to direct the relevant activities, whether we are exposed, or have rights to, variable returns from our involvement with the investee entities, and whether we have the ability to use our power over the investee entities to affect the amount of our returns.

DESCRIPTION OF MAJOR LINE ITEMS IN OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue consists of (i) treatment and general healthcare services, (ii) pharmaceutical sales, (iii) ancillary hospital services and (iv) management service fees.

The table below sets forth a breakdown of our revenue during the Track Record Period:

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Treatment and general healthcare services	108,931	63.8	150,062	66.3	206,790	69.8
Pharmaceutical sales . . .	55,309	32.4	67,099	29.6	77,384	26.1
Ancillary hospital services	548	0.3	1,567	0.7	1,828	0.6
Management service fees	6,025	3.5	7,635	3.4	10,294	3.5
Total revenue	170,813	100.0	226,363	100.0	296,296	100.0

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Treatment and general healthcare services entail revenue generated through providing medical services to inpatients and outpatients. Pharmaceutical sales represent revenue generated from sales of pharmaceutical products and medical consumables to patients. Ancillary hospital services represent miscellaneous services provided in support of our medical treatment services, such as revenue generated by the Judicial Appraisal Institution of Wenzhou Kangning Hospital. Management service fees represent income attributable to psychiatric wards that we manage under management agreements with third party private hospitals.

During the Track Record Period, treatment and general healthcare services was the largest segment of our business by revenue, representing 63.8%, 66.3% and 69.8% of our total revenue in 2012, 2013 and 2014, respectively. As we intend to continue to focus primarily on providing such services with the continued expansion of our business, going forward, we expect treatment and general healthcare services to continue to comprise the largest portion of our revenue.

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Revenue by Owned Hospital

We derive revenue from treatment and general healthcare services, pharmaceutical sales and ancillary hospital services from our Wenzhou Kangning Hospital and each of our owned psychiatric specialty hospitals, which during the Track Record Period consisted of Qingtian Kangning Hospital, Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital. The table below sets forth, for the years indicated, a breakdown of our revenue from each hospital:

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Wenzhou Kangning Hospital						
Treatment and general healthcare services	98,744	59.9	114,873	52.5	150,578	52.6
Pharmaceutical sales	52,836	32.1	59,368	27.2	63,520	22.2
Ancillary hospital services	533	0.3	1,546	0.7	1,820	0.6
Subtotal	152,113	92.3	175,787	80.4	215,918	75.4
Qingtian Kangning Hospital						
Treatment and general healthcare services	5,863	3.6	8,752	4.0	11,118	3.9
Pharmaceutical sales	1,698	1.0	2,257	1.0	2,769	1.0
Ancillary hospital services	14	0.0	17	0.0	8	0.0
Subtotal	7,575	4.6	11,026	5.0	13,895	4.9
Cangnan Kangning Hospital						
Treatment and general healthcare services	4,324	2.6	17,146	7.9	24,672	8.6
Pharmaceutical sales	775	0.5	3,501	1.6	6,367	2.2
Ancillary hospital services	1	0.0	4	0.0	–	–
Subtotal	5,100	3.1	20,651	9.5	31,039	10.8
Yongjia Kangning Hospital						
Treatment and general healthcare services	–	–	9,075	4.1	14,752	5.2
Pharmaceutical sales	–	–	1,937	0.9	3,426	1.2
Ancillary hospital services	–	–	–	–	–	–
Subtotal	–	–	11,012	5.0	18,178	6.4
Yueqing Kangning Hospital						
Treatment and general healthcare services	–	–	216	0.1	5,670	2.0
Pharmaceutical sales	–	–	36	0.0	1,302	0.5
Ancillary hospital services	–	–	–	–	–	–
Subtotal	–	–	252	0.1	6,972	2.5
Total revenue⁽¹⁾	164,788	100.0	218,728	100.0	286,002	100.0

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Note:

(1) Does not include revenue from management service fees attributable to Pingyang Changgeng Ward.

During the Track Record Period, we experienced year-on-year increases in revenue across our network of psychiatric specialty hospitals, in particular with respect to revenue from treatment and general healthcare services and from pharmaceutical sales. We attribute such increases to our efforts to scale up our operations to increase treatment capacity at each hospital for both inpatients and outpatients. In addition, due to the rapid expansion of our network, revenue from Wenzhou Kangning Hospital as a proportion of our total revenue from psychiatric specialty hospitals fell from 92.3% in 2012 to 80.4% in 2013 and further to 75.4% in 2014, but still grew in absolute amounts from RMB152.1 million to RMB175.8 million and further to RMB215.9 million in the same years, respectively, primarily due to the increase in average inpatient spending per day per bed over the same period. Going forward, we expect these trends to continue in line with the continued expansion and scaling up of our network.

Revenue by Inpatients and Outpatients at Our Owned Hospitals

We categorize revenue from treatment and general healthcare services and from pharmaceutical sales according to inpatients and outpatients at our owned psychiatric specialty hospitals. We measure inpatient volume in bed-days, with each bed-day representing one instance of registration by an inpatient to occupy a hospital bed, and outpatient volume in visits, with each visit representing one instance of outpatient registration at a hospital. The table below sets forth, for the years indicated, a breakdown of our revenue from treatment and general healthcare services and pharmaceutical sales by inpatients and outpatients⁽¹⁾⁽²⁾:

	For the year ended December 31,		
	2012	2013	2014
Inpatients			
Number of inpatient bed-days	442,791	514,174	615,242
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	95,871	135,936	191,703
Average inpatient spending per bed-day on treatment and general healthcare services (RMB) ⁽³⁾	217	264	312
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	22,077	27,948	34,830
Average inpatient spending per bed-day on pharmaceutical sales (RMB) ⁽⁴⁾	50	54	57

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	For the year ended December 31,		
	2012	2013	2014
Outpatients			
Number of outpatient visits	103,928	114,293	119,425
Treatment and general healthcare services revenue attributable to outpatients (RMB'000) ⁽⁵⁾	13,060	14,126	15,087
Average outpatient spending per visit on treatment and general healthcare services (RMB)	126	124	126
Pharmaceutical sales revenue attributable to outpatients (RMB'000) ⁽⁶⁾	33,232	39,151	42,554
Average outpatient spending per visit on pharmaceutical sales (RMB)	320	343	356
Total treatment and general healthcare services revenue (RMB'000)	108,931	150,062	206,790
Total pharmaceutical sales revenue (RMB'000)	55,309	67,099	77,384

Notes:

- (1) As we recognize revenue from Pingyang Changgeng Ward in the form of management service fees, its operations have not been included in this breakdown of treatment and general healthcare services and pharmaceutical sales.
- (2) Revenue from ancillary hospital services is not categorized based on inpatient and outpatient status and as a result, has not been included in this breakdown.
- (3) Calculated as treatment and general healthcare services revenue attributable to inpatients divided by the number of inpatient bed-days for the same year.
- (4) Calculated as pharmaceutical sales revenue attributable to inpatients divided by the number of inpatient bed-days for the same year.
- (5) Calculated as treatment and general healthcare services revenue attributable to outpatients divided by the number of outpatient visits for the same year.
- (6) Calculated as pharmaceutical sales revenue attributable to outpatients divided by the number of outpatient visits for the same year.

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During the Track Record Period, we derived the substantial majority of our revenue from treatment and general healthcare services from inpatients, amounting to RMB95.9 million, RMB135.9 million and RMB191.7 million in 2012, 2013 and 2014, respectively, and representing 88.0%, 90.6% and 92.7% of our total revenue from treatment and general healthcare services in the same years, respectively. On the other hand, our pharmaceutical sales revenue was primarily attributable to outpatients, amounting to RMB33.2 million, RMB39.2 million and RMB42.6 million in 2012, 2013 and 2014, respectively, and representing 60.1%, 58.3% and 55.0% in 2012, 2013 and 2014, respectively. We believe such trends are consistent with the psychiatric healthcare industry as a whole, and we expect them to continue going forward.

Following the implementation of recent government-led pricing regimes to permit higher pricing for services covered by public medical insurance while reducing sales prices on pharmaceuticals, we believe we can achieve greater revenue generation and profitability going forward by focusing on psychiatric healthcare services. We voluntarily elected for Wenzhou Kangning Hospital to join such regimes in 2013, and expanded our participation in such programs to Pingyang Changgeng Ward in late 2013, Yongjia Kangning Hospital in 2014 and Cangnan Kangning Hospital in early 2015. As we generate the substantial majority of our services revenue from inpatients, we intend to diversify our service offerings and enhance our service quality primarily for our inpatient treatment operations, in addition to scaling up and expanding our inpatient capacity.

Capacity and Efficiency of Beds in Our Owned Hospitals

During the Track Record Period, inpatients contributed to the substantial majority of our revenue from our owned psychiatric specialty hospitals, accounting for RMB117.9 million, RMB163.9 million and RMB226.5 million in revenue from treatment and general healthcare services and pharmaceutical sales in 2012, 2013 and 2014, respectively. Such amounts represented 71.8%, 75.5% and 79.7% of our total revenue from treatment and general healthcare services and pharmaceutical sales in the same years, respectively. Our revenue from inpatients is determined in significant part by (i) demand for inpatient medical treatment and (ii) bed capacity. The table below sets forth, for the years indicated, certain information with respect to our inpatient capacity at our owned psychiatric specialty hospitals:

	For the year ended December 31,		
	2012	2013	2014
Effective annual service capacity ⁽¹⁾ .	464,920	558,020	642,695
Inpatient bed-days ⁽²⁾	442,791	514,174	615,242
Utilization rate ⁽³⁾ (%)	95.2%	92.1%	95.7%

Notes:

- (1) Represents the number of beds available at the beginning of each month of the year multiplied by the number of days in such month and aggregated over the course of the year in terms of bed-days.
- (2) Represents the actual number of beds occupied by our inpatients on each day aggregated over the course of the relevant period.
- (3) Calculated as inpatient bed-days divided by effective annual service capacity, multiplied by 100%.

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In line with the expansion and scaling up of our network, our effective annual service capacity for inpatients increased from 464,920 in 2012 to 558,020 in 2013 and further to 642,695 in 2014. We were able to achieve high utilization rates of 95.2%, 92.1% and 95.7% in the same years, respectively. The decline in utilization rate in 2013 was primarily due to initially lower utilization rates at Yongjia Kangning Hospital and Cangnan Kangning Hospital, which we had newly opened that year, and were subsequently able to successfully ramp up. We attribute our comparatively high efficiency to our strong reputation in the psychiatric healthcare market and accompanying word-of-mouth recommendations, which have been made possible by the high quality of our services and staff and our disciplined expansion efforts.

Cost of Revenue

During the Track Record Period, our cost of revenue primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, leasing expenses, depreciation and amortization, canteen expenses and testing fees. The table below sets forth, for the years indicated, a breakdown of our cost of revenue by nature of costs:

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Pharmaceuticals and consumables used	46,835	41.9	58,227	41.7	75,419	41.6
Employee benefits and expenses	36,703	32.9	48,890	35.0	66,142	36.5
Leasing expenses	6,616	5.9	8,678	6.2	9,158	5.1
Depreciation and amortization	6,120	5.5	9,225	6.6	11,079	6.1
Canteen expenses	6,092	5.5	7,151	5.1	8,404	4.6
Testing fees	3,238	2.9	2,007	1.4	3,900	2.2
Others	6,069	5.4	5,334	4.0	7,211	3.9
Total cost of revenue	111,673	100.0	139,512	100.0	181,313	100.0

During the Track Record Period, pharmaceuticals and consumables used and employee benefits and expenses were the largest component of our cost of revenue, representing in aggregate 74.8%, 76.8% and 78.1% of our total cost of revenue in 2012, 2013 and 2014, respectively. We had an overall increase in our pharmaceuticals and consumables used of 61.0% from RMB46.8 million in 2012 to RMB75.4 million in 2014, primarily due to our increased procurement needs to treat more inpatients and outpatients as we expanded and ramped up our healthcare facility network. We had an overall increase in our employee benefits and expenses of 80.2% from RMB36.7 million in 2012 to RMB66.1 million in 2014, primarily due to (i) increases in our number of employees and (ii) performance bonuses awarded to employees, in each case to accommodate our efforts to expand and scale up our network, as well as (iii) general salary raises.

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Gross Profit and Gross Profit Margin

We generated gross profit of RMB59.1 million, RMB86.9 million and RMB115.0 million in 2012, 2013 and 2014, respectively, while our gross profit margin was 34.6% in 2012, 38.4% in 2013 and 38.8% in 2014. The table below sets forth, for the years indicated, a breakdown of our gross profit by components of our revenue:

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000, except percentages	%	RMB'000, except percentages	%	RMB'000, except percentages	%
Gross profit						
Treatment and general healthcare services . .	39,517	66.8	63,112	72.7	93,046	80.9
Pharmaceutical sales . .	14,659	24.8	16,872	19.4	13,194	11.5
Ancillary hospital services	328	0.6	903	1.0	996	0.9
Management service fees	4,636	7.8	5,964	6.9	7,747	6.7
Total	59,140	100.0	86,851	100.0	114,983	100.0
Gross profit margin						
Treatment and general healthcare services . .	36.3%		42.1%		45.0%	
Pharmaceutical sales . .	26.5%		25.1%		17.1%	
Ancillary hospital services	59.9%		57.6%		54.5%	
Management service fees	76.9%		78.1%		75.3%	
Overall	34.6%		38.4%		38.8%	

During the Track Record Period, treatment and general healthcare services as a component of our revenue constituted the largest portion of our gross profit, representing 66.8%, 72.7% and 80.9% of our overall gross profit in 2012, 2013 and 2014, respectively. In the same years, our gross profit margin on treatment and general healthcare services was 36.3%, 42.1% and 45.0%, respectively. The increase from 2012 to 2013 was primarily due to the diversification of our service portfolio to provide more differentiated and personalized treatment services. The increase from 2013 to 2014 was primarily due to our implementation of price increases with respect to our insurance-eligible services at Wenzhou Kangning Hospital in accordance with the government-led pricing regime that it opted to join in 2013, partially offset by a decrease in our gross profit margin on pharmaceutical sales from 25.1% to 17.1% in the same period as a result of restrictions on pharmaceutical prices imposed by the same pricing regime.

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Under the healthcare pricing regime that our Wenzhou Kangning Hospital joined in 2013, we expect to be able to achieve higher gross profit margins on our treatment and general healthcare services by taking advantage of higher reimbursement for services eligible for public insurance programs and where commercially acceptable by reference to market prices, particularly at public hospitals. We also plan to diversify our scope of services to offer more high-margin services, such as premium healthcare services for mid- to high-income patients. Due to the higher potential profitability on treatment services compared to pharmaceutical sales, we subsequently expanded our participation in the government-led pricing regime to Pingyang Changgeng Ward in late 2013, Yongjia Kangning Hospital in 2014 and Cangnan Kangning Hospital in early 2015, and may opt for more of our healthcare facilities to join the same or similar pricing regimes in the future. Going forward we believe we will be able to achieve higher overall gross profit margins for our operations due to the increased gross profit margin from treatment and general healthcare services outpacing the downward pressure on the gross profit margin for pharmaceutical sales exerted by the same pricing regime.

Other Income

During the Track Record Period, our other income consisted of government grants and provisions for accounts payable. Our other income amounted to RMB1.1 million, RMB4.7 million and RMB0.7 million in 2012, 2013 and 2014, respectively.

During the Track Record Period, we received annual government grants in the form of subsidies for our Wenzhou Kangning Hospital to carry out its function as a Key National Hospital for Specialized Clinical Psychiatry (國家臨床重點專科建設單位(精神科)). In particular, such government grants related to healthcare-related research activities. In 2013, our government grants also included (i) RMB1.8 million in incentive funds for private hospital development and (ii) RMB1.0 million as an award for attaining a Grade A Class III hospital rating.

Selling Expenses

During the Track Record Period, our selling expenses amounted to RMB2.6 million, RMB4.9 million and RMB2.1 million in 2012, 2013 and 2014, respectively, representing 1.5%, 2.2% and 0.7% of our total revenue in the same years, respectively. Our selling expenses were slightly higher in 2013 due to promotional activities in relation to newly opened healthcare facilities.

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Administrative Expenses

During the Track Record Period, our administrative expenses primarily consisted of employee benefits and expenses for our management and administrative staff, leasing expenses, utilities expenses and depreciation and amortization. The table below sets forth a breakdown of our administrative expenses during the periods indicated:

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefits and expenses	13,605	46.8	16,199	46.4	16,608	36.4
Leasing expenses	214	0.7	1,804	5.2	7,509	16.5
Depreciation and amortization	1,723	5.9	3,137	9.0	3,988	8.7
Utilities expenses	2,739	9.4	3,052	8.8	3,881	8.5
Provision for impairment of receivables	656	2.3	1,077	3.1	2,610	5.7
Traveling expenses	2,056	7.1	1,423	4.1	2,586	5.7
Donations	2,110	7.3	2,374	6.8	1,834	4.0
Consulting expenses	484	1.7	1,118	3.2	1,402	3.1
Repair and maintenance	536	1.8	761	2.2	781	1.7
Entertainment expenses	889	3.1	799	2.3	497	1.1
Raw materials and consumables	910	3.1	637	1.8	780	1.7
Office expenses	753	2.6	446	1.3	438	1.0
Others	2,401	8.2	2,048	5.8	2,697	5.9
Total administrative expenses	29,076	100.0	34,875	100.0	45,611	100.0

During the Track Record Period, employee benefits and expenses was the largest component of our administrative expenses, representing 46.8%, 46.4% and 36.4% of our administrative expenses in 2012, 2013 and 2014, respectively. We had an overall increase in our employee benefits and expenses of 22.1% from RMB13.6 million in 2012 to RMB16.6 million in 2014, primarily due to (i) increases in our management and administrative staff and (ii) performance bonuses awarded to employees, in each case to accommodate our efforts to expand and scale up our network.

Finance Income and Finance Expenses

Our finance income consists of interest income on bank deposits. Our finance costs consist of interest expenses on our borrowings. We had net finance costs of RMB10.4 million in 2012 and RMB4.5 million in 2013, in each case primarily due to interest expenses on bank and other borrowings, which we incurred in order to finance the expansion of our healthcare facility network. We repaid such borrowings in full in 2013. In 2014, we had net finance income of RMB0.7 million due to interest income earned on our bank deposits.

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Income Tax Expense

Income tax expense mainly consists of PRC corporate income tax. Under the Enterprise Income Tax Law of the PRC and the regulations thereunder, the tax rate imposed on us in China has been 25% from January 1, 2008, which has been applicable to all of our PRC subsidiaries during the Track Record Period.

In 2012, 2013 and 2014, our effective tax rate was 26.3%, 23.9% and 25.3%, respectively.

DISCUSSION OF RESULTS OF OPERATIONS

The table below sets forth our consolidated statements of profit or loss and comprehensive income for the periods indicated:

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	170,813	100.0	226,363	100.0	296,296	100.0
Cost of revenue	(111,673)	(65.4)	(139,512)	(61.6)	(181,313)	(61.2)
Gross profit	59,140	34.6	86,851	38.4	114,983	38.8
Other income	1,065	0.6	4,692	2.1	689	0.2
Other gains/(losses)	(188)	(0.1)	274	0.1	(151)	(0.1)
Selling expenses	(2,607)	(1.5)	(4,879)	(2.2)	(2,092)	(0.7)
Administrative expenses	(29,076)	(17.0)	(34,875)	(15.4)	(45,611)	(15.4)
Operating profit	28,334	16.6	52,063	23.0	67,818	22.8
Finance income	1,282	0.8	430	0.2	749	0.3
Finance expenses	(11,652)	(6.8)	(4,917)	(2.2)	–	–
Profit before income tax	17,964	10.6	47,576	21.0	68,567	23.1
Income tax expenses	(4,733)	(2.8)	(11,383)	(5.0)	(17,369)	(5.9)
Net profit	13,231	7.8	36,193	16.0	51,198	17.2
Attributable to Equity holders of the Company	13,231	7.8	36,193	16.0	51,198	17.2

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue

Our total revenue increased by 30.9% from RMB226.4 million in 2013 to RMB296.3 million in 2014, primarily due to increases in revenue from treatment and general healthcare services and from pharmaceutical sales.

Treatment and General Healthcare Services. Our revenue from treatment and general healthcare services increased by RMB56.7 million, or 37.8%, from RMB150.1 million in 2013 to RMB206.8 million 2014, primarily due to (i) an increase in total inpatient bed-days from

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514,174 in 2013 to 615,242 in 2014 as a result of (x) our continued expansion and scaling up efforts to increase our inpatient treatment capacity across our healthcare facility network and (y) the increase in our overall inpatient utilization rate from 92.1% in 2013 to 95.7% in 2014, and (ii) an increase in average inpatient spending per bed-day on treatment and general healthcare services from RMB264 to RMB312 as a result of our election for Wenzhou Kangning Hospital to join a government-led pricing regime that permitted increased pricing on insurance-eligible services.

Pharmaceutical Sales. Our revenue from pharmaceutical sales increased by RMB10.3 million, or 15.4%, from RMB67.1 million in 2013 to RMB77.4 million in 2014, primarily due to the increase in our treatment volume for both inpatients and outpatients at each of our psychiatric specialty hospitals as a result of the continued expansion and scaling up of our network, partially offset by the government-led pricing regime that we elected for Wenzhou Kangning Hospital to join requiring participating hospitals to sell pharmaceuticals at the procurement bidding price of public hospitals.

Ancillary Hospital Services. Our revenue from ancillary hospital services increased by RMB0.2 million, or 12.5%, from RMB1.6 million in 2013 to RMB1.8 million in 2014, primarily due to the overall increase in our treatment volume at our healthcare facility network.

Management Service Fees. Our revenue from management service fees increased by RMB2.7 million, or 35.5%, from RMB7.6 million in 2013 to RMB10.3 million in 2014, primarily due to the continued ramping up of the operations that we manage at Pingyang Changgeng Ward, resulting in increased treatment volume.

Cost of Revenue

Our cost of revenue increased by 30.0% from RMB139.5 million in 2013 to RMB181.3 million in 2014, primarily due to (i) an increase of RMB17.3 million, or 35.3%, in our employee benefits and expenses as a result of (x) increases in our number of employees and (y) performance bonuses awarded to employees, in each case to accommodate our efforts to expand and scale up our network, as well as (z) general salary raises, and (ii) an increase of RMB17.2 million, or 29.5%, in our pharmaceuticals and consumables used as a result of the increased treatment volume in our network, which required procuring a greater amount of pharmaceuticals and consumables for sale, particularly at our Wenzhou Kangning Hospital and Cangnan Kangning Hospital, partially offset by more efficient pharmaceutical procurement as a result of the consolidation of our procurement towards a small number of major suppliers, most notably Sinopharm.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 32.3% from RMB86.9 million in 2013 to RMB115.0 million in 2014. Our gross profit margin remained relatively stable at 38.4% and 38.8% in 2013 and 2014, respectively.

Other Income

Our other income decreased by 85.1% from RMB4.7 million in 2013 to RMB0.7 million in 2014. See “— Description of Major Line Items in Our Consolidated Statements of Comprehensive Income — Other Income.”

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Other Gains and Losses

We recorded other gain of RMB0.3 million in 2013, primarily due to the disposal of an asset held for sale. We recorded other losses of RMB0.2 million in 2014.

Selling Expenses

Our selling expenses decreased by 57.1% from RMB4.9 million in 2013 to RMB2.1 million in 2014, primarily due to the incurrence of one-off promotional activities in 2013 relating to newly opened healthcare facilities in 2013.

Administrative Expenses

Our administrative expenses increased by 30.7% from RMB34.9 million in 2013 to RMB45.6 million in 2014, primarily due to (i) a significant increase of RMB5.7 million in our leasing expenses as a result of lease payments for Beijing Yining Hospital and Linhai Kangning Hospital, which had not yet commenced operations but for which the underlying lease periods had already begun and (ii) an increase of RMB1.5 million in our provision for impairment of receivables as a result of our decision to make provisions for certain medical bills attributable to uninsured or underinsured patients.

Finance Income

Our finance income increased by 75.0% from RMB0.4 million in 2013 to RMB0.7 million in 2014, due to an increase in interest income on our bank deposits.

Finance Expenses

We had finance expenses of RMB4.9 million in 2013, primarily due to interest expenses incurred on our bank and other borrowings, which we utilized primarily for our network expansion plans. We did not incur finance expenses in 2014.

Profit Before Income Tax

As a result of the foregoing, our profit before income tax increased by 44.1% from RMB47.6 million in 2013 to RMB68.6 million in 2014.

Income Tax Expenses

Our income tax expenses increased by 52.6% from RMB11.4 million in 2013 to RMB17.4 million in 2014, primarily due to the corresponding increase in our profit before tax, while our effective tax rate increased from 23.9% to 25.3% in the same years, respectively.

Net Profit

As a result of the foregoing, our net profit increased by 41.4% from RMB36.2 million in 2013 to RMB51.2 million in 2014.

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Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue

Our total revenue increased by 32.6% from RMB170.8 million in 2012 to RMB226.4 million in 2013, primarily due to increases in our revenue from treatment and general healthcare services and from pharmaceutical sales.

Treatment and General Healthcare Services. Our revenue from treatment and general healthcare services increased by RMB41.2 million, or 37.8%, from RMB108.9 million in 2012 to RMB150.1 million in 2013, primarily due to (i) an increase in total patient bed-days from 442,791 in 2012 to 514,714 in 2013 as a result of our continued expansion and scaling up efforts to increase our inpatient treatment capacity across our network and (ii) an increase in average inpatient spending per bed-day on treatment and general healthcare services from RMB217 in 2012 to RMB264 in 2013 as a result of the diversification of our service portfolio to provide more personalized treatment services, partially offset by a decrease in our overall bed utilization rate from 95.2% in 2012 to 92.1% in 2013, primarily due to initially lower utilization rates at Yongjia Kangning Hospital and Cangnan Kangning Hospital, which we had newly opened that year.

Pharmaceutical Sales. Our revenue from pharmaceutical sales increased by RMB11.8 million, or 21.3%, from RMB55.3 million in 2012 to RMB67.1 million in 2013, primarily due to (i) the increase in our treatment volume for both inpatients and outpatients at each of our psychiatric specialty hospitals as a result of the continued expansion and scaling up of our network and (ii) the increase in average outpatient spending per visit on pharmaceutical sales from RMB320 in 2012 to RMB343 in 2013.

Ancillary Hospital Services. Our revenue from ancillary hospital services significantly increased by RMB1.1 million from RMB0.5 million in 2012 to RMB1.6 million in 2013, primarily due to the overall increase in our treatment volume at our healthcare facility network.

Management Service Fees. Our revenue from management service fees increased by RMB1.6 million, or 26.7%, from RMB6.0 million in 2012 to RMB7.6 million in 2013, primarily due to the continued ramping up of the operations that we manage at Pingyang Changgeng Ward, resulting in increased treatment volume.

Cost of Revenue

Our cost of revenue increased by 24.9% from RMB111.7 million in 2012 to RMB139.5 million in 2013, primarily due to (i) an increase of RMB12.2 million, or 33.2%, in our employee benefits and expenses as a result of (x) increases in our number of employees and (y) performance bonuses awarded to employees, in each case to accommodate our efforts to expand and scale up our network, as well as (z) general salary raises and (ii) an increase of RMB11.4 million, or 24.3%, in our pharmaceuticals and consumables used as a result of the increased treatment volume in our network, which required procuring a greater amount of pharmaceuticals and consumables for sale, particularly at our Wenzhou Kangning Hospital.

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Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 47.0% from RMB59.1 million in 2012 to RMB86.9 million in 2013. Our gross profit margin increased from 34.6% to 38.4% in the same years, respectively, primarily due to the diversification of our service portfolio to provide more personalized treatment services.

Other Income

Our other income significantly increased from RMB1.1 million in 2012 to RMB4.7 million in 2013. See “— Description of Major Line Items in Our Consolidated Statements of Comprehensive Income — Other Income.”

Other Gains and Losses

We recorded other losses of RMB0.2 million in 2012. We recorded other gain of RMB0.3 million in 2013, primarily due to the disposal of an asset held for sale.

Selling Expenses

Our selling expenses increased by 88.5% from RMB2.6 million in 2012 to RMB4.9 million in 2013, primarily due to the incurrence of one-off promotional activities relating to newly opened healthcare facilities in 2013.

Administrative Expenses

Our administrative expenses increased by 19.9% from RMB29.1 million in 2012 to RMB34.9 million in 2013, primarily due to (i) an increase of RMB2.6 million, or 19.1%, in our employee benefits and expenses as a result of (x) increases in our management and administrative staff and (y) performance bonuses awarded to employees, in each case to accommodate our efforts to expand and scale up our network and (ii) an increase of RMB1.4 million, or 82.1%, in our depreciation expenses relating to leasehold improvements for healthcare facilities that had not yet commenced operations.

Finance Income

Our finance income decreased by 69.2% from RMB1.3 million in 2012 to RMB0.4 million in 2013, due to interest income on interest-bearing loans to related parties in 2012, which were fully settled by the end of such year.

Finance Expenses

Our finance expenses decreased by 58.1% from RMB11.7 million in 2012 to RMB4.9 million in 2013, primarily due to our full repayment of bank and other borrowings in 2013, resulting in lower interest expenses incurred on such borrowings during the course of the year.

Profit Before Income Tax

As a result of the foregoing, our profit before income tax significantly increased from RMB18.0 million in 2012 to RMB47.6 million in 2013.

FINANCIAL INFORMATION

Income Tax Expenses

Our income tax expenses significantly increased from RMB4.7 million in 2012 to RMB11.4 million in 2013, while our effective tax rate decreased from 26.3% to 23.9% in the same years, respectively.

Net Profit

As a result of the foregoing, our net profit significantly increased from RMB13.2 million in 2012 to RMB36.2 million in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are to fund our working capital and business expansion plans. We also utilize cash to purchase property, plant and equipment. To date, we have primarily financed our operational expenditures through internally generated cash flows, proceeds from the [REDACTED] Investments and external borrowings. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of internally generated cash, external borrowings, proceeds from the [REDACTED] and potential additional equity and debt financing.

We recorded net cash from operating activities of RMB22.6 million, RMB37.1 million and RMB33.3 million in 2012, 2013 and 2014, respectively. The following table sets forth our cash flows for the periods indicated:

	For the year ended December 31,		
	2012	2013	2014
		RMB'000	
Net cash from operating activities	22,608	37,078	33,328
Net cash used in investing activities	(39,315)	(12,885)	(60,663)
Net cash from/used in financing activities . .	18,007	23,751	(2,977)
Cash and cash equivalents at beginning of the period	18,339	19,639	67,583
Net increase/decrease in cash and cash equivalents	1,300	47,944	(30,312)
Cash and cash equivalents at the end of the period	19,639	67,583	37,271

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Net Cash from Operating Activities

In 2014, our net cash from operating activities was RMB33.3 million. We had net cash generated from operating activities before changes in working capital of RMB83.8 million, primarily consisting of profit before tax of RMB68.6 million and adjustments for depreciation of property, plant and equipment of RMB14.2 million. Changes in working capital resulted in cash outflow of RMB32.4 million, primarily consisting of an RMB28.2 million increase in trade and other receivables as a result of increased treatment volume attributable to the continued expansion and scaling up of our network operations. We had further cash outflow of RMB18.1 million attributable to our income tax paid.

In 2013, our net cash from operating activities was RMB37.1 million. We had net cash generated from operating activities before changes in working capital of RMB62.8 million, primarily consisting of profit before tax of RMB47.6 million and adjustments for depreciation of property, plant and equipment of RMB11.7 million and for interest expenses of RMB4.9 million. Changes in working capital resulted in cash outflow of RMB13.8 million, primarily consisting of (i) an RMB9.6 million increase in trade and other receivables as a result of increased treatment volume attributable to the continued expansion and scaling up of our network operations and (ii) an RMB4.4 million increase in amounts due from related parties as a result of management service fees generated in our management of Pingyang Changgeng Ward. We had further cash outflow of RMB7.5 million attributable to interest paid on our bank and other borrowings and RMB4.5 million attributable to our income tax paid.

In 2012, our net cash from operating activities was RMB22.6 million. We had net cash generated from operating activities before changes in working capital of RMB35.6 million, primarily consisting of profit before tax of RMB18.0 million and adjustments for interest expenses of RMB11.7 million and for depreciation of property, plant and equipment of RMB7.5 million. Changes in working capital resulted in cash inflow of RMB0.5 million, primarily consisting of an RMB10.3 million increase in trade and other payables relating to our procurement of construction services for the expansion of our healthcare facility network, partially offset by an increase of RMB8.3 million in trade and other receivables as a result of increased treatment volume attributable to the continued expansion and scaling up of our network operations. We had further cash outflow of RMB9.1 million attributable to interest paid on our bank and other borrowings and RMB4.4 million attributable to income tax paid.

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Net Cash Used in Investing Activities

In 2014, our net cash used in investing activities was RMB60.7 million, primarily due to purchases of property, plant and equipment of RMB60.9 million, consisting of amounts paid and prepaid to renovate and upgrade Wenzhou Kangning Hospital and for medical, office and other equipment for our healthcare facilities.

In 2013, our net cash used in investing activities was RMB12.9 million, primarily due to (i) purchases of property, plant and equipment of RMB43.7 million, consisting of amounts paid and prepaid for medical, office and other equipment for our healthcare facilities and (ii) purchases of land use rights of RMB14.0 million attributable to our acquisition of the land use rights to the land adjacent to Wenzhou Kangning Hospital as part of our renovation and upgrade plans, partially offset by (i) proceeds from the disposal of assets held for sale of RMB12.3 million, (ii) receipts of government grants for purchasing of assets of RMB10.6 million attributable to subsidies received to renovate and upgrade Wenzhou Kangning Hospital and for our research expenses and (iii) repayment of a loan by a third party of RMB9.4 million.

In 2012, our net cash used in investing activities was RMB39.3 million, primarily due to purchases of property, plant and equipment of RMB34.6 million, consisting of amounts paid and prepaid for medical, office and other equipment for our healthcare facilities.

Net Cash from Financing Activities

In 2014, our net cash used in financing activities was RMB3.0 million, primarily due to (i) prepayment of [REDACTED] fee of RMB3.5 million attributable to expenses relating to the [REDACTED] and (ii) deposits received from a non-controlling shareholder of RMB0.5 million attributable to an independent third party’s investment in our Linhai Kangning Hospital, which is currently under development.

In 2013, our net cash from financing activities was RMB23.8 million, primarily due to proceeds from issuance of share capital of RMB148.6 million attributable to capital injections from the [REDACTED] Investments, partially offset by repayment of borrowings of RMB121.5 million attributable to our full repayment of outstanding bank and other borrowings.

In 2012, our net cash from financing activities was RMB18.0 million, primarily due to proceeds of borrowings of RMB118.2 million attributable from bank and other borrowings obtained to finance our network expansion plans, partially offset by repayment of borrowings of RMB96.2 million attributable to our repayment of bank and other borrowings.

FINANCIAL INFORMATION

Net Current Liabilities/Assets

We had net current liabilities of RMB68.8 million as of December 31, 2012, and net current assets of RMB95.2 million and RMB86.2 million as of December 31, 2013 and 2014, respectively. The following table sets forth, as of the dates indicated, a breakdown of our current assets and current liabilities:

	As of December 31,			As of April 30,
	2012	2013	2014	2015
	RMB'000			(unaudited)
Current assets				
Assets held for sale	11,955	–	–	–
Inventories	7,192	7,302	7,911	8,690
Trade receivables	52,029	63,145	84,532	106,036
Other receivables, deposits and prepayments	17,916	17,541	27,340	74,232
Amounts due from related parties	17,498	9,432	13,502	9,762
Cash and cash equivalents . .	19,639	67,583	37,271	60,173
Total current assets	126,229	165,003	170,556	258,893
Current liabilities				
Trade payables	27,702	25,265	23,829	36,489
Accruals, other payables and provisions	39,432	31,829	47,340	43,508
Amounts due to related parties	4,997	423	–	–
Borrowings	118,236	–	–	–
Current income tax liabilities	4,670	12,255	13,236	7,886
Total current liabilities	195,037	69,772	84,405	87,883
Net current (liabilities)/assets . .	(68,808)	95,231	86,151	171,010

Our net current assets decreased by 9.5% from RMB95.2 million as of December 31, 2013 to RMB86.2 million as of December 31, 2014, primarily due a decrease in our cash and cash equivalents and an increase in our accruals, other payables and provisions, partially offset by increases in our trade receivables and other receivables, deposits and prepayments. We recorded net current liabilities of RMB68.8 million as of December 31, 2012, primarily due to current borrowings of RMB118.2 million as of the same date, much of which we used to purchase non-current assets in order to execute our network expansion plans, in particular property, plant and equipment to prepare and ramp up our healthcare facilities that we had recently opened at the time.

Working Capital

We finance our working capital needs primarily through our cash generated from operations as well as external borrowings. In addition, we have a credit facility commitment of RMB160.0 million from China CITIC Bank, and have not drawn down any amounts as of April 30, 2015.

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Our ability to obtain additional funding required for increased capital expenditure in the future is subject to a variety of uncertainties, including the future results of our operations, our financial condition and cash flows and economic, political and other conditions in China, especially in relation to the market in which we compete. Taking into account the financial resources available to us, including our internally generated cash, the committed, unutilized credit facilities available to us and the estimated net proceeds from the [REDACTED], our Directors, after due and careful inquiry, are of the view that we have sufficient available working capital for our present requirements for at least the next 12 months from the date of this [REDACTED].

Our Directors further confirm that, during the Track Record Period, we did not have any material default in the payment of our trade and other payables or bank and other borrowings, nor did we breach any material financial covenants.

DESCRIPTION OF MAJOR LINE ITEMS IN OUR CONSOLIDATED BALANCE SHEETS

Inventories

Our inventories consist of pharmaceuticals and medical consumables. The table below sets forth, as of the dates indicated, a breakdown of our inventories:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Pharmaceuticals	6,462	5,383	6,477
Medical consumables	730	1,919	1,434
Total	7,192	7,302	7,911

Costs incurred in the procurement of our inventories are recognized in our cost of revenue and amounted to RMB46.8 million, RMB58.2 million and RMB75.4 million in 2012, 2013 and 2014, respectively. The table below sets forth, for the periods indicated, our average inventories turnover days:

	Year ended December 31,		
	2012	2013	2014
Average inventories turnover days	25	19	15

Note:

- (1) Average inventories turnover days is calculated as the average of the opening and closing balances of inventories for the relevant period, divided by cost of revenue and multiplied by 365 days.

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We aim to maintain low average inventories turnover days in order to more efficiently control our cash requirements. We generally consume inventories in the ordinary course of business within three to five weeks of receipt. The decrease in our average inventories turnover days over the Track Record Period primarily reflects the improvement in our inventory management, centralization of our procurement source and the increase in our procurement from large-scale pharmaceutical distributors, who have more regular settlement and delivery cycles, as a proportion of our overall procurement. For example, in 2013, we entered into a supply arrangement with Sinopharm under which Sinopharm became the supplier for a majority of our pharmaceuticals and medical consumables. Going forward, we expect our inventory procurement to increase in line with the expansion of our business, while maintaining low average inventories days to optimize our procurement efficiency. We regularly assess our inventories for impairment and charge any write-downs to our administrative expenses.

Trade Receivables

Our trade receivables primarily consist of accounts receivable from PRC government medical insurance programs, supplemental civil administration funds for low-income patients, charities and patients out-of-pocket. Typically, government medical insurance programs settle accounts receivable with us at approximately one to six months following the billing date. In comparison, payments from supplemental civil administration funds may require one to two years. With respect to inpatients, there is a timing gap of up to three months between revenue recognition and the billing date, largely depending on the inpatients' length of stay at our facilities.

The table below sets forth, as of the dates indicated, an aging analysis of our trade receivables:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Aging analysis based on the billing date:			
Bills not presented	7,338	8,633	9,927
1-6 months	34,407	44,183	58,776
7-12 months	6,565	8,972	14,635
1-2 years	5,904	4,145	4,574
2-3 years	656	877	1,544
Over 3 years	158	34	81
	55,028	66,844	89,537

Our trade receivables increased by 21.5% from RMB55.0 million as of December 31, 2012 to RMB66.8 million as of December 31, 2013, and further increased by 33.9% to RMB89.5 million as of December 31, 2014, in each case primarily due to (i) the increase in our revenue over the same years in line with the scaling up of our healthcare facility network and (ii) the increase in the absolute amount of trade receivables attributable to medical insurance programs.

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We maintain strict control over our outstanding receivables, and our management regularly reviews overdue balances. As of December 31, 2012, 2013 and 2014, we had trade receivables past due but not impaired of RMB43.1 million, RMB52.7 million and RMB73.4 million, respectively. Such trade receivables were primarily attributable to local social insurance bureaus and other government bodies which are responsible for the reimbursement of medical expenses for patients covered by government medical insurance schemes. Our management considers that based on past payment history from such sources, these amounts can be recovered in a reasonable period of time.

Our impaired trade receivables amounted to RMB4.6 million, RMB5.5 million and RMB6.2 million as of December 31, 2012, 2013 and 2014, respectively, for which we recognized a provision for impairment of RMB3.0 million, RMB3.7 million and RMB5.0 million as of the same dates, respectively. Our provision for impairment of trade receivables primarily represent medical bills attributable to underinsured or underserved patients that we have deemed to be not recoverable and thus have decided to make provisions for. See “Risk Factors — Risks Relating to Our Business and Industry — We experience a long collection cycle on our trade receivables due to our reliance on public medical insurance to settle a significant portion of our medical bill payments, and face collection risks with respect to uninsured and underinsured patients, both of which may exert pressure on our cash flow.” We charge provisions for impairment of trade receivables to our administrative expenses.

The table below sets forth, for the periods indicated, our average trade receivables turnover days:

	Year ended December 31,		
	2012	2013	2014
Average trade receivables turnover days . . .	101	93	91

Note:

- (1) Average trade receivables turnover days is calculated as the average of the opening and closing balances of trade receivables for the relevant period, divided by revenue and multiplied by 365 days.

The various settlement cycles of our payers are reflected in our average trade receivables turnover days. In line with our rapid network expansion, our revenue growth outpaced the growth in trade receivables as a result of timing differences between when we recognize revenue and when we issue medical bills, particularly with respect to inpatients, which resulted in a decrease in average trade receivables turnover days over the Track Record Period.

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Other Receivables, Deposits and Prepayments

Our other receivables, deposits and prepayments primarily consist of deposits, prepayments for decoration costs, prepayments for rental expenses and other receivables. The table below sets forth, as of the dates indicated, a breakdown of the components of our total other receivables, deposits and prepayments:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Other receivables	12,173	1,786	1,408
Deposits	4,920	16,584	16,823
Prepayments			
For construction in progress	2,080	55	1,216
For rental expenses	1,792	11,171	16,686
For goods and services	–	495	1,511
For [REDACTED] fee	–	–	3,477
Others	214	253	123
Subtotal	4,086	11,974	23,013
Total	21,179	30,344	41,244

Our total other receivables, deposits and prepayments increased by 42.9% from RMB21.2 million as of December 31, 2012 to RMB30.3 million as of December 31, 2013, primarily due to increases in (i) our deposits as a result of security deposits refundable to us from construction contractors providing construction, renovation and decoration services to our hospitals and (ii) our prepayments for rental expenses in line with the commencement of operations of newly opened healthcare facilities, partially offset by a decrease in other receivables as a result of payments received from the borrowers, whom primarily consisted of certain relatives of our officers and directors. Our other receivables, deposits and prepayments further increased by 36.0% to RMB41.2 million as of December 31, 2014, primarily due to the increase in our prepayments for rental expenses with respect to properties underlying Beijing Yining Hospital and Linhai Kangning Hospital.

The table below sets forth, as of the dates indicated, a breakdown of our other receivables, deposits and prepayments by current and non-current status:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Current	17,916	17,541	27,340
Non-current	3,263	12,803	13,904
Total	21,179	30,344	41,244

FINANCIAL INFORMATION

Trade Payables

Our trade payables primarily consist of amounts due to suppliers of our pharmaceuticals and medical consumables. We settle our trade payables in accordance with the terms of our supply agreements, and enjoy credit periods ranging from 90 to 180 days or more with certain of our suppliers. See “Business — Our Suppliers.” The table below sets forth, as of the dates indicated, an aging analysis of our trade payables based on invoice date:

	As of December 31,		
	2012	2013	2014
		RMB'000	
One to three months	17,671	17,889	17,458
Four to six months	7,984	5,193	3,190
Seven to 12 months	974	756	1,823
One to two years	401	971	713
Two to three years	323	254	342
Over three years	349	202	303
Total	27,702	25,265	23,829

Our trade payables decreased by 8.8% from RMB27.7 million as of December 31, 2012 to RMB25.3 million as of December 31, 2013, and further decreased by 5.7% to RMB23.8 million as of December 31, 2014, in each case primarily due to the consolidation of our inventory procurement towards a few major suppliers for our pharmaceuticals, in particular Sinopharm since 2013, rather than a large number of smaller suppliers, which has improved our access to discounts through bulk purchasing as well as procurement efficiency. As a result, our procurement costs have increased year-on-year in line with our operational expansion and scaling up, while our balance of trade payables has decreased as of the end of each such year. See “— Description of Major Line Items in Our Consolidated Balance Sheets — Inventories.” Such decreases have also resulted in corresponding decreases in our average trade payables turnover days during the Track Record Period. The table below sets forth, for the years indicated, our average trade payables turnover days:

	Year ended December 31,		
	2012	2013	2014
Average trade payables turnover days	73	69	49

Note:

- (1) Average trade payables turnover days is calculated as the average of the opening and closing balances of trade payables for the relevant period, divided by cost of revenue and multiplied by 365 days.

Sinopharm provides us with a credit period of 75 days, which is a shorter period than those of most other suppliers that we have historically utilized. As a result, our average trade payables turnover days decreased slightly in 2013 compared to 2012, but more significantly in 2014 as Sinopharm became our largest supplier.

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Accruals, Other Payables and Provisions

Our accruals, other payables and provisions primarily consist of accrued employee benefits, deposits received from construction contractors, payables for decoration fees and rental payable. The table below sets forth, as of the dates indicated, a breakdown of our accruals, other payables and provisions:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Accrued employee benefits	10,744	13,261	17,939
Guarantee deposits received from construction contractors	–	12,688	12,688
Other payables for property, plant and equipment	17,346	8,307	19,916
Receipts in advance	3,705	4,312	3,416
Rental payable	2,920	2,708	3,362
Accrued interest payable	2,575	–	–
Tax payable other than current income tax .	531	610	641
Deposits received from a third party	–	1,000	1,500
Others	1,611	1,631	566
Total	39,432	44,517	60,028

Our accruals, other payables and provisions increased by 12.9% from RMB39.4 million as of December 31, 2012 to RMB44.5 million as of December 31, 2013, primarily due to increases in (i) guarantee deposits received from construction contractors attributable to deposits received from construction contractors to secure service contracts with us and (ii) accrued employee benefits, which mainly consist of PRC social insurance, as a result of year-on-year accrual of such benefits, partially offset by a decrease in other payables for property, plant and equipment as a result of infrastructure investments in our Wenzhou Kangning Hospital in 2012 in order to earn Grade A Class III hospital classification. Our accruals, other payables and provisions further increased by 34.8% to RMB60.0 million as of December 31, 2014, primarily due to increases in (i) other payables for property, plant and equipment attributable to purchases of renovation and decoration services and equipment for the scaling up of our healthcare facility network and (ii) accrued employee benefits as a result of year-on-year accrual of such benefits.

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INDEBTEDNESS

Bank and Other Borrowings

We incurred interest-bearing borrowings to finance our working capital and capital expenditure requirements. The table below sets forth the maturity profile of our bank and other borrowings as of the dates indicated:

	As of December 31,			As of April 30,
	2012	2013	2014	2015
		RMB'000		
Within one year	118,236	–	–	–
One to two years	3,270	–	–	–
Total	121,506	–	–	–

We recorded borrowings as of December 31, 2012 and we did not have any borrowings as of December 31, 2013 and 2014 and April 30, 2015. In 2012, our borrowings primarily consisted of (i) current, unsecured borrowings from certain individuals, which amounted to RMB75.6 million as of December 31, 2012, and (ii) current, unsecured bank borrowings from banking institutions, which amounted to RMB38.0 million as of the same date and were guaranteed by Mr. Guan Weili, Ms. Wang Liangyue and Ms. Wang Hongyue. We used such borrowings to finance our network expansion plans, in particular construction, renovation, and land leasing costs with respect to our Cangnan Kangning Hospital, Yongjia Kangning Hospital and Qingtian Kangning Hospital. We repaid all of our bank and other borrowings in 2013.

The table below sets forth, for the years indicated, the weighted average effective interest rates per annum on our borrowings, which were based on the applicable PBOC benchmark interest rate:

	Year ended December 31,		
	2012	2013	2014
Bank borrowings	7.78%	–	–
Other borrowings	13.26%	–	–

Going forward, we may utilize bank borrowings for our further expansion and scaling up plans. We have a credit facility commitment of RMB160.0 million from China CITIC Bank, and have not drawn down any amounts as of April 30, 2015. The applicable interest rates for each credit facility will be the PBOC benchmark interest rate in effect at the time of draw-down.

Indebtedness Statement

As of April 30, 2015, being the latest practicable date for the purpose of the indebtedness statement:

- (i) We had no outstanding interest-bearing bank and other borrowings;

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- (ii) We had unutilized banking facilities of approximately RMB160.0 million, which were committed and without uncommon restriction on draw-down; and
- (iii) We had no other debt securities, borrowings, debts, mortgages, contingent liabilities or guarantees.

Since December 31, 2014, being the date of our most recent audited financial statements, there has been no material adverse change to our indebtedness.

RELATED PARTY TRANSACTIONS

The largest component of our related party transactions consisted of the management service fees received from Pingyang Changgeng Ward, for which the cooperation hospital, Pingyang Changgeng Hospital, was an associate of our Controlling Shareholders. We recognized revenue attributable to management service fees from Pingyang Changgeng Ward of RMB6.0 million, RMB7.6 million and RMB10.3 million in 2012, 2013 and 2014, respectively. In April 2015, our Controlling Shareholders fully disposed of their equity interest in Pingyang Changgeng Hospital, which thereafter became an independent third party of our Group.

Other material related party transactions during the Track Record Period included: (i) receipt of related party loans of RMB4.2 million in 2012, (ii) interest income of RMB0.7 million in 2012 from loans made to related parties, which were fully repaid in 2013 and (iii) prepaid expenses of RMB1.3 million in 2014 on behalf of non-profit organizations we established for our corporate social responsibility functions.

Amounts Due from Related Parties

Our amounts due from related parties decreased by 46.3% from RMB17.5 million as of December 31, 2012 to RMB9.4 million as of December 31, 2013, primarily due to the settlement of amounts payable to us from certain relatives of our senior management, partially offset by an increase in amounts due from Pingyang Changgeng Hospital as a result of management service fees generated from our management of Pingyang Changgeng Ward, which had not yet been paid to us. Our amounts due from related parties then increased by 43.6% to RMB13.5 million as of December 31, 2014, primarily due to increases in (i) amounts due from Pingyang Changgeng Hospital as a result of management service fees generated from our management of Pingyang Changgeng Ward, which had not yet been paid to us and (ii) amounts due from certain clinics associated with our healthcare facilities as a result of our efforts to commence and ramp up their operations.

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Amounts Due to Related Parties

Our amounts due to related parties were RMB5.0 million, RMB0.4 million and nil as of December 31, 2012, 2013 and 2014, in each case primarily consisting of amounts due to Wenzhou Kangning Investment Company Limited, which related to amounts borrowed to finance our working capital and network expansion efforts at the time. The interest rates on our amounts due to related parties ranged from 5.6% to 6.4% per annum.

Other than as disclosed above, we did not have any other material related party transactions. Our Directors confirm that all amounts due from and due to related parties will be settled in full prior to the [REDACTED].

CAPITAL EXPENDITURE

During the Track Record Period, our capital expenditure primarily consisted of expenditures on (i) property, plant and equipment, comprising buildings and construction, leasehold improvements, medical equipment, furniture and office equipment and motor vehicles, (ii) land use rights and (iii) intangible assets. The table below sets forth, for the years indicated, our capital expenditure:

	Year ended December 31,		
	2012	2013	2014
		RMB'000	
Buildings	13,584	5,487	738
Construction in progress	1,488	7,790	60,388
Leasehold improvements	37,789	8,511	5,449
Medical equipment	7,468	2,722	3,303
Furniture and office equipment	5,387	3,096	2,976
Motor vehicles	533	452	114
Land use rights	–	14,040	–
Intangible assets	1,151	296	541
Total capital expenditure	67,400	42,394	73,509

We have financed our capital expenditure primarily through bank and other borrowings, cash generated from our operations and funds provided through capital injections from the [REDACTED] Investments.

FINANCIAL INFORMATION

OPERATING LEASE ARRANGEMENTS AND CAPITAL COMMITMENTS

Operating Lease Arrangements

Our operating lease arrangements are attributable to the underlying properties for our self-operated healthcare facilities that we lease from independent third parties. The table below sets forth, as of the dates indicated, the future aggregate minimum lease payments under non-cancellable lease agreements:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Not later than one year	9,151	15,733	26,654
Later than one year and not later than five years	71,079	83,261	80,867
Later than five years	181,291	153,375	129,116
Total	261,521	252,369	236,637

Capital Commitments

Our capital commitments consist of our commitments for (i) the construction of buildings as part of our renovation and upgrade plans for Wenzhou Kangning Hospital and (ii) purchases of property, plant and equipment for our healthcare facility network. The table below sets forth, as of the dates indicated, a breakdown of our capital commitments:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Construction of buildings	1,372	127,246	86,130
Leasehold improvements	–	–	1,784
Property, plant and equipment	–	129	794
Total	1,372	127,375	88,708

Committed Investments in Subsidiaries

Our commitments for investing in subsidiaries primarily represented commitments for Shenzhen Yining Hospital and Linhai Kangning Hospital:

	As of December 31,		
	2012	2013	2014
		RMB'000	
Not later than one year	–	–	8,600
Later than one year	–	–	2,400
	–	–	11,000

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following tables set forth certain of our key financial ratios as of the dates and for the periods indicated:

	As of and for the year ended December 31,		
	2012	2013	2014
Current ratio ⁽¹⁾	0.65	2.36	2.02
Gearing ratio ⁽²⁾	4.23	N/A	N/A
Return on equity ⁽³⁾	55.0%	17.3%	19.6%
Return on total assets ⁽⁴⁾	5.8%	11.8%	13.8%

Notes:

- (1) Calculated as current assets divided by current liabilities as of the end of the year.
- (2) Calculated as total interest-bearing bank and other borrowings, net of cash and cash equivalents, divided by equity attributable to owners of the Company. We did not have any bank and other borrowings as of December 31, 2013 and 2014.
- (3) Calculated as net profit for the year divided by total equity, multiplied by 100%.
- (4) Calculated as net profit for the year divided by total assets, multiplied by 100%.

Current Ratio

Our current ratio significantly increased from 0.65 as of December 31, 2012 to 2.36 as of December 31, 2013, primarily due to the full repayment of our bank and other borrowings in 2013 and increases in our cash and cash equivalents and other receivables, deposits and prepayments, partially offset by a decrease in our amounts due from related parties. Our current ratio then decreased to 2.02 as of December 31, 2014, primarily due to an increase in our trade payables and a decrease in our cash and cash equivalents, partially offset by increases in our trade receivables and other receivables, deposits and prepayments.

Gearing Ratio

Our gearing ratio was 4.23 as of December 31, 2012. We did not have any bank and other borrowings as of December 31, 2013 and 2014 due to the full repayment of our bank and other borrowings prior to the end of 2013.

Return on Equity

Our return on equity decreased from 55.0% as of December 31, 2012 to 17.3% as of December 31, 2013, primarily due to a significant increase in our share premium as a result of shares issued for capital injections from the [REDACTED] Investments in 2013, partially offset by the increase in our net profit. Our return on equity then increased to 19.6% as of December 31, 2014, primarily due to the increase in our net profit.

Return on Total Assets

Our return on total assets increased from 5.8% as of December 31, 2012 to 11.8% as of December 31, 2013, primarily due to a significant increase in our net profit, partially offset by the increases in our cash and cash equivalents and other receivables, deposits and

FINANCIAL INFORMATION

prepayments. Our return on total assets further increased to 13.8% as of December 31, 2014, primarily due to the increase in our net profit, partially offset by the increases in our property, plant and equipment and other receivables, deposits and prepayments.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

Our activities expose us to a variety of financial risk factors: market risk (in particular interest rate risk with respect to cash flow and fair value), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management and approved by our Board of Directors.

Market Risk

Foreign Exchange Risk

We operate in the PRC and the transactions and balances are denominated in RMB which is our presentation and functional currency. The foreign exchange risk to the our financial performance is low.

Cash Flow and Fair Value Interest Rate Risk

Our interest rate risk arises from interest-bearing short-term deposits and bank borrowings. Bank borrowings obtained at variable rates expose us to cash flow interest rate risk which is partially offset by short-term deposits and cash held at bank at variable rates. Bank borrowings at fixed rates expose us to fair value interest rate risk.

Other than interest-bearing short-term deposits, we have no other significant interest-bearing assets. Our Directors do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of short-term deposit are not expected to change significantly.

As of December 31, 2012, 2013 and 2014, our interest-bearing borrowings at fixed rates were as follows:

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Borrowings at fixed rate	121,506	–	–

For the years ended December 31, 2012, 2013 and 2014, if the fixed interest rate on borrowings had been higher/lower by 50 basis points with all other variables held constant, the fair value of the borrowings would have changed mainly as a result of higher/lower interest expense on fixed rate borrowings. Details of changes are as follows:

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Increase/(decrease)			
– increase 50 basis points	404	–	–
– decrease 50 basis points	(404)	–	–
	–	–	–

FINANCIAL INFORMATION

Price Risk

We are not exposed to significant commodity price risk nor hold any financial investments.

Credit Risk

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

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

We, being a provider of healthcare services to patients, have a highly diversified customer base, without any single customer contributing material revenue. However, we have concentrated debtors portfolio, as a majority of our patients will claim their medical bills from governments' social insurance schemes. Certain patients' costs will be reimbursed by other government bodies. The reimbursement from these organizations may take one to six months. We have policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. We also have controls to closely monitor the patients' billings and claim status to minimum the credit risk.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of other receivables.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents to meet operating capital requirements.

FINANCIAL INFORMATION

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2012					
Borrowings (principal plus interests) . . .	129,096	4,062	–	–	133,158
Trade and other payables (excluding accrued employee benefit, advances received from customers and other taxes payable)	52,154	–	–	–	52,154
Amounts due to related parties	4,997	–	–	–	4,997
	186,247	4,062	–	–	190,309
As of December 31, 2013					
Trade and other payables (excluding accrued employee benefit, advances received from customers and other taxes payable)	38,911	–	12,688	–	51,599
Amounts due to related parties	423	–	–	–	423
	39,334	–	12,688	–	52,022
As of December 31, 2014					
Trade and other payables (excluding accrued employee benefit, advances received from customers and other taxes payable)	49,173	–	12,688	–	61,861

PROPERTY VALUATION

The particulars of our properties are set out in “Business” and in “Appendix VI — Property Valuation Report.” Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the properties as of April 30, 2015. A full list of properties and a summary of the values issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited is included in “Appendix VI — Property Valuation Report.” The full set valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited will be available for inspection at the offices of Kirkland & Ellis as described in Appendix VIII to this [REDACTED].

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A reconciliation of the net book value of our properties as of December 31, 2014 as set out in “Appendix I — Accountant’s Report” to their fair value as of April 30, 2015 as stated in the property valuation report set out in “Appendix VI — Property Valuation Report” is set out below:

	RMB’000
Net book value of following properties as of December 31, 2014	
Buildings	34,362
Construction in progress	49,886
Land use rights	21,210
	105,458
Add: Additions during the period from January 1, 2015 to April 30, 2015	2,724
Less: Depreciation and amortization during the period from January 1, 2015 to April 30, 2015	(622)
Net book value of properties as of April 30, 2015	107,560
Valuation surplus	47,997
Valuation as of April 30, 2015 as set out in the property valuation report in Appendix VI of this [REDACTED]	155,557

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DIVIDENDS AND DIVIDEND POLICY

We did not pay any dividends in the three years ended December 31, 2012, 2013 and 2014. We declared a dividend of RMB18.5 million on May 11, 2015, which we intend to pay prior to the [REDACTED]. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon various factors, such as our future operations and earnings, capital requirements and surplus, general financial condition, debt covenants and other factors that our Directors deem relevant.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. We and our subsidiaries are required under the PRC Company Law to appropriate 10% of our after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. PRC laws also require our subsidiaries in the PRC to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions may also be restricted if we or any of our subsidiaries incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our subsidiaries may enter into in the future.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As of December 31, 2014, the Company had distributable reserves of RMB30.1 million.

[REDACTED] EXPENSES

The total estimated [REDACTED] expenses in relation to the [REDACTED] are expected to be RMB[REDACTED] million (based on the mid-point of our indicative price range for the [REDACTED] and assuming that the [REDACTED] is not exercised), of which RMB[REDACTED] million will be deducted from gross proceeds from the [REDACTED] and accounted for as a deduction from equity and RMB[REDACTED] million will be recorded in our consolidated statement of comprehensive income for the year ending December 31, 2015.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this [REDACTED], there has been no material adverse change in our financial or trading position or prospects since December 31, 2014, being the date on which our latest audited consolidated financial information were prepared, and there is no event since December 31, 2014 which would materially affect the information as set out in the Accountant's Report in Appendix I to this [REDACTED].

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this [REDACTED], as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF OUR GROUP

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to equity owners of the Company as of December 31, 2014 as if the [REDACTED] had taken place on December 31, 2014.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of December 31, 2014 or at any future dates following the [REDACTED]. It is prepared based on the audited consolidated net tangible assets of our Group as of December 31, 2014 as set out in the Accountant's Report of

FINANCIAL INFORMATION

our Group, the text of which is set out in Appendix I to this [REDACTED], and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant’s Report.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2014 ⁽¹⁾⁽²⁾		Unaudited pro forma adjusted net tangible assets attributable to owners of our Company as of December 31, 2014		Unaudited pro forma adjusted net tangible assets per H Share ⁽⁴⁾⁽⁵⁾⁽⁶⁾	
	RMB’000	Estimated net proceeds from the [REDACTED] ⁽³⁾ RMB’000	RMB’000		RMB	HK\$
Based on an [REDACTED] of HK\$[REDACTED] per H Share	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per H Share	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets attributable to the equity owners of the Company as of December 31, 2014 is extracted from the Accountant’s Report set out in Appendix I to this [REDACTED], which is based on the audited consolidated net assets of the Group attributable to the equity owners of the Company as of December 31, 2014 of approximately RMB261,090,000 with an adjustment for the intangible assets as of December 31, 2014 of RMB1,229,000.
- (2) The Group’s land use rights and buildings as of April 30, 2015 were revalued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix VI — Property Valuation Report. The net valuation surplus, representing the excess of market value of the land use rights and buildings over their carrying value amounting to RMB88,782,000, has not been included in the consolidated net tangible assets of the Group attributable to the equity holders of the Company as of December 31, 2014. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, an additional depreciation of RMB824,000 per annum in respect of the revaluation surplus, before income taxes, would be charged against the consolidated statement of comprehensive income.
- (3) The estimated net proceeds from the [REDACTED] are based on the indicative [REDACTED] of [REDACTED] and [REDACTED] per H Share respectively. After deduction of the estimated underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of [REDACTED] or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (4) The unaudited pro forma adjusted net tangible assets per H Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of [REDACTED] H Shares in issue assuming that the [REDACTED] has been completed on December 31, 2014, but without taking into account any H Shares which may fall to be issued upon the exercise of the [REDACTED] or any H Share which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to December 31, 2014. In particular, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account:
 - (i) a dividend of RMB18,480,000 declared by our Company on May 11, 2015. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per H Share would be HK\$[REDACTED] (assuming at an [REDACTED] of HK\$[REDACTED] per H Share) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share) respectively.
 - (ii) capital increase of RMB78,400,000 contributed by CDH and GL on March 18, 2015. Had the capital contribution been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per H Share would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share) and HK\$[REDACTED] (assuming an an [REDACTED] of HK\$[REDACTED] per H Shares) respectively.
- (6) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.7890.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For a detailed description of our future plans, see “Business — Our Business Strategies.”

USE OF PROCEEDS

We estimate that we will receive net proceeds of the [REDACTED], after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the [REDACTED] in the amount of:

- approximately HK\$[REDACTED] million, if the [REDACTED] is not exercised or HK\$[REDACTED] million, if the [REDACTED] is exercised in full (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the low-end of the proposed [REDACTED] range);
- approximately HK\$[REDACTED] million, if the [REDACTED] is not exercised or HK\$[REDACTED] million, if the [REDACTED] is exercised in full (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED] range); or
- approximately HK\$[REDACTED] million, if the [REDACTED] is not exercised or HK\$[REDACTED] million, if the [REDACTED] is exercised in full (assuming an [REDACTED] of HK\$[REDACTED], being the high-end of the proposed [REDACTED] range).

We intend to use these net proceeds for the following purposes, assuming an [REDACTED] of [REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED] range and assuming no exercise of the [REDACTED]:

- approximately [REDACTED]% or HK\$[REDACTED] million will be used to expand and ramp up our healthcare facility network and operating capacity by leveraging our diversified expansion model in regions with underserved demand for psychiatric healthcare services. As of the Latest Practicable Date, with respect to the proceeds expected to be received from the [REDACTED], we had not identified any geographic location for the purposes of establishing or investing in new hospitals, nor had we identified any third party hospitals for entering into management agreements;
- approximately [REDACTED]% or HK\$[REDACTED] million will be used to finance renovation and upgrades for Wenzhou Kangning Hospital in order to expand its operating capacity and premium service capability;
- approximately [REDACTED]% or HK\$[REDACTED] million will be used for research, teaching and personnel training purposes, including expanding our collaboration with selected psychiatric healthcare institutions and universities both in the PRC and abroad;
- approximately [REDACTED]% or HK\$[REDACTED] million will be used to develop our mobile and online platforms for medical consultation and upgrade our information technology infrastructure, which we believe will further strengthen our brand awareness and patient outreach capability; and

FUTURE PLANS AND USE OF PROCEEDS

- approximately [REDACTED]% or HK\$[REDACTED] million will be used for working capital and other general corporate purposes.

To the extent our net proceeds are not sufficient to fund the purposes set out above, we intend to fund the balance through a variety of means, including cash generated from operations and bank financing.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions and/or licensed banks in Hong Kong or the PRC.

UNDERWRITING

HONG KONG UNDERWRITERS

[REDACTED]

UNDERWRITING ARRANGEMENTS AND EXPENSES

[REDACTED]

Hong Kong Underwriting Agreement

[REDACTED]

UNDERWRITING

Grounds for Termination

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

[REDACTED]

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company will not, any time within six months from the [REDACTED] Date, issue any Shares or other securities convertible into equity securities (whether or not of a class already listed) of our Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the [REDACTED] Date), except pursuant to the [REDACTED] or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertakings by our Controlling Shareholders

[REDACTED]

UNDERWRITING

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

[REDACTED]

Undertaking by the controlling shareholders

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

International Underwriting Agreement

[REDACTED]

Indemnity

[REDACTED]

Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of [REDACTED]% of the aggregate [REDACTED] payable for the [REDACTED] initially offered under the [REDACTED], out of which they will pay any sub-underwriting commission. For unsubscribed [REDACTED] reallocated to the [REDACTED], our Company will pay an underwriting commission at the rate applicable to the [REDACTED] and such commission will be paid to the [Joint Bookrunners] and the relevant International Underwriters (but not the Hong Kong Underwriters).

Assuming the [REDACTED] is not exercised at all and based on an [REDACTED] of HK\$[REDACTED], being the mid-point of the [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share, the fees and commissions in connection with the [REDACTED] and the [REDACTED], together with the Stock Exchange trading fee, the SFC transaction

UNDERWRITING

levy, legal and other professional fees, printing and other expenses relating to the [REDACTED], are estimated to amount to approximately HK\$[REDACTED] million in aggregate. Such commissions, the Stock Exchange trading fee and the SFC transaction levy are payable and borne by us. The fees and expenses of our professional advisers and service providers engaged by us in relation to the [REDACTED] will be borne by us. We will reimburse the [Joint Global Coordinators] (on behalf of the Underwriters) and the Joint Sponsors for expenses they incurred in relation to the [REDACTED].

Underwriters’ Interests in our Company

Save for their respective obligations under the Underwriting Agreements and save as otherwise disclosed in this [REDACTED], none of the Underwriters is interested legally or beneficially in any shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group in the [REDACTED].

Sponsors’ Independence

The Joint Sponsors satisfies the independence criteria applicable to Sponsors set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

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[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this [REDACTED]. It is prepared and addressed to the directors of the Company and to the Sponsors pursuant to the requirements of Auditing Guideline 3.340 “[REDACTED] and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

[Date]

The Directors

Wenzhou Kangning Hospital Co., Ltd.

[Citigroup Global Markets Asia Limited]

[CITIC CLSA Capital Markets Limited]

Dear Sirs,

We report on the financial information of Wenzhou Kangning Hospital Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated balance sheets as at 31 December 2012, 2013 and 2014, the balance sheets of the Company as at 31 December 2012, 2013 and 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2012, 2013 and 2014 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the [REDACTED] of the Company dated [Date] (the “[REDACTED]”) in connection with the [REDACTED] of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital (溫州市康寧精神康復醫院) in the People’s Republic of China (the “PRC”) on 7 February 1996. On 15 October 2014, the Company was converted into a joint stock limited company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司), with a registered capital of RMB50,000,000 under the Company Law of the PRC.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. The nature of these subsidiaries are shown in Note 1 of Section II below.

The Company and its subsidiaries have adopted 31 December as their financial year end date. The audited financial statements of the Company and its subsidiaries as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC. The details of the statutory auditors of the companies are set out in Note 1 of Section II below.

APPENDIX I

ACCOUNTANT’S REPORT

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISAs”) issued by the International Auditing and Assurance Standards Board pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “[REDACTED] and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Opinion

[In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2012, 2013 and 2014 and of the Group’s results and cash flows for the Relevant Periods then ended.]

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I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2012, 2013 and 2014 and for each of the years ended 31 December 2012, 2013 and 2014 (the “Financial Information”).

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
ASSETS				
Non-current assets				
Property, plant and equipment	5	85,823	102,172	160,799
Land use rights	6	8,020	21,682	21,210
Intangible assets	7	1,067	1,063	1,229
Deferred income tax assets	10	2,265	2,956	4,641
Deposits and prepayments	13	3,263	12,803	13,904
Total non-current assets		100,438	140,676	201,783
Current assets				
Assets held-for-sale	8	11,955	–	–
Inventories	11	7,192	7,302	7,911
Trade receivables	12	52,029	63,145	84,532
Other receivables, deposits and prepayments	13	17,916	17,541	27,340
Amounts due from related parties	22	17,498	9,432	13,502
Cash and cash equivalents	14	19,639	67,583	37,271
Total current assets		126,229	165,003	170,556
Total assets		226,667	305,679	372,339

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	Note	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
EQUITY				
Equity attributable to owners of the Company				
Share capital	16	20,000	28,024	50,000
Capital reserve	18	5,579	146,157	159,153
Surplus reserve	18	–	2,864	5,708
(Accumulated losses)/Retained earnings				
– Proposed dividends	33	–	–	18,480
– Others		(1,513)	31,816	27,749
Total equity		24,066	208,861	261,090
Liabilities				
Non-current liabilities				
Deferred government grants	23	4,294	14,358	14,156
Long-term payables	21	–	12,688	12,688
Borrowings	19	3,270	–	–
Total non-current liabilities		7,564	27,046	26,844
Current liabilities				
Trade payables	20	27,702	25,265	23,829
Accruals and other payables	21	39,432	31,829	47,340
Current income tax liabilities		4,670	12,255	13,236
Amounts due to related parties	22	4,997	423	–
Borrowings	19	118,236	–	–
Total current liabilities		195,037	69,772	84,405
Total liabilities		202,601	96,818	111,249
Total equity and liabilities		226,667	305,679	372,339
Net current (liabilities)/assets		(68,808)	95,231	86,151
Total assets less current liabilities		31,630	235,907	287,934

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COMPANY’S BALANCE SHEETS

	Note	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
ASSETS				
Non-current assets				
Property, plant and equipment	5	61,820	68,674	108,038
Land use rights	6	8,020	21,682	21,210
Intangible assets	7	863	863	1,142
Investments in subsidiaries	9	3,500	4,500	4,500
Deferred income tax assets	10	2,021	2,173	2,712
Deposits and prepayments	13	2,024	12,748	13,904
Total non-current assets		78,248	110,640	151,506
Current assets				
Assets held-for-sale	8	11,955	–	–
Inventories	11	6,150	5,284	5,427
Trade receivables	12	44,546	43,953	52,255
Other receivables, deposits and prepayments	13	17,208	18,959	50,181
Amounts due from subsidiaries	9	29,226	35,839	41,410
Amounts due from other related parties	22	17,512	9,005	12,647
Cash and cash equivalents	14	17,260	63,543	30,521
Total current assets		143,857	176,583	192,441
Total assets		222,105	287,223	343,947

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	Note	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
EQUITY				
Equity attributable to owners of the Company				
Share capital	16	20,000	28,024	50,000
Capital reserve	18	5,579	146,157	159,153
Surplus reserve	18	–	2,864	5,708
Retained earnings				
– Proposed dividends	33	–	–	18,480
– Others		43	25,826	11,595
Total equity		25,622	202,871	244,936
Liabilities				
Non-current liabilities				
Deferred government grants	23	4,294	14,358	14,156
Long-term payables	21	–	12,688	12,688
Borrowings	19	3,270	–	–
Total non-current liabilities		7,564	27,046	26,844
Current liabilities				
Trade payables	20	26,372	20,830	19,279
Accruals and other payables	21	34,773	27,116	43,708
Amounts due to subsidiaries	9	500	477	1,620
Current income tax liabilities		4,041	8,460	7,560
Amounts due to other related parties	22	4,997	423	–
Borrowings	19	118,236	–	–
Total current liabilities		188,919	57,306	72,167
Total liabilities		196,483	84,352	99,011
Total equity and liabilities		222,105	287,223	343,947
Net current (liabilities)/assets		(45,062)	119,277	120,274
Total assets less current liabilities		33,186	229,917	271,780

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
Revenue	24	170,813	226,363	296,296
Cost of revenue	25	(111,673)	(139,512)	(181,313)
Gross profit		<u>59,140</u>	<u>86,851</u>	<u>114,983</u>
Other income	27	1,065	4,692	689
Other (losses)/gain	28	(188)	274	(151)
Selling expenses	25	(2,607)	(4,879)	(2,092)
Administrative expenses	25	(29,076)	(34,875)	(45,611)
Operating profit		<u>28,334</u>	<u>52,063</u>	<u>67,818</u>
Finance income	29	1,282	430	749
Finance expenses	29	(11,652)	(4,917)	–
Finance (expenses)/income – net		<u>(10,370)</u>	<u>(4,487)</u>	<u>749</u>
Profit before income tax		<u>17,964</u>	<u>47,576</u>	<u>68,567</u>
Income tax expense	30	(4,733)	(11,383)	(17,369)
Profit for the year		<u>13,231</u>	<u>36,193</u>	<u>51,198</u>
Other comprehensive income		–	–	–
Total comprehensive income		<u><u>13,231</u></u>	<u><u>36,193</u></u>	<u><u>51,198</u></u>
Attributable to:				
Equity holders of the Company		<u><u>13,231</u></u>	<u><u>36,193</u></u>	<u><u>51,198</u></u>
Earnings per share				
Basic and diluted (in RMB)	31	<u><u>0.37</u></u>	<u><u>0.78</u></u>	<u><u>1.02</u></u>
Dividends	33	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>18,480</u></u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital	Capital reserve	Surplus reserve	(Accumulated losses)/ Retained earnings	Total equity
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 1 January 2012		20,000	5,579	–	(14,744)	10,835
Comprehensive income						
– Profit for the year		–	–	–	13,231	13,231
Balance at 31 December 2012		20,000	5,579	–	(1,513)	24,066
Balance at 1 January 2013		20,000	5,579	–	(1,513)	24,066
Comprehensive income						
– Profit for the year		–	–	–	36,193	36,193
Capital contribution						
by shareholders	16	8,024	140,578	–	–	148,602
Transfer of reserves	18	–	–	2,864	(2,864)	–
Balance at 31 December 2013		28,024	146,157	2,864	31,816	208,861
Balance at 1 January 2014		28,024	146,157	2,864	31,816	208,861
Comprehensive income						
– Profit for the year		–	–	–	51,198	51,198
Issue of ordinary shares						
upon conversion into a joint stock company with limited liability	16	21,976	11,965	(1,259)	(32,682)	–
Employees restricted share scheme:						
– Value of employee services	17	–	1,031	–	–	1,031
Transfer of reserves	18	–	–	4,103	(4,103)	–
Balance at 31 December 2014		50,000	159,153	5,708	46,229	261,090

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
Cash flows from operating activities				
Cash generated from operations	34	36,085	49,059	51,401
Interest paid		(9,078)	(7,491)	–
Income tax paid		(4,399)	(4,490)	(18,073)
Net cash generated from operating activities		22,608	37,078	33,328
Cash flows from investing activities				
Purchase of property, plant and equipment		(34,566)	(43,696)	(60,871)
Purchase of land use rights	6	–	(14,040)	–
Purchase of intangible assets	7	(1,151)	(296)	(541)
Payment for investment property		(4,885)	–	–
Proceeds from disposal of assets held for sale		–	12,261	–
Loan to a third party		(1,252)	–	–
Repayment of a loan from a third party		–	9,352	–
Repayment of a loan from related parties		1,257	12,471	–
Receipts of government grants for purchasing of assets	23	–	10,633	–
Interest received	29	1,282	430	749
Net cash used in investing activities		(39,315)	(12,885)	(60,663)
Cash flows from financing activities				
Prepayment of [REDACTED] expenses	13	–	–	(3,477)
Proceeds from capital contribution by shareholders		–	148,602	–
Proceeds of borrowings		118,236	–	–
Repayment of borrowings		(96,225)	(121,506)	–
Receipt of related parties loan		4,156	–	–
Repayment of related parties loan		(8,160)	(4,345)	–
Deposits received from a non-controlling shareholder	21	–	1,000	500
Net cash generated from/(used in) financing activities		18,007	23,751	(2,977)
Net increase/(decrease) in cash and cash equivalents		1,300	47,944	(30,312)
Cash and cash equivalents at beginning of the year		18,339	19,639	67,583
Cash and cash equivalents at end of the year		19,639	67,583	37,271

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II NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital (溫州市康寧精神康復醫院) in the People’s Republic of China (the “PRC”) on 7 February 1996. The address of the Company’s registered office is Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

On 15 October 2014, the Company was converted into a joint stock limited company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The Company and its subsidiaries (the “Group”) are engaged in operating of psychiatric hospitals in the PRC.

The Financial Information is presented in Renminbi (“RMB”) and rounded to the nearest thousand yuan, unless otherwise stated.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company Name	Place and date of incorporation/ establishment	Issued and paid-in capital	Attributable equity interest of the Group			Principal activities and place of operation
			31 December 2012	2013	2014	
Directly held:						
Cangnan Kangning Hospital Co., Ltd (蒼南康寧醫院)	The PRC, limited liability company, on 15 June 2012	Paid-in capital of RMB1,000,000	100%	100%	100%	Operating of hospitals, PRC
Qingtian Kangning Hospital Co., Ltd (青田康寧醫院)	The PRC, limited liability company, on 1 April 2011	Paid-in capital of RMB1,000,000	100%	100%	100%	Operating of hospitals, PRC
Yongjia Kangning Hospital Co., Ltd (永嘉康寧醫院)	The PRC, limited liability company, on 12 December 2012	Paid-in capital of RMB1,000,000	100%	100%	100%	Operating of hospitals, PRC
Yueqing Kangning Hospital Co., Ltd (樂清康寧醫院)	The PRC, limited liability company, on 3 September 2013	Paid-in capital of RMB1,000,000	N/A	100%	100%	Operating of hospitals, PRC
Shenzhen Yining Hospital Co., Ltd* (深圳市怡寧醫院有限公司)*	The PRC, limited liability company, on 22 September 2014	Nil	N/A	N/A	70%	Operating of hospitals, PRC
Wenzhou Kangning Judicial Forensic Center (溫州康寧司法鑒定所)	The PRC, sole proprietorship enterprise, on 17 June 2011	Paid-in capital of RMB500,000	100%	100%	100%	Forensic psychiatric identification, PRC

* Shenzhen Yining Hospitals Co., Ltd (“Shenzhen Yining”) was set up on 22 September 2014. Its paid-in capital was nil as of 31 December 2014. No financial statements have been issued by the directors.

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The statutory auditors of the Company and its subsidiaries through the Relevant Periods are set out below:

Company Name	Statutory auditors		
	2012	2013	2014
The Company	BDO China Shu Lun Pan Certified Public Accountants LLP Branch of Zhejiang (“BDO”)	BDO	PricewaterhouseCoopers Zhong Tian LLP, Shenzhen Branch
Cangnan Kangning Hospital Co., Ltd (蒼南康寧醫院)	BDO	BDO	N/A
Qingtian Kangning Hospital Co., Ltd (青田康寧醫院)	BDO	BDO	N/A
Yongjia Kangning Hospital Co., Ltd (永嘉康寧醫院)	BDO	BDO	N/A
Yueqing Kangning Hospital Co., Ltd (樂清康寧醫院)	BDO	BDO	N/A
Wenzhou Kangning Judicial Forensic Center (溫州康寧司法鑒定所)	BDO	BDO	N/A
Shenzhen Yining (深圳市怡寧醫院有限公司)	N/A	N/A	N/A

Except for Wenzhou Kangning Judicial Forensic Center, all the subsidiaries above are private companies and established in the PRC and have substantially the same characteristics as a Hong Kong incorporated private company. Wenzhou Kangning Judicial Forensic Center is a sole proprietorship enterprise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with IFRSs issued by the IASB and are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit” as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the Financial Information is prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for the Relevant Periods.

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All relevant standards, amendments and interpretations to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods unless prohibited by the relevant standards to apply retrospectively.

The following new standards, amendments to standards and interpretations have been published but are not yet effective for the annual period beginning from 1 January 2014 and which the Group has not early adopted:

		Effective for annual periods beginning on or after
IAS 19 (Amendment)	Defined benefit plans: employee contributions	1 July 2014
Annual improvements 2012	Changes from the 2010–2012 cycle of the annual improvements project	1 July 2014
Annual improvements 2013	Changes from the 2011–2013 cycle of the annual improvements project	1 July 2014
IFRS 14 (Amendment)	Regulatory Deferral Accounts	1 January 2016
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations	1 January 2016
IAS 16 and IAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 and IAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
IAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
Annual improvements 2014	Changes from the 2012–2014 cycle of the annual improvements project	1 July 2016
IAS 1 (Amendment)	The disclosure initiative	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2017
IFRS 9	Financial instruments	1 January 2018

The directors of the Company anticipate that the adoption of the new and revised IFRSs will have no material impact on the Group’s operating results and financial position.

2.2 Subsidiaries

(a) Consolidation

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

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured at either fair value or the present ownership interests’

proportionate share in the recognised amounts of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

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

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

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) 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 of 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.

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2.3 Segment Reporting

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

The Group has only one operating segment during the Relevant Periods, so no segment information was presented. The Group’s non-current assets other than financial instruments and deferred tax assets were located in the PRC.

2.4 Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial information are presented in RMB, which is the Company’s functional currency and the Group’s presentation currency.

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 profit or loss.

2.5 Property, Plant And Equipment

Property, plant and equipment are 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 profit or loss during the financial periods 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	35 years
Leasehold improvements	Shorter of remaining lease term or 8 years
Medical equipment	3–10 years
Motor vehicles	4–10 years
Furniture and office equipment	3–10 years

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within “other losses” in profit or loss.

2.6 Land Use Right

Land use right is up-front payments to acquire long-term interests in the usage of land and it is accounted for as an operating lease. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

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2.7 Intangible Assets

Computer Software

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

2.8 Impairment of Non-financial Assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Non-Current Assets Held-For-Sale

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

2.10 Investment Property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of a valuation gain or loss in “other gains — net”.

2.11 Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management’s intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. The Group’s loans and receivables comprise “trade receivables”, “other receivables and deposits”, “amounts due from related parties” and “cash and cash equivalents”.

(b) Recognition and Measurement

Regular way purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are

expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as gains or losses from available-for-sale financial assets.

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is 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 assets and settle the liabilities 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.

2.13 Impairment of Financial Assets

Assets Carried at Amortised Cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification method. Net realisable value is the estimated selling price in the ordinary course of business.

2.15 Trade and Other Receivables

Trade receivables are amounts due from patients, governments' social insurance schemes and other for pharmaceutical sales and services 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. Otherwise, they are presented as non-current assets.

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

2.16 Cash and Cash Equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks.

2.17 Share Capital

Ordinary shares are classified as equity.

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

2.18 Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over their period 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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

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

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

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2.21 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. 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 in equity, respectively.

(a) Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the 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.

(b) Deferred Income Tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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

2.22 Employee Benefits

(a) Pension Obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant authorities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

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(b) Employee Leave Entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(c) Share-based Payments

Equity-settled share-based payment transactions

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

At the end of each reporting period, the Group revises its estimates of the number of shares 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.

2.23 Revenue Recognition

The Group's revenue is primarily derived from rendering medical services to mentally disordered people, rendering treatment and other services and general healthcare services, sales of pharmaceuticals and management service fee income from services provided to other hospitals.

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

Service Income — Treatments and General Healthcare Services and Ancillary Hospital Services

Revenue from service income including medical treatments income, general healthcare services and ancillary hospital services income are recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured. Transactions are settled by payment of social security card, bank card or cash.

Pharmaceutical Sales

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

Management Fee

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

2.24 Interest Income

Interest income is recognised using the effective interest method.

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2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. 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.

2.26 Dividends Distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Financial Information in the periods in which the dividends are approved by Company's Board of Directors.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risk factors: market risk (including foreign exchange risk, cash flow interest rate risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the Board of Directors.

(a) Market Risk

(i) Foreign exchange risk

The Group companies operate in the PRC and the transactions and balances are denominated in RMB which is the Company and the other Group companies' presentation and functional currency. The foreign exchange risk to the Group's financial performance is low.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest-bearing short-term deposits and bank borrowings. Bank borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by short-term deposits and cash held at bank at variable rates. Bank borrowings at fixed rates expose the Group to fair value interest rate risk.

Other than interest-bearing short-term deposits, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of short-term deposit are not expected to change significantly.

As at 31 December 2012, 2013 and 2014, the Group's interest-bearing borrowings at fixed rates was as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Borrowings at fixed rate . . .	121,506	–	–

For the years ended 31 December 2012, 2013 and 2014, if the fixed interest rate on borrowings had been higher/lower by 50 basis points with all other variables held constant, the fair value of the borrowings would have changed mainly as a result of higher/lower interest expense on fixed rate borrowings. Details of changes are as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Increase/(decrease)			
– increase 50 basis points . . .	404	–	–
– decrease 50 basis points . . .	(404)	–	–

(iii) Price risk

The Group is not exposed to significant commodity price risk nor hold any financial investments.

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(b) Credit Risk

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

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

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors portfolio, as majority patients will claim their medical bills from governments’ social insurance schemes. Certain patients’ costs will be reimbursed by other government bodies. The reimbursement from these organisations may take one to six months. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations’ policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients’ billings and claim status to minimum the credit risk.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group’s outstanding balance of other receivables.

(c) Liquidity Risk

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 31 December 2012					
Borrowings (principal plus interests) . . .	129,096	4,062	–	–	133,158
Trade and other payables (excluding accrued employee benefit, advances received from customers and other taxes payable)	52,154	–	–	–	52,154
Amounts due to related parties	4,997	–	–	–	4,997
	<u>186,247</u>	<u>4,062</u>	<u>–</u>	<u>–</u>	<u>190,309</u>
At 31 December 2013					
Trade and other payables (excluding accrued employee benefit, advances received from customers and other taxes payable)	38,911	–	12,688	–	51,599
Amounts due to related parties	423	–	–	–	423
	<u>39,334</u>	<u>–</u>	<u>12,688</u>	<u>–</u>	<u>52,022</u>
At 31 December 2014					
Trade and other payables (excluding accrued employee benefit, advances received from customers and other taxes payable)	49,173	–	12,688	–	61,861

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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 shareholder 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 31 December 2012, 2013 and 2014 was as follows:

	As at 31 December		
	2012	2013	2014
The liability-to-asset ratio	89.38%	31.67%	29.88%

There were no changes in the Group’s approach to capital management during the Relevant Periods.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

3.3 Fair Value Estimation

The Group did not hold any financial assets or liabilities that carried at fair value during the Relevant Periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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.

4.1 Critical Accounting Estimates and Assumptions

(a) Provision for Impairment of Trade and Other Receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management’s judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables and the amount of doubtful debt expenses or write-back of provision for impairment of receivables in the period in which such estimate has been changed.

The Group has certain receivables overdue but considered not impaired. These balances were due from local social insurance bureau and other government departments who are responsible for the reimbursement of medical expenses of patients who are covered by government medical insurance schemes. The management consider that based on past payment history those amount can be recovered in reasonable time.

For remaining balance not covered by social insurance scheme, the management assessed the collectability based on historical patterns and data. Based on the Group’s assessment on the collectability of trade and other receivables, impairment provision of approximately RMB2,999,000, RMB3,699,000 and RMB5,005,000 was provided as at 31 December 2012, 2013 and 2014, respectively.

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(b) Current and Deferred Income Taxes

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

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

(c) Recognition of Share-based Payment Expenses

As explained in more detail in Note 17, the founding shareholders granted restricted shares to its employees and consultants under the Restricted Share-Based Payment Scheme during the year ended 31 December 2014. The directors have used the discounted cash flow model to determine the total fair value of the restricted shares granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as gross margin, discount rate and growth rate, is required to be made by the directors in applying the discounted cash flow model.

(d) Useful Lives of Property, Plant And Equipment

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as when the actual useful life is different with the one previously estimated.

If the estimated useful lives of property, plant and equipment had been higher by 10% from management's estimates, the depreciation charge would have decreased by RMB295,000, RMB424,000 and RMB716,000 for the year ended 31 December 2012, 2013 and 2014, respectively. If the estimated useful lives of property, plant and equipment had been lower by 10% from management's estimates, the depreciation charge would have increased by RMB248,000, RMB494,000 and RMB214,000 for the year ended 31 December 2012, 2013 and 2014, respectively.

4.2 Critical Judgements in Applying the Company's Accounting Policies

(a) Consolidation

The Group has exercised significant judgments in determining whether the Group has control over other entities in which the Group has been the sponsor for these hospitals. In exercising such judgment, the Group considers the purpose and design of the investee, 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 the Group is exposed, or has rights, to variable returns from its involvement with the investee, and whether the investor has the ability to use its power over the investee to affect the amount of the Group's returns.

(b) Estimation of the Lease Term In Lease Contract

The Group leased several properties from third parties as operating premises. The lease contracts usually contain break clause, where the Group is allowed to terminate the lease agreement by paying certain amount of penalties to the lessor, usually ranging from one to three months rentals.

The Group determine the non-cancellable terms of lease by considering following factors:

- the amount of penalties to be paid;
- the balance of leasehold improvements to be written off;

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- the availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts.

If any of these factors change in the futures, the non-cancellable lease term will be revised and accordingly impact the Group’s accounting for these operating lease.

5. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Medical equipment	Motor vehicles	Furniture & office equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2012							
Cost	27,948	642	12,868	1,172	7,704	1,184	51,518
Accumulated depreciation	(9,459)	–	(9,181)	(567)	(5,103)	–	(24,310)
Net book amount	18,489	642	3,687	605	2,601	1,184	27,208
Year ended 31 December 2012							
Opening net book amount	18,489	642	3,687	605	2,601	1,184	27,208
Additions	13,584	37,789	7,468	533	5,387	1,488	66,249
Depreciation	(989)	(3,596)	(1,438)	(241)	(1,264)	–	(7,528)
Disposals	–	–	(77)	–	(29)	–	(106)
Closing net book amount	31,084	34,835	9,640	897	6,695	2,672	85,823
At 31 December 2012							
Cost	41,532	38,431	18,005	1,705	11,015	2,672	113,360
Accumulated depreciation	(10,448)	(3,596)	(8,365)	(808)	(4,320)	–	(27,537)
Net book amount	31,084	34,835	9,640	897	6,695	2,672	85,823
Year ended 31 December 2013							
Opening net book amount	31,084	34,835	9,640	897	6,695	2,672	85,823
Additions	5,487	8,511	2,722	452	3,096	7,790	28,058
Depreciation	(1,438)	(5,268)	(2,453)	(264)	(2,261)	–	(11,684)
Disposals	–	–	(7)	–	(18)	–	(25)
Closing net book amount	35,133	38,078	9,902	1,085	7,512	10,462	102,172
At 31 December 2013							
Cost	47,019	46,942	20,708	2,157	14,022	10,462	141,310
Accumulated depreciation	(11,886)	(8,864)	(10,806)	(1,072)	(6,510)	–	(39,138)
Net book amount	35,133	38,078	9,902	1,085	7,512	10,462	102,172
Year ended 31 December 2014							
Opening net book amount	35,133	38,078	9,902	1,085	7,512	10,462	102,172
Additions	738	5,449	3,303	114	2,976	60,388	72,968
Depreciation	(1,509)	(6,686)	(2,898)	(320)	(2,807)	–	(14,220)
Disposals	–	–	(37)	(12)	(72)	–	(121)
Closing net book amount	34,362	36,841	10,270	867	7,609	70,850	160,799
At 31 December 2014							
Cost	47,757	52,391	23,733	2,023	16,214	70,850	212,968
Accumulated depreciation	(13,395)	(15,550)	(13,463)	(1,156)	(8,605)	–	(52,169)
Net book amount	34,362	36,841	10,270	867	7,609	70,850	160,799

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Company

	Buildings	Leasehold improvements	Medical equipment	Motor vehicles	Furniture & office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012							
Cost	27,948	384	12,770	1,172	7,177	1,184	50,635
Accumulated depreciation	(9,459)	–	(9,173)	(567)	(5,058)	–	(24,257)
Net book amount	<u>18,489</u>	<u>384</u>	<u>3,597</u>	<u>605</u>	<u>2,119</u>	<u>1,184</u>	<u>26,378</u>
Year ended 31 December 2012							
Opening net book amount	18,489	384	3,597	605	2,119	1,184	26,378
Additions	13,584	16,747	4,777	533	3,833	1,488	40,962
Depreciation	(989)	(1,973)	(1,177)	(241)	(1,035)	–	(5,415)
Disposals	–	–	(76)	–	(29)	–	(105)
Closing net book amount	<u>31,084</u>	<u>15,158</u>	<u>7,121</u>	<u>897</u>	<u>4,888</u>	<u>2,672</u>	<u>61,820</u>
At 31 December 2012							
Cost	41,532	17,131	15,218	1,705	8,934	2,672	87,192
Accumulated depreciation	(10,448)	(1,973)	(8,097)	(808)	(4,046)	–	(25,372)
Net book amount	<u>31,084</u>	<u>15,158</u>	<u>7,121</u>	<u>897</u>	<u>4,888</u>	<u>2,672</u>	<u>61,820</u>
Year ended 31 December 2013							
Opening net book amount	31,084	15,158	7,121	897	4,888	2,672	61,820
Additions	5,487	1,280	454	452	1,496	5,375	14,544
Depreciation	(1,438)	(2,485)	(1,784)	(264)	(1,699)	–	(7,670)
Disposals	–	–	(7)	–	(13)	–	(20)
Closing net book amount	<u>35,133</u>	<u>13,953</u>	<u>5,784</u>	<u>1,085</u>	<u>4,672</u>	<u>8,047</u>	<u>68,674</u>
At 31 December 2013							
Cost	47,019	18,411	15,653	2,157	10,348	8,047	101,635
Accumulated depreciation	(11,886)	(4,458)	(9,869)	(1,072)	(5,676)	–	(32,961)
Net book amount	<u>35,133</u>	<u>13,953</u>	<u>5,784</u>	<u>1,085</u>	<u>4,672</u>	<u>8,047</u>	<u>68,674</u>
Year ended 31 December 2014							
Opening net book amount	35,133	13,953	5,784	1,085	4,672	8,047	68,674
Additions	738	1,170	1,543	114	2,065	41,839	47,469
Depreciation	(1,509)	(2,514)	(1,811)	(320)	(1,849)	–	(8,003)
Disposals	–	–	(33)	(12)	(57)	–	(102)
Closing net book amount	<u>34,362</u>	<u>12,609</u>	<u>5,483</u>	<u>867</u>	<u>4,831</u>	<u>49,886</u>	<u>108,038</u>
At 31 December 2014							
Cost	47,757	19,581	16,935	2,023	11,677	49,886	147,859
Accumulated depreciation	(13,395)	(6,972)	(11,452)	(1,156)	(6,846)	–	(39,821)
Net book amount	<u>34,362</u>	<u>12,609</u>	<u>5,483</u>	<u>867</u>	<u>4,831</u>	<u>49,886</u>	<u>108,038</u>

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Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cost of revenue	5,996	8,944	10,795
Administrative expenses	1,532	2,740	3,425
	7,528	11,684	14,220
	7,528	11,684	14,220

Property, plant and equipment of the Group with net book value amounting to approximately RMB1,772,000 was pledged as security for the borrowing (Note 19) of the Group as at 31 December 2012.

6. LAND USE RIGHTS — GROUP AND COMPANY

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
In the PRC, held on leases of:			
Between 30 to 40 years	2,653	2,576	2,500
Between 40 to 50 years	5,367	19,106	18,710
	8,020	21,682	21,210
	8,020	21,682	21,210
Opening balance	8,211	8,020	21,682
Additions	–	14,040	–
Amortisation of land use rights	(191)	(378)	(472)
Closing balance	8,020	21,682	21,210
	8,020	21,682	21,210

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7. INTANGIBLE ASSETS

Computer software	Group	Company
	RMB'000	RMB'000
At 1 January 2012		
Cost	54	–
Accumulated amortisation	(14)	–
Net book amount	<u>40</u>	<u>–</u>
Year ended 31 December 2012		
Opening net book amount	40	–
Additions	1,151	951
Amortisation	(124)	(88)
Closing net book amount	<u>1,067</u>	<u>863</u>
At 31 December 2012		
Cost	1,205	951
Accumulated amortisation	(138)	(88)
Net book amount	<u>1,067</u>	<u>863</u>
Year ended 31 December 2013		
Opening net book amount	1,067	863
Additions	296	206
Amortisation	(300)	(206)
Closing net book amount	<u>1,063</u>	<u>863</u>
At 31 December 2013		
Cost	1,501	1,157
Accumulated amortisation	(438)	(294)
Net book amount	<u>1,063</u>	<u>863</u>
Year ended 31 December 2014		
Opening net book amount	1,063	863
Additions	541	541
Amortisation	(375)	(262)
Closing net book amount	<u>1,229</u>	<u>1,142</u>
At 31 December 2014		
Cost	2,042	1,698
Accumulated amortisation	(813)	(556)
Net book amount	<u>1,229</u>	<u>1,142</u>

Amortisation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Cost of revenue	111	281	283
Administrative expenses	13	19	92
	<u>124</u>	<u>300</u>	<u>375</u>

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8. ASSETS HELD-FOR-SALE — GROUP AND COMPANY

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Assets held-for-sale	11,955	–	–

Assets held-for-sale represented an investment property constructed by Wenzhou Mingou Real Estate Development Company Limited, a third party as commissioned by the Group. The property was disposed of in 2013 and a gain of RMB305,000 (Note 28) was recognised.

9. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES — COMPANY

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Investment, unlisted shares, at cost	3,500	4,500	4,500
Amounts due from subsidiaries	29,226	35,839	41,410
Amounts due to subsidiaries	500	477	1,620

As at 31 December 2012, 2013 and 2014, the amounts due from/to subsidiaries are unsecured, interest free, repayable on demand and denominated in RMB.

All the Company’s subsidiaries are located in the PRC, without any restriction on profit distribution to the Company.

10. DEFERRED INCOME TAX ASSETS

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
To be recovered after more than 12 months	1,516	2,031	3,390
To be recovered within 12 months	749	925	1,251
	2,265	2,956	4,641

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
To be recovered after more than 12 months	1,279	1,279	1,537
To be recovered within 12 months	742	894	1,175
	2,021	2,173	2,712

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Movement on deferred income tax account is as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Opening balance	1,898	2,265	2,956
Credited to profit or loss	367	691	1,685
Closing balance	2,265	2,956	4,641

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Opening balance	1,773	2,021	2,173
Credited to profit or loss	248	152	539
Closing balance	2,021	2,173	2,712

Group

	Accruals	Provision for receivables	Tax losses	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 1 January 2012	1,098	675	125	1,898
Credited to profit or loss	181	74	112	367
Balance at 31 December 2012	1,279	749	237	2,265
Balance at 1 January 2013	1,279	749	237	2,265
Credited to profit or loss	–	176	515	691
Balance at 31 December 2013	1,279	925	752	2,956
Balance at 1 January 2014	1,279	925	752	2,956
Credited to profit or loss	258	326	1,101	1,685
Balance at 31 December 2014	1,537	1,251	1,853	4,641

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. There is no material tax losses of the Group carried forward in respect of which deferred tax assets have not been accounted for.

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Company

	Accruals	Provision for receivables	Total
	RMB’000	RMB’000	RMB’000
Balance at 1 January 2012	1,098	675	1,773
Credited to profit or loss	181	67	248
Balance at 31 December 2012	1,279	742	2,021
Balance at 1 January 2013	1,279	742	2,021
Credited to profit or loss	–	152	152
Balance at 31 December 2013	1,279	894	2,173
Balance at 1 January 2014	1,279	894	2,173
Credited to profit or loss	258	281	539
Balance at 31 December 2014	1,537	1,175	2,712

11. INVENTORIES

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Pharmaceuticals	6,462	5,383	6,477
Medical consumables	730	1,919	1,434
	7,192	7,302	7,911

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Pharmaceuticals	5,533	4,261	4,415
Medical consumables	617	1,023	1,012
	6,150	5,284	5,427

The cost of inventories recognised as expense and included in cost of revenue amounted to RMB46,835,000, RMB58,227,000 and RMB75,419,000 for the years ended 31 December 2012, 2013 and 2014, respectively.

12. TRADE RECEIVABLES

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Trade receivables	55,028	66,844	89,537
Less: provision for impairment of trade receivables	(2,999)	(3,699)	(5,005)
Trade receivables – net	52,029	63,145	84,532

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Company

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables	47,516	47,530	56,958
Less: provision for impairment of trade receivables	(2,970)	(3,577)	(4,703)
Trade receivables – net	<u>44,546</u>	<u>43,953</u>	<u>52,255</u>

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

As at 31 December 2012, 2013 and 2014, the ageing analysis of the trade receivables was as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Ageing analysis based on the billing date:			
Bills not presented	7,338	8,633	9,927
1–3 months	22,845	34,177	45,694
4–6 months	11,562	10,006	13,082
7–12 months	6,565	8,972	14,635
1–2 years	5,904	4,145	4,574
2–3 years	656	877	1,544
over 3 years	158	34	81
	<u>55,028</u>	<u>66,844</u>	<u>89,537</u>

According to the Group's of business, all bills are payable upon presented.

As at 31 December 2012, 2013 and 2014, the Group's trade receivables past due but not impaired were RMB43,110,000, RMB52,667,000 and RMB73,442,000, respectively. These mainly related to the amount to be claimed from local social insurance bureau and similar government departments who are responsible for the reimbursement of medical expenses for patients who are covered by government medical insurance schemes. The management consider that based on past payment history those amounts can be recovered in reasonable time. The aging analysis of these trade receivables was as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
less than 1 year	38,750	50,248	71,136
1–2 years	4,137	2,382	2,269
2–3 years	65	3	3
over 3 years	158	34	34
	<u>43,110</u>	<u>52,667</u>	<u>73,442</u>

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As at 31 December 2012, 2013 and 2014, trade receivables of RMB4,580,000, RMB5,544,000 and RMB6,168,000 were impaired. The amounts of the provision were RMB2,999,000, RMB3,699,000 and RMB5,005,000 as of 31 December 2012, 2013 and 2014, respectively. The ageing of these trade receivables is as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
less than 1 year	2,222	2,907	2,275
1–2 years	1,767	1,763	2,305
2–3 years	591	874	1,541
over 3 years	–	–	47
	4,580	5,544	6,168
	4,580	5,544	6,168

Movements on the Group’s provision for impairment of trade receivables are as following:

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At 1 January	2,702	2,999	3,699
Provision for receivables	1,799	2,644	2,957
Receivables written off as uncollectible	(359)	(377)	(1,304)
Reversed upon recovered	(1,143)	(1,567)	(347)
At 31 December	2,999	3,699	5,005
	2,999	3,699	5,005

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

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Other receivables (a)	12,173	1,786	1,408
Deposits (b)	4,920	16,584	16,823
Prepayments for rental	1,792	11,171	16,686
Prepayments for [REDACTED]	–	–	3,477
Prepayments for goods and services	–	495	1,511
Prepayments for construction in progress	2,080	55	1,216
Others	214	253	123
Total	21,179	30,344	41,244
	21,179	30,344	41,244
Current	17,916	17,541	27,340
Non-Current	3,263	12,803	13,904
Total	21,179	30,344	41,244
	21,179	30,344	41,244

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Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Other receivables (a)	11,888	1,471	1,171
Deposits (b)	3,673	16,160	16,401
Prepayments for construction in progress . . .	2,024	–	1,216
Prepayment for investments for subsidiaries .	–	10,415	28,141
Prepayments for rental	1,498	3,036	12,310
Prepayments for [REDACTED]	–	–	3,477
Prepayments for goods and services	–	438	1,294
Others	149	187	75
Total	19,232	31,707	64,085
Current	17,208	18,959	50,181
Non-current	2,024	12,748	13,904
Total	19,232	31,707	64,085

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

- (a) Included in other receivables as of 31 December 2012 was a loan to an individual amounting to RMB9,352,000, bearing an interest rate of 6.56% per annum, unsecured and was repaid in 2013.
- (b) Included in deposits as of 31 December 2013 and 2014 was a deposit of RMB12,688,000 to the contractor of the new construction contract of the hospital as the guarantee for fulfillment of obligation of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group’s obligation has been discharged.

14. CASH AND CASH EQUIVALENTS

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cash at banks	19,407	67,513	37,151
Cash on hand	232	70	120
Total	19,639	67,583	37,271

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cash at banks	17,218	63,541	30,502
Cash on hand	42	2	19
Total	17,260	63,543	30,521

The carrying amounts of the Group’s and the Company’s cash and cash equivalents are denominated in RMB.

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15. FINANCIAL INSTRUMENTS BY CATEGORY

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Loan and receivables			
Trade receivables (<i>Note 12</i>)	52,029	63,145	84,532
Other receivables (<i>Note 13</i>)	17,093	18,370	18,231
Amounts due from related parties (<i>Note 22</i>)	17,498	9,432	13,502
Cash and cash equivalents (<i>Note 14</i>)	19,639	67,583	37,271
	<u>106,259</u>	<u>158,530</u>	<u>153,536</u>
Financial liabilities at amortised costs			
Bank and other borrowings (<i>Note 19</i>)	121,506	–	–
Trade payables (<i>Note 20</i>)	27,702	25,265	23,829
Accruals and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities) (<i>Note 21</i>)	24,452	26,334	38,032
Amounts due to related parties (<i>Note 22</i>)	4,997	423	–
	<u>178,657</u>	<u>52,022</u>	<u>61,861</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Loan and receivables			
Trade receivables (<i>Note 12</i>)	44,546	43,953	52,255
Other receivables (<i>Note 13</i>)	15,561	17,631	17,572
Amounts due from subsidiaries (<i>Note 9</i>)	29,226	35,839	41,410
Amounts due from related parties (<i>Note 22</i>)	17,512	9,005	12,647
Cash and cash equivalents (<i>Note 14</i>)	17,260	63,543	30,521
	<u>124,105</u>	<u>169,971</u>	<u>154,405</u>
Financial liabilities at amortised costs			
Bank and other borrowings (<i>Note 19</i>)	121,506	–	–
Trade payables (<i>Note 20</i>)	26,372	20,830	19,279
Accruals and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities) (<i>Note 21</i>)	20,507	23,570	37,515
Amounts due to subsidiaries (<i>Note 9</i>)	500	477	1,620
Amounts due to related parties (<i>Note 22</i>)	4,997	423	–
	<u>173,882</u>	<u>45,300</u>	<u>58,414</u>

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16. Share capital — Group and Company

The reconciliations between the opening and closing balances of each component of the Group’s consolidated equity during the Relevant Periods are set out in the consolidated statements of changes in equity. Details of the changes in the Company’s individual components of equity during the Relevant Periods are set out below:

	Share capital
	RMB’000
Balance at 1 January 2012 and 31 December 2012	20,000
Balance at 1 January 2013	20,000
Capital contribution by shareholders (<i>Note 16(a)</i>)	8,024
Balance at 31 December 2013	28,024
Balance at 1 January 2014	28,024
Issue of ordinary shares upon conversion into a joint stock company with limited liability (<i>Note 16(b)</i>)	21,976
Balance at 31 December 2014	50,000

(a) Share Capital

In 2013, Guangzhou GL Capital Investment Fund L.P. (廣州德福股權投資基金合夥企業(有限合夥)) (“Defu Fund”), Beijing CDH Weixin Venture Capital L.P. (北京鼎暉維鑫創業投資中心(有限合夥)) (“Beijing CDH Weixin”) and Beijing CDH Weisen Venture Capital L.P. (北京鼎暉維森創業投資中心(有限合夥)) (“Beijing CDH Weisen”) (CDH Weixin and CDH Weisen thereafter together referred to as “Beijing CDH”) invested jointly in the Company.

Pursuant to the investment agreement entered into between the original shareholders of the Company and above new investors, on 11 March 2013, Defu Fund injected RMB90,500,000 to the Company, to obtain 17.2842% equity interests, of which an amount of RMB4,844,000 was credited to share capital and RMB85,656,000 was recorded as capital reserve. In addition, Defu Fund purchased another 9.5493% equity interests from original shareholders. On 22 April 2013, CDH injected RMB59,420,000 to the Company, to obtain 11.3484% equity interests, of which an amount of RMB3,180,000 was credited to share capital and RMB56,240,000 was recorded as capital reserve.

After the completion of above capital injection and acquisition part of its original shareholders’ equity interests, Defu Fund and Beijing CDH holds 26.8355% and 11.3484% equity interests in the Company, respectively.

The transaction expenses directly related to the equity issuance amounting to RMB1,318,000 have been debited to capital reserve during the year of 2013.

(b) Conversion into a Joint Stock Company with Limited Liability

As stated in Note 1, the Company was converted into a joint stock company with limited liability on 15 October 2014. Pursuant to the approval of shareholders and the board of directors, the Company’s equity was converted into 50,000,000 ordinary shares with par value of RMB1.00 each issued proportionately to its existing equity owners, after capitalisation of RMB1,259,000 and RMB32,682,000 from surplus reserves and retained earnings, respectively. As a result, the share capital and capital reserve increased by RMB21,976,000 and RMB11,965,000, respectively. The share capital had been verified by a PRC CPA firm and registered with the Wenzhou Administration for Industry and Commerce on 15 October 2014.

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Registered and Issued Share Capital

	2014 Number of shares
	(thousands)
Ordinary shares, issued and fully paid:	
At 1 January 2014	–
Issue of ordinary shares upon the conversion to a joint stock company with limited liability	50,000
At 31 December 2014	50,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Company. According to the articles of the association of the Company, ordinary shares rank pari passu with regard to the Company’s residual assets.

17. SHARE-BASED PAYMENT — GROUP AND COMPANY

Following the shareholder’s approval on 21 July 2014, the Company has adopted an employee share incentive plan (the “**Restricted Shares Scheme**”). To furnish the Restricted Shares Scheme, three limited liability partnerships were established, namely Ningbo Renai Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波仁愛康寧投資管理合夥企業(有限合夥) (“**Renai Kangning**”), Ningbo Enci Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波恩慈康寧投資管理合夥企業(有限合夥) (“**Enci Kangning**”) and Ningbo Xinshi Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波信實康寧投資管理合夥企業(有限合夥) (“**Xinshi Kangning**”).

Each partnership has one general partner and the qualified employees under the Restrictive Shares Scheme as limited partners.

On 15 July 2014, Mr. Guan Weili and Ms. Wang Hongyue transferred 4% of the equity investments in the Company to the above three partnerships for consideration of RMB20,943,998.

The Restricted Shares can be sold or transferred by the employee upon the completion of certain years of services starting from the successful [REDACTED] of the Company shares in a stock exchange. The Group has no legal or constructive obligation to repurchase or transferred the shares in cash. The above transaction was considered as equity-settled share-based payment to employees. The fair value of the Company’s shares granted to employees on grant date, 21 July 2014, as determined by a professional valuation firm was RMB5,905,000, (RMB5.2678 per share), after deduction of consideration paid by the employees of RMB20,943,998 to purchase 4% of the equity investments in the Company.

The vesting period which is the service period commenced from the grant date and ends at 12 or 36 months after an [REDACTED] (“[REDACTED]”) of the Company which according to management’s best estimates based on current knowledge, would occur by the end of 2015.

Share based payment expense of RMB1,031,000 was recognised for the year ended 31 December 2014, of which RMB650,000 and RMB381,000 were recognised as “cost of revenue” and “administrative expenses”, respectively.

18. RESERVES AND RETAINED EARNINGS

(a) Nature and Purpose of Capital Reserve and Surplus Reserves

(i) Capital Reserve

The capital reserve represents the share premium contributed by the shareholderers.

(ii) Surplus Reserve

The Company and subsidiaries are required by Company Law of the PRC to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the

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general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to equity shareholders. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the Company and is non-distributable other than in liquidation.

Movement of capital reserve and surplus reserve.

	Capital reserve	Surplus reserve	Total
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012	5,579	–	5,579
Transfer from retained earnings	–	–	–
Balance at 31 December 2012	<u>5,579</u>	<u>–</u>	<u>5,579</u>
Balance at 1 January 2013	5,579	–	5,579
Capital contribution by shareholders (<i>Note 16(a)</i>)	140,578	–	140,578
Transfer from retained earnings	–	2,864	2,864
Balance at 31 December 2013	<u>146,157</u>	<u>2,864</u>	<u>149,021</u>
Balance at 1 January 2014	146,157	2,864	149,021
Issue of ordinary shares upon conversion into a joint stock company with limited liability (<i>Note 16(a)</i>)	11,965	(1,259)	10,706
Share based payment-Value of employee services	1,031	–	1,031
Transfer from retained earnings	–	4,103	4,103
Balance at 31 December 2014	<u>159,153</u>	<u>5,708</u>	<u>164,861</u>

(b) Distributability of Reserves

Under the Company Law of the PRC and the Company's Articles of Association, net profit after tax as reported in the statutory financial statements prepared in accordance with the accounting rules and regulations of the PRC can only be distributed as dividends after allowances have been made for the following:

- (i) Making up prior years' cumulative losses, if any;
- (ii) Allocations to the statutory reserve as set out in Note 18(a)(ii) above; and
- (iii) Allocations to the discretionary common reserve if approved by the Shareholders.

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(c) Movement of retained earnings of the Company

	Company
	RMB’000
Balance at 1 January 2012	(12,273)
Profit for the year	12,316
Balance at 31 December 2012	43
Balance at 1 January 2013	43
Profit for the year	28,647
Transfer to surplus reserve	(2,864)
Balance at 31 December 2013	25,826
Balance at 1 January 2014	25,826
Profit for the year	41,034
Capitalisation upon conversion to a joint stock company	(32,682)
Transfer to surplus reserve	(4,103)
Balance at 31 December 2014	30,075

19. BORROWINGS — GROUP AND COMPANY

	Note	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
Current				
Bank borrowings				
– unsecured	(a)	38,000	–	–
Other borrowings				
– unsecured	(b)	75,621	–	–
– secured	(c)	4,615	–	–
		<u>118,236</u>	<u>–</u>	<u>–</u>
Non-current				
Other borrowings				
– secured	(c)	3,270	–	–
Total		<u>121,506</u>	<u>–</u>	<u>–</u>

- (a) Bank borrowings were jointly and severally guaranteed by Mr. Guan Weili, Ms. Wang Lianyue and Ms. Wang Hongyue.
- (b) The loan was borrowed from a number of individuals. The amounts were unsecured and repayable on demand. The interest rate ranged from 8% to 14% per annum.
- (c) In September 2011, the Company entered into a sale and leaseback agreement with Zhejiang Jin Ying Finance Lease Co., Ltd.(浙江錦盈融資租賃有限公司), pursuant to which the Company sold certain equipments amounting to RMB12,555,000 to Zhejiang Jin Ying Finance Lease Co., Ltd. (浙江錦盈融資租賃有限公司) and then leaseback for a period of three years. The Company has the option to repurchase the equipments at the end of the lease term at the amount of RMB100. The directors of the Company concluded that the substance of the above sale and leaseback transaction are borrowing of a loan with certain equipment pledged as collateral (Note 5).

The Company early repaid this loan during the year of 2013.

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As at 31 December 2012, 2013 and 2014, the Group’s and the Company’s borrowings were repayable as follows:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Bank and other borrowings			
Within 1 year	118,236	–	–
1–2 years	3,270	–	–
	121,506	–	–
	<u>121,506</u>	<u>–</u>	<u>–</u>

The weighted average effective interest rates (per annum) were as follows:

	As at 31 December			
	2012	2013	2014	
Bank borrowing	7.78%	Nil	Nil	Nil
Other borrowings	13.26%	Nil	Nil	Nil
	<u>13.26%</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

The fair value of borrowings approximated their carrying amounts as at 31 December 2012, as either discounting impact is immaterial or the borrowings carried interests which were benchmarked against rate announced by the People’s Bank of China from time to time.

20. TRADE PAYABLES

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

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
1–3 months	17,671	17,889	17,458
4–6 months	7,984	5,193	3,190
7–12 months	974	756	1,823
1–2 years	401	971	713
2–3 years	323	254	342
over 3 years	349	202	303
	27,702	25,265	23,829
	<u>27,702</u>	<u>25,265</u>	<u>23,829</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
1–3 months	16,627	14,269	14,265
4–6 months	7,767	4,615	2,413
7–12 months	929	625	1,522
1–2 years	377	884	568
2–3 years	323	235	313
over 3 years	349	202	198
	26,372	20,830	19,279
	<u>26,372</u>	<u>20,830</u>	<u>19,279</u>

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

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21. ACCRUALS AND OTHER PAYABLES

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Accrued employee benefits	10,744	13,261	17,939
Receipts in advance	3,705	4,312	3,416
Rental payables	2,920	2,708	3,362
Guarantee deposit received from construction contractor (a)	–	12,688	12,688
Other payables for property, plant and equipment	17,346	8,307	19,916
Other taxes payable	531	610	641
Contribution received from a non-controlling shareholder (b)	–	1,000	1,500
Accrued interests	2,575	–	–
Others	1,611	1,631	566
Total	39,432	44,517	60,028
Current	39,432	31,829	47,340
Non-current	–	12,688	12,688
Total	39,432	44,517	60,028

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Accrued employee benefits	10,189	11,537	15,205
Receipts in advance	3,552	4,110	3,061
Rental payables	2,696	2,708	3,033
Guarantee deposit received from construction contractor (a)	–	12,688	12,688
Other payables for property, plant and equipment	14,113	6,199	19,907
Other tax payable	525	587	615
Contribution received from a non-controlling shareholder (b)	–	1,000	1,500
Accrued interests	2,575	–	–
Others	1,123	975	387
Total	34,773	39,804	56,396
Current	34,773	27,116	43,708
Non-current	–	12,688	12,688
Total	34,773	39,804	56,396

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

- (a) The amount was provided by the contractor of the new hospital construction work to the Group. The amount will be repaid to the contractor after it discharges all its obligations under the contract, including but not limited to full settlement of construction workers’ wages and salaries.
- (b) It represented contribution received from a third party who will be a non-controlling shareholder after establishment of a subsidiary in Linhai, Zhejiang province. As at 31 December 2014, the subsidiary had not been yet established.

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22 BALANCES WITH RELATED PARTIES

Group

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Amounts due from related parties			
Pingyang Changgeng Hospital Company Limited (平陽縣長庚醫院有限責任公司) . . .	4,821	8,674	11,574
Not-for-profit organisations established by the Group	206	667	1,928
A close family member of a shareholder	4,331	–	–
Ms. Wang Lianyue	6,990	–	–
Mr. Guan Weili	1,150	91	–
	<u>17,498</u>	<u>9,432</u>	<u>13,502</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Amounts due from related parties			
Pingyang Changgeng Hospital Company Limited (平陽縣長庚醫院有限責任公司) . . .	4,821	8,676	11,465
Not-for-profit organisations established by the Group	190	147	1,182
A close family member of a shareholder	4,331	–	–
Ms. Wang Lianyue	6,990	–	–
Mr. Guan Weili	1,180	182	–
	<u>17,512</u>	<u>9,005</u>	<u>12,647</u>

Group and Company

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Amounts due to related parties			
Wenzhou Kangning Investment Company Limited (溫州市康寧投資有限公司)	4,345	31	–
Not-for-profit organisations established by the Group	–	5	–
Ms. Wang Hongyue	652	387	–
	<u>4,997</u>	<u>423</u>	<u>–</u>

The amounts due from/to related parties are unsecured, receivable/payable on demand and are denominated in RMB. The interest rates of the amounts due to related parties ranged from 5.6% to 6.4% per annum and the interest rates of the amounts due from related parties was 6.56% per annum (Note 35). Their carrying amounts as at 31 December 2012, 2013 and 2014 approximate their fair value.

The English names of certain related parties referred to above represented the best efforts by management of the Company in translating their Chinese names, as they do not have official English names.

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23. DEFERRED GOVERNMENT GRANTS — GROUP AND COMPANY

	1 January 2012	Receipt of grants	Credited to income statement during the year	At 31 December 2012
	RMB’000	RMB’000	RMB’000	RMB’000
Government grant related to costs . . .	5,000	–	(706)	4,294
	<u>5,000</u>	<u>–</u>	<u>(706)</u>	<u>4,294</u>
	1 January 2013	Receipt of grants	Credited to income statement during the year	At 31 December 2013
	RMB’000	RMB’000	RMB’000	RMB’000
Government grant related to assets . . .	–	10,633	–	10,633
Government grant related to costs . . .	4,294	750	(1,319)	3,725
	<u>4,294</u>	<u>11,383</u>	<u>(1,319)</u>	<u>14,358</u>
	1 January 2014	Receipt of grants	Credited to income statement during the year	At 31 December 2014
	RMB’000	RMB’000	RMB’000	RMB’000
Government grant related to assets . . .	10,633	–	–	10,633
Government grant related to costs . . .	3,725	–	(202)	3,523
	<u>14,358</u>	<u>–</u>	<u>(202)</u>	<u>14,156</u>

The amounts represented various subsidies granted by and received from local government authorities in the PRC. Government grant related to assets are subsidies for funding construction of a hospital building. Government grant related to costs are subsidies for funding the Group’s healthcare related research expenditures.

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

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

24. REVENUE

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Treatments and general healthcare services . .	108,931	150,062	206,790
Pharmaceutical sales	55,309	67,099	77,384
Ancillary hospital services	548	1,567	1,828
Management fee (<i>Note 35</i>)	6,025	7,635	10,294
	<u>170,813</u>	<u>226,363</u>	<u>296,296</u>

All revenue are generated in the PRC where all assets of the Group located. The Group has a highly diversified patient portfolio, aside from Pingyang Changgeng Hospital Co., Limited, from which the Group earn management fee, no single patient or client contributed 1% or more of the Group’s revenue during the Relevant Period.

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25. EXPENSES BY NATURE

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Employee benefits expenses (<i>Note 26</i>)	50,308	65,089	82,750
Pharmaceutical and consumables used	46,835	58,227	75,419
Depreciation and amortisation	7,843	12,362	15,067
Operating lease rental expenses	6,830	10,482	16,667
Canteen expenses	6,092	7,151	8,404
Utilities expenses	4,062	4,539	5,381
Examination and testing fees	3,238	2,007	3,900
Provision for impairment of trade receivables (<i>Note 12</i>)	656	1,077	2,610
Travelling expenses	2,140	1,532	3,086
Consulting expenses	484	1,118	2,311
Promotion and marketing	2,607	4,879	2,092
Donation to charities	2,110	2,374	1,834
Repair and maintenance expense	1,214	1,702	1,739
Compensation paid to patients	1,232	799	1,147
Office expenses	1,105	783	879
Entertainment expenses	993	864	505
Others	5,607	4,281	5,225
	<u>143,356</u>	<u>179,266</u>	<u>229,016</u>

26. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS’ EMOLUMENTS

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Wages and salaries	42,334	55,910	71,016
Social security contribution	4,535	6,490	7,601
Share-based payment expenses (<i>Note 17</i>)	–	–	1,031
Other staff welfare expenses	3,439	2,689	3,102
	<u>50,308</u>	<u>65,089</u>	<u>82,750</u>

Employee benefit expenses were charged in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cost of goods and services	36,703	48,890	66,142
Administrative expenses	13,605	16,199	16,608
	<u>50,308</u>	<u>65,089</u>	<u>82,750</u>

Employees of the Group’s subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on fixed percentage ranging from 20% to 22% of the employees’ salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

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(a) Directors’ and supervisors’ remunerations

The remuneration of each director and supervisor for the years ended 31 December 2012, 2013 and 2014 are set out below:

	Salaries	Discretionary bonus	Employer’s contribution to pensionscheme
	RMB’000	RMB’000	RMB’000
For the year ended 31 December 2012			
Executive director			
Mr. Guan, Weili	300	152	42
Supervisor			
Ms. Wang Hongyue	121	103	37
	<u>421</u>	<u>255</u>	<u>79</u>
For the year ended 31 December 2013			
Executive directors			
Mr. Guan Weili	300	152	45
Ms. Wang Lianyue (i)	160	81	30
Ms. Wang Hongyue	81	75	25
Non-executive directors			
Mr. Li Zhenfu	–	–	–
Mr. Wang Hui	–	–	–
Supervisors			
Ms. Wang Hongyue (ii)	40	28	13
Ms. Huang Jingou	–	–	–
	<u>581</u>	<u>336</u>	<u>112</u>
For the year ended 31 December 2014			
Executive directors			
Mr. Guan Weili	301	64	47
Ms. Wang Lianyue	241	64	47
Ms. Wang Hongyue	122	58	39
Non-executive directors (iii)			
Mr. Li Zhenfu	–	–	–
Mr. Hu Changtao	–	–	–
Mr. Wang Hui	–	–	–
Ms. He Xin	–	–	–
Supervisors (iv)			
Mr. Sun Fangjun	28	24	–
Ms. Huang Jingou	–	–	–
Mr. XieTiefan	12	19	7
	<u>704</u>	<u>229</u>	<u>140</u>

- (i) Ms. Wang Lianyue is also the Chief Executive Officer (“CEO”) of the Group.
- (ii) Ms. Wang Lianyue and Ms. Wang Hongyue were appointed as executive directors on 22 April 2013.
- (iii) Mr. Hu Changtao was appointed as non-executive director and Mr. Li Zhenfu resigned on 22 September 2014. Ms. He Xin was appointed as non-executive director and Mr. Wang Hui resigned on 9 June 2014.

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(iv) Mr. Sun Fangjun, Ms. Huang Jingou and Mr. Xie Tiefan were appointed as supervisors on 22 September 2014.

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2012, 2013 and 2014 include 1, 2 and 2 directors whose emoluments are reflected in the analysis presented above, respectively. The aggregate amounts of emoluments for the remaining 4, 3 and 3 individuals for each of the years ended 31 December 2012, 2013 and 2014 are set out below:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowance, other allowance and benefits in kind	1,311	1,085	1,170

The emoluments fell within the following bands:

	Year ended 31 December		
	2012	2013	2014
Emoluments band Nil to HKD1,000,000	4	3	3

27. OTHER INCOME

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Government grants and subsidies	706	4,079	454
Write off of accounts payables	65	538	150
Scrap sales	102	25	36
Others	192	50	49
	<u>1,065</u>	<u>4,692</u>	<u>689</u>

28. OTHER (LOSSES)/GAIN

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Loss on disposals of property, plant and equipment	(106)	(25)	(121)
Gain on disposals of assets held-for-sale . . .	–	305	–
Others	(82)	(6)	(30)
	<u>(188)</u>	<u>274</u>	<u>(151)</u>

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29. FINANCE (EXPENSES)/INCOME — NET

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Finance income			
Interest income from bank deposits	76	430	749
Interest income from others	1,206	—	—
	<u>1,282</u>	<u>430</u>	<u>749</u>
Finance expenses			
Interest expense on bank borrowings	(2,735)	(1,387)	—
Interest expense on other borrowings	(8,917)	(3,530)	—
	<u>(11,652)</u>	<u>(4,917)</u>	<u>—</u>
Finance (expenses)/income — net	<u>(10,370)</u>	<u>(4,487)</u>	<u>749</u>

30. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2012, 2013 and 2014 is analysed as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Current income tax:			
– PRC corporate income tax	5,100	12,074	19,054
Deferred income tax	(367)	(691)	(1,685)
	<u>4,733</u>	<u>11,383</u>	<u>17,369</u>

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

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Profit before income tax	17,964	47,576	68,567
Calculated at the tax rate of 25%	4,491	11,894	17,142
Expenses not tax deductible	242	178	227
Income not subject to tax	—	(689)	—
	<u>4,733</u>	<u>11,383</u>	<u>17,369</u>

(a) PRC Corporate Income Tax (“CIT”)

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof, unless preferential tax rates were applicable.

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31. EARNINGS PER SHARE

(a) Basic Earnings Per Share

The calculation of basic earnings per share is based on profit attributable to ordinary equity shareholders of the Company of RMB13,231,000, RMB36,193,000 RMB51,198,000 for the years ended 31 December 2012, 2013 and 2014 respectively and the weighted average number of ordinary shares in issue as at the end of each reporting period, calculated as follows:

Weighted Average Number of Ordinary Shares

	Year ended 31 December		
	2012	2013	2014
	No. of shares	No. of shares	No. of shares
Ordinary shares issued at beginning of the year	35,684,000	35,684,000	50,000,000
Effect of issuance of shares	–	10,957,000	–
Weighted average number of ordinary shares at the end of year	<u>35,684,000</u>	<u>46,641,000</u>	<u>50,000,000</u>

The Company was converted into a joint stock limited company on 15 October 2014. The calculation of earnings per share for the year ended 31 December 2014 is based on 50,000,000 ordinary shares of the Company in issue upon the conversion as if those shares were outstanding from the beginning of the year. In addition, the weighted average number of ordinary shares for the year ended 31 December 2012 and 2013 have been restated accordingly.

(b) Diluted Earnings Per Share

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

32. Profit attributable to owners of the Company

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of 2012, 2013 and 2014 is RMB12,316,000, RMB28,647,000 RMB41,034,000 for the year ended 31 December 2012, 2013 and 2014 respectively.

33. DIVIDENDS

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Proposed dividends	–	–	18,480

Pursuant to a resolution of the board of directors' meeting dated on 11 May 2015, a dividend of RMB18,480,000 was declared by the Company. This dividend payable, amounting to RMB18,480,000, has not been recognised as a liability in the financial information of the Group as of 31 December 2014. The dividend proposed for 2014 have been disclosed in the consolidated statements of comprehensive income in accordance with the Hong Kong Companies Ordinance.

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34. CASH GENERATED FROM OPERATIONS

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Profit before income tax	17,964	47,576	68,567
Adjustments for:			
– Interest income (<i>Note 29</i>)	(1,282)	(430)	(749)
– Interest expense (<i>Note 29</i>)	11,652	4,917	–
– Loss on disposal of property, plant and equipment (<i>Note 28</i>)	106	25	121
– Gain on disposal of assets held for sale (<i>Note 28</i>)	–	(305)	–
– Depreciation of property, plant and equipment (<i>Note 5</i>)	7,528	11,684	14,220
– Amortisation of intangible assets (<i>Note 7</i>)	124	300	375
– Amortisation of land use rights (<i>Note 6</i>)	191	378	472
– Deferred government grants income (<i>Note 23</i>)	(706)	(1,319)	(202)
– Share-based payment expense (<i>Note 17</i>)	–	–	1,031
	<u>35,577</u>	<u>62,826</u>	<u>83,835</u>
Changes in working capital			
– Inventories	878	(110)	(609)
– Amounts due from related parties	(1,465)	(4,405)	(4,070)
– Amounts due to related parties	(882)	(228)	(423)
– Trade and other receivables	(8,277)	(9,595)	(28,164)
– Trade and other payables	10,254	571	832
Cash generated from operations	<u>36,085</u>	<u>49,059</u>	<u>51,401</u>

In the consolidated statements of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net book amount (<i>Note 5</i>)	106	25	121
Loss on disposals of property, plant and equipment (<i>Note 28</i>)	<u>(106)</u>	<u>(25)</u>	<u>(121)</u>
Proceeds from disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>

35. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed in other notes before, the following significant transactions were carried out between the Group and its related parties during the Relevant Periods. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

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(a) Names and Relationships

Names and relationships with related parties are as follows:

Name	Relationship
Wenzhou Kangning Investment Company Limited (溫州市康寧投資有限公司)	Entity controlled by the original shareholders of the Company
Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	Entity significantly influenced by the original shareholders of the Company
Wenzhou Sunshine Shelter Center (溫州市龍灣區康寧殘疾人小康•陽光庇護中心)	Not-for-profit organisation established by the Company
Pingyang Sunshine Shelter Center (平陽縣康寧殘疾人小康•陽光庇護中心)	Not-for-profit organisation established by the Company
Kangning Mental Health Institution (溫州市康寧精神衛生研究所)	Not-for-profit organisation established by the Company
Qingtian Sunshine Shelter Center (青田康寧殘疾人小康陽光庇護中心)	Not-for-profit organisation established by the Company
Cangnan Sunshine Shelter Center (蒼南縣康寧殘疾人小康•陽光庇護中心)	Not-for-profit organisation established by the Company
Yongjia Sunshine Shelter Center (永嘉縣康寧殘疾人庇護中心)	Not-for-profit organisation established by the Company
Mr. Xu, Yi (徐詒)	Close family member of a shareholder

According to the articles of association of the above not-for-profit organisations, the Company cannot exercise control over or obtain return from the not-for-profit organisations, thus they are not considered as subsidiaries of the Group.

(b) Related Party Transactions

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
(i) Management Service fee Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	6,025	7,635	10,294
(ii) Interest Income Mr. Guan Weili, Ms Wang Lianyue and Ms. Wang Hongyue	680	-	-

The loans to related parties were repaid in 2013, bearing interest rates ranged from 5.6% to 6.4% per annum.

(iii) Interest Expense Wenzhou Kangning Investment Company Limited(溫州市康寧投資有限公司)	315	-	-
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The loans from related parties were repaid in 2013, bearing interest rates was 6.56% per annum.

(iv) Rental expenses Mr. Guan Weili, Ms. Wang Lianyue and Ms. Wang Hongyue	-	72	108
(v) Payment of expenses on behalf of related party Not-for-profit organisations established by the Group	206	461	1,261
A close family member of a shareholder . . .	256	-	-
	462	461	1,261

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The above balances have been settled subsequently in 2015.

(vi) Contribution to not-for-profit organisations			
Not-for-profit organisations established by the Group	200	–	30
	<u>200</u>	<u>–</u>	<u>30</u>

The contributions made by the Group to the not-for-profit organisations were expensed to income statement upon paid. The balances due from them which are not contributions are disclosed in note 22.

Except for above contributions, the Company has no further obligations involved in these entities.

(vii) Payment of expenses for the Group by the related parties			
Not-for-profit organisations established by the Group	–	5	–
Ms. Wang Hongyue	652	–	–
	<u>652</u>	<u>5</u>	<u>–</u>
(viii) Receipt of related parties loan			
Wenzhou Kangning Investment Company Limited (溫州市康寧投資有限公司)	4,156	–	–
	<u>4,156</u>	<u>–</u>	<u>–</u>

(c) Related Party Balances

Balances with related parties as at 31 December 2012, 2013 and 2014 were disclosed in Note 22.

(d) Key Management Compensation

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

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries and bonus	1,702	1,821	2,462
Contributions to pension plans	75	80	92
Share-based payment	–	–	427
Other staff welfare expenses	127	141	197
	<u>1,904</u>	<u>2,042</u>	<u>3,178</u>

36. COMMITMENTS

(a) Capital commitments

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Contracted but not provided for			
– construction building	1,372	127,246	86,130
– leasehold improvements	–	–	1,784
– property, plant and equipment	–	129	794
	<u>1,372</u>	<u>127,375</u>	<u>88,708</u>

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(b) Operating Lease Commitments

The Group leases certain office buildings and hospitals under non-cancellable operating lease agreements. The Group’s future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Not later than 1 year	9,151	15,733	26,654
Later than 1 year and not later than 5 years	71,079	83,261	80,867
Later than 5 years	181,291	153,375	129,116
	261,521	252,369	236,637
	261,521	252,369	236,637

(c) Investment in Subsidiary

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Not later than 1 year	–	–	8,600
Later than 1 year and not later than 5 years	–	–	2,400
	–	–	11,000
	–	–	11,000

37. Contingencies

The Group had no material contingent liabilities outstanding as at 31 December 2012, 2013 and 2014.

38. Events after the Balance Sheet Date

- (a) Pursuant to a Board of Directors’ resolution passed on 7 November 2014 and the resolution passed on Shareholders’ meetings on 3 February 2015 and 16 March 2015, the Company was approved to increase its share capital by RMB2,800,000 with nominal value of RMB1 each. The Defu Fund injected RMB55,098,000 to subscribe for 1,968,000 shares, Beijing CDH Weixin injected RMB13,748,000 to subscribe for 491,000 shares, Beijing CDH Weisen injected RMB9,554,000 to subscribe for 341,000 shares. As a result, the Company’s share capital and reserve increased by RMB78,400,000, of which RMB2,800,000 was recorded as share capital and RMB75,600,000 was recorded as capital reserve. The above capital contribution was completed on 18 March 2015.
- (b) On 26 March 2015, the Company entered into a management contract with Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital (燕郊輔仁中西醫結合醫院) (“**Yanjiao Furen**”) to provide management services to Yanjiao Furen for a period of 19 years and 9 months, during the period from 1 April 2015 to 31 December 2035.
- (c) In May 2015, the Company entered into an agreement with an independent third party to establish a company Beijing Yining Hospital Company Limited (“Beijing Yining”) which will run hospital. The Company will invest RMB14,700,000 and hold 49% equity interests in Beijing Yining. The Company will account for the investment in Beijing Yining as an associate when established. Pursuant to the agreement, Beijing Yining will reimburse the Company of RMB32,370,000 for the compensation of the pre-operating costs the Company incurred in relation to the establishment of Beijing Yining, including rental expenses, leasehold improvement costs and other capital expenditures. The other investor also agreed to compensate the Company for management services to be provided to Beijing Yining for the period from 30 June 2015 to 29 June 2017, amounting to RMB5,100,000.

APPENDIX I

ACCOUNTANT'S REPORT

- (d) On 16 June 2015, the Company entered into a capital increase agreement with two independent parties to increase the registered capital of Shenzhen Yining from RMB10 million to RMB50 million. Pursuant to the agreement, the Company and two other investors will contribute capital of RMB26 million and RMB24 million to Shenzhen Yining, respectively. After the completion of the capital contribution, the Company will hold 52% equity interests in Shenzhen Yining and will continue to account for the investment as a subsidiary.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2014 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2014.

Yours faithfully,

[PricewaterhouseCoopers]
Certified Public Accountants

Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant’s Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I in this [REDACTED], and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this [REDACTED] and the Accountant’s Report set out in Appendix I to this [REDACTED].

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to equity owners of the Company as at 31 December 2014 as if the [REDACTED] had taken place on 31 December 2014.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2014 or at any future dates following the [REDACTED]. It is prepared based on the audited consolidated net tangible assets of our Group as at 31 December 2014 as set out in the Accountant’s Report of our Group, the text of which is set out in Appendix I to this [REDACTED], and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant’s Report.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 December, 2014 <i>(Note 1)</i>	Estimated net proceeds from the [REDACTED] <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company as at 31 December, 2014 <i>(Note 4)</i>	Unaudited pro forma adjusted net tangible assets per Share <i>(Note 5)</i>	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an [REDACTED] of HK\$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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Notes:

- (1) The audited consolidated net tangible assets attributable to the equity owners of the Company as at 31 December 2014 is extracted from the Accountant's Report set out in Appendix I to this [REDACTED], which is based on the audited consolidated net assets of the Group attributable to the equity owners of the Company as at 31 December 2014 of approximately RMB261,090,000 with an adjustment for the intangible assets as at 31 December 2014 of RMB1,229,000.
- (2) The Group's land use rights and buildings as of 30 April 2015 were revalued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix VI — Property Valuation Report. The net valuation surplus, representing the excess of market value of the land use rights and buildings over their carrying value amounting to RMB88,782,000, has not been included in the consolidated net tangible assets of the Group attributable to the equity holders of the Company as of 31 December 2014. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated as such valuation, an additional depreciation of RMB824,000 per annum in respect of the revaluation surplus, before income taxes, would be charged against the consolidated statement of comprehensive income.
- (3) The estimated net proceeds from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per H Share, respectively, after deduction of the estimated underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of [REDACTED] or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (4) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of [REDACTED] Shares in issue assuming that the [REDACTED] has been completed on 31 December 2014, but without taking into account any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Share which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2014. In particular, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account:
 - (i) a dividend of RMB18,480,000 declared by our Company on 11 May 2015. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per H Share would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share), respectively.
 - (ii) capital increase of RMB78,400,000 contributed by CDH and GL on 18 March 2015. Had the capital contribution been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per H Share would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share), respectively.
- (6) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB[0.7890].

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

1. TAXATION IN THE PRC

Enterprise Income Tax

Pursuant to the *Enterprise Income Tax Law of the PRC* ("EIT Law") promulgated on March 16, 2007 and implemented from January 1, 2008, enterprises that legally established in the PRC are resident enterprises, which are subject to an enterprise income tax at a statutory enterprise income tax rate of 25% for its income arising within the PRC or overseas.

In accordance with the requirement of the State Council, enterprises which have been established prior to the EIT Law and enjoy a preferential policy of low tax rate according to the then taxation law, administrative regulations and the documents with an administrative regulatory effect may gradually transit to the statutory tax rate as required under such law within five years from the implementation of EIT Law. In accordance with the requirements of the State Council, enterprises which have been enjoying a regular tax reduction and exemption preferential treatment may continue to enjoy such treatment until it is expired after the implementation of such law. However, for those enterprises not yet enjoyed such preferential treatment as profits have not been realized, the term for its preferential treatment shall be calculated commencing from 2008.

In accordance with the requirements of the EIT Law, the enterprises, which are established according to the law of a foreign country (or region) but its actual management entity is located within the PRC, are resident enterprises. A resident enterprise is subject to an enterprise income law for its income arising with the PRC and overseas.

Business Tax

Pursuant to the *Interim Regulations of the PRC on Business Tax* promulgated on December 13, 1993, revised on November 5, 2008 and implemented on January 1, 2009, by the State Council as well as the *Detailed Rules for the Implementation of the Interim Regulations of the PRC on Business Tax* promulgated on December 25, 1993, revised on December 15, 2008 and October 28, 2011, respectively, and implemented on November 1, 2011 by Ministry of Finance, all the organizations and individuals providing taxable services, transfer of intangible assets or sales of properties in the PRC are subject to a business tax at a rate of 3% to 20%. Specifically, taxable services refer to the service belonging to the taxable items, including traffic and transportation, construction, finance and insurance, post and communication, culture and sports, entertainment and servicing industry. Providing taxable services, transferring intangible assets or selling properties in the PRC shall satisfy that (1) a organization or individual who provides or receives taxable services is in the PRC; (2) a organization or individual who receives the transferred intangible assents (excluding the land-use right) is in the PRC; (3) the land of which the land-use right has been transferred or leased is in China; and (4) The property sold or leased is in the PRC.

VAT

The *Temporary Regulations on Value-added Tax of PRC*, which were promulgated by the State Council on December 13, 1993, amended on November 10, 2008, and came into effect on January 1, 2009 and the *Detailed Implementing Rules of the Temporary Regulations on Value-added Tax*, which were promulgated by the MOF and became effective on December 25, 1993, and were amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated. For small-scale taxpayers engaged in selling goods or taxable services, a simplified method for the calculation of tax payable according to the sales volume and the rate leviable shall apply, the rate leviable on small-scale taxpayers is 3 percent.

Tax related to Dividends

Individual Investors

Pursuant to the *Individual Income Tax Law of the PRC* (“**IIT Law**”) which was implemented on September 10, 1980, first revised on October 31, 1993, second revised on August 30, 1999, third revised on October 27, 2005, fourth revised on June 29, 2007, fifth revised on December 29, 2007 and sixth revised on June 30, 2011, as well as the *Regulations for Implementation of The Individual Income Tax Law of the PRC* (“**Regulations for Implementation of The Individual Income Tax Law**”) which was promulgated on January 28, 1994, first revised on December 19, 2005, second revised on February 18, 2008, third revised on July 19, 2011 and implemented on September 1, 2011, the individuals, who have no domiciles and do not reside in the PRC or have no domiciles but have resided in the PRC less than one year, receiving interests, dividends and bonus from a company, enterprise or other economic organizations or individuals in the PRC are subject to the IIT.

Pursuant to the *Notice of the State Administration of Taxation* (“**SAT**”) on *Proceeds from Stock (Equity) Transfer and Dividends Acquired by Foreign-Invested Enterprises, Foreign Enterprises and Foreign Individuals* (Guo Shui Fa [1993] No. 045, hereinafter referred to as “**Notice 45**”), which was promulgated on July 21, 1993, a foreign enterprise or a foreign individual holding B shares or foreign shares, which/who receive dividends (bonus shares) from a enterprise issuing B shares or foreign shares but is in the PRC, are provisionally exempted from the EIT or IIT. However, Notice 45 was abolished on January 4, 2011 by SAT. Pursuant to *Notice of SAT on Issues Concerning the Levy of Individual Income Tax Following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045* (Guo Shui Han [2011] No. 348), which was promulgated on June 28, 2011, for a domestic non-foreign invested enterprise who has been issuing shares in Hong Kong, its foreign individual shareholders may enjoy the relevant preferential tax treatment according to the taxation agreement between the country where its residents and the taxation arrangement between the PRC and Hong Kong (or Macau).

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When domestic non foreign-invested enterprises, which issue stocks in Hong Kong, pay dividends and bonus, a tax rate 10% is generally adopted and no applications are needed. Where the individuals who receive the dividends are residents of countries where the agreed tax rate is lower than 10%, the withholding agent shall, according to regulations provisions, handle the applications for relevant preferential treatments and refund the extra tax upon the approval of competent tax authorities. Where the individuals are residents of countries where the agreed tax rate is higher than 10% while but lower than 20%, the withholding agent shall withhold the individual income tax according to the agreed actual tax rate when paying the dividends and bonuses and no applications are needed in such cases. Where the dividend receiving individuals are residents of countries which have not established tax treaties with China or other circumstances exist, the withholding agent shall withhold the individual income tax based on the rate of 20% when paying dividends and bonuses.

Enterprise Investors

Pursuant to *EIT Law* and its *Implementation Rules*, a non-resident enterprise that has not established an organization or premises in the PRC or it has established an organization and premises but the income received has no actual connection with the organization and premises, it shall pay a business income tax at a rate of 10% for the income arising within the PRC. According to the *Notice of SAT on Issues Related to the Withholding and Remittance of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-resident Enterprises Which Hold H Shares* (Guo Shui Han [2008] No. 897) promulgated on November 6, 2008 by SAT, where Chinese resident enterprises pay dividends of 2008 and thereafter to overseas non-resident enterprise which hold H shares, the enterprise income tax shall be withheld and remitted at the uniform rate of 10%. *Reply of SAT of Imposition of Enterprise Income Tax on B-share Dividends of Non-resident Enterprises* (Guo Shui Han [2009] No. 394) promulgated on July 24, 2009 by SAT further stated that, any Chinese resident enterprise that publicly offers or lists its shares (A-share, B-share and Overseas Share) within or outside the territory of China shall uniformly withhold and remit 10% of the dividends distributed to non-resident enterprise shareholders as enterprise income tax for any such distributions made in and after 2008. Where any non-resident enterprise shareholder is entitled to the tax agreement treatment, the relevant provisions of the tax agreement shall prevail. According to the *Arrangement between the Mainland of China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*, signed on August 21, 2006 and by the PRC government and Hong Kong, the PRC government may impose dividend tax to dividends that a PRC company pay to Hong Kong residents. Where the beneficial owner is a company directly owning at least 25% of the capital of the company which pays the dividends, 5% of the gross amount of the dividends; in any other case, 10% of the gross amount of the dividends.

Tax Treaties

Investors who are not PRC residents and reside in countries which have entered into avoidance of double taxation treaties with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has Avoidance of Double Taxation Treaties with a number of countries and

regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

Taxation on Share Transfer

Individual Investors

According to the *Individual Income Tax Law of the PRC* ("IIT Law") and *Regulations for Implementation of The Individual Income Tax Law of The PRC* ("Regulations for Implementation of the Individual Income Tax Law"), with respect to income from transfer of property, incidental income or income from other sources, individual income tax rates shall be 20 percent. *Regulations for Implementation of the Individual Income Tax Law* also stipulate that measures for the levy of individual income tax on income from the transfer of shares shall be separately formulated by the department of finance under the State Council and submitted to the State Council for approval before implementation. However, such measure is yet to be publicly implemented to date. Pursuant to *Notice on Continuing the Income Tax-Free Policy on the Share Transfer of Individual Holders* (Cai Shui Zi [1998] No.61 promulgated on March 30, 1998 and implemented by Ministry of Finance and SAT, from January 1, 1997 onwards, the income from transfer of shares of listed companies by individuals continues to provisionally exempt from individual income tax. While *Notice of Issues concerning the Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies* (Cai Shui [2009] No.167 was promulgated on December 31, 2009 by Ministry of Finance, SAT and China Securities Regulatory Commission, which expressly stipulates that from January 1, 2010 onwards, the income from the transfer of limited shares of listed companies by individuals is subject to individual income tax at a tax rate of 20%. However, at present, there are no laws specifying the tax rate for income from the sales of the shares of listed companies on a stock exchange overseas by a non-PRC resident individual. In practice, tax administrative authorities have not levy individual income tax on income from the transfer of shares.

Enterprise Investors

In accordance with the *CIT Law* and its *Implementation Provisions*, a non-resident enterprise that has not established an organization or premises in the PRC or it has established an organization and premises but the income received has no actual connection with the organization and premises, it shall pay a withholding business income tax at a rate of 10% for the income arising within the PRC. The withholding tax may be reduced pursuant to applicable treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the *Provisional Regulations of the PRC Concerning Stamp Duty* effective on October 1, 1988 and amended on January 8, 2011, and the *Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty* effective on October 1, 1988 and amended on November 5, 2014, the entities and individuals executing and receiving the certificate specified under this regulation are subject to the stamp duty. The certificate subject to such duty includes: (1) sales, processing and contracting, contracting of construction projects, lease of properties, transportation of goods, storage and warehousing, money-lending, insurance of properties, technical contract or evidence of a contractual nature; (2) instruments of properties transfer; (3) sales ledger; (4) rights and licensing; (5) other certificates confirmed to be taxable by Ministry of Finance. Taxpayers shall pay the tax amount calculated according to the nature of the taxable certificate based on the proportional tax rate or on a fixed number basis.

2. THE MANAGEMENT OF FOREIGN EXCHANGE IN THE PRC

The Management of Foreign Exchange system in the PRC is stringent and has undergone several profound changes. *Regulations of the PRC on Foreign Exchange Control* ("**Regulations on the Foreign Exchange**") was promulgated by the State Council on January 29, 1996 and implemented on April 1 in the same year, and its first amendment was made on January 14, 1997 while the second amendment on August 5, 2008, being the existing major regulations on the foreign exchange and applicable to the income and expenditures of the foreign exchange or operating activities for the organizations and individuals residing in the PRC as well as the income of the foreign exchange or foreign exchange operating activities for the organizations and individuals residing abroad. The *Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange* was promulgated by the People's Bank of China on June 20, 1996 and implemented on July 1, 1996 stipulates the matters such as settlement and purchase of and payment in foreign exchange as well as the opening of foreign exchange accounts and the overseas payment for the local institutions, resident individuals, organizations established in the PRC and the personnel coming to the PRC.

According to the current *Regulations on the Foreign Exchange*, China allows foreign exchange to be retained by the local organizations and individuals without compulsory sale and settlement, the income from whom can be transferred to the PRC or overseas according to the regulations. The PRC has realized the exchange for recurring items in RMB. For the recurring income from the foreign exchanges items of the local enterprises, they can decide to retain or sell to financial institutions operating foreign exchange settlement and sale business depending on their own requirements. For the recurring expenditure incurred for the foreign exchange items of the local enterprises, enterprises pay by its own foreign exchange with valid certificates or by purchasing foreign exchanges from the financial institution operating settlement and sale of foreign exchange depending on their own requirement. The convertibility of RMB (into foreign currency) for capital account items is not available yet in the PRC and capital account items is still under restriction. Offshore institutions and individuals who directly invest in and issue negotiable securities or derivatives products in the PRC, as well as the onshore

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institutions and individuals who directly invest in or issue the negotiable securities or derivatives products beyond the PRC, shall go through the registration of foreign exchange review and approval. The onshore enterprises borrowing foreign debts or guarantee externally shall go through the registration of foreign debts and external guarantee. Foreign income from Capital items' retaining or sale to the financial institution operating foreign exchange settlement and sale business shall be approved by the foreign exchange regulatory authorities (except for that no need require for approval regulated by the State). The capital from the capital item foreign exchange and settlement shall be used in regard with the purpose approved by the related competent authorities and foreign control authorities.

In addition, Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Overseas [REDACTED], which was promulgated and implemented on December 26, 2014, stipulates foreign exchange control matters for the local enterprises listed offshore, including:

- 1) The State Administration of Foreign Exchange and its branches ("**Foreign Exchange Bureaus**") shall conduct supervision, administration and inspection over the business registration, account opening and use, cross-border receipts and payments, funds exchange, etc., involved in the overseas [REDACTED] of domestic companies;
- 2) A domestic company shall, within 15 working days after the completion of the [REDACTED] of shares for its overseas [REDACTED], go through the registration of overseas [REDACTED] with the Foreign Exchange Bureau at its place of registration with relevant materials;
- 3) A domestic company shall open a "special foreign exchange account of domestic company for overseas [REDACTED] with a domestic bank respectively for the [REDACTED] (or follow-on [REDACTED]) of shares and repurchase transactions by producing its overseas [REDACTED] registration certificate. The account so opened shall be used for handling the exchange and transfer of funds corresponding to the relevant business;
- 4) A domestic company shall open a corresponding account for foreign exchange settlement and pending payment ("**account for pending payment**") in the bank with which it opens its special account for overseas [REDACTED] to deposit its RMB funds obtained from foreign exchange settlement, funds raised from overseas [REDACTED] and repatriated in RMB, and the funds remitted abroad in RMB for repurchase of Overseas Shares and the surplus thereof;
- 5) The funds raised by a domestic company from overseas [REDACTED] may be repatriated or be deposited overseas. The use of such funds shall be consistent with those listed in the [REDACTED] documentation for shares or the [REDACTED] documentation for corporate bonds, circulars to shareholders, resolutions of the board of directors or the general meeting and other public disclosure documents. Where a domestic company intends to repatriate the

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funds raised from issuing convertible corporate bonds, it shall repatriate the funds to its domestic special account for external debts and go through relevant formalities pursuant to the provisions on external debt management; where it intends to repatriate the funds raised by issuing other forms of securities, it shall repatriate the funds to its special account for overseas **[REDACTED]** (foreign exchange) or the account for pending payment (RMB);

- 6) A domestic company may, according to its needs, apply to the deposit bank for domestic transfer of or payment from the special account for overseas **[REDACTED]** or foreign exchange settlement and transfer to the account for pending payment.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This appendix sets out summaries of certain aspects of the PRC judicial system and its arbitration system related to the operation and business of the Company as well as the legal regulations and securities regulations of the Company.

LAWS AND REGULATION OF THE PRC

(1) The PRC Legal System

According to *the Constitution Law of the PRC*, *the Organic Law of the People’s Courts of the PRC* and *the Organic Law of the People’s Procuratorates of the PRC*, the People’s Courts consist of the Supreme People’s Court, the local people’s courts, the military courts and other special people’s courts. The local people’s courts are comprised of the basic people’s courts, the intermediate people’s courts and the higher people’s courts. The basic people’s courts are further divided into civil, criminal and administrative divisions. The intermediate people’s courts have divisions similar to those of the basic people’s courts, and other special divisions, such as the intellectual property division, where necessary. The people’s courts at lower levels are subject to supervision of the people’s courts at higher levels. The Supreme People’s Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people’s courts at all levels and all special people’s courts. The people’s procuratorates also have the power to exercise legal supervision over the litigation activities of people’s courts at the same level or below.

The people’s courts have adopted a “second instance as final” appellate system. A party may appeal against the judgment and ruling by the people’s court of the first instance to the people’s court at the next higher level in accordance with the procedures provided by laws. The judgment and ruling by the intermediate people’s courts, the higher people’s courts and the Supreme People’s Court of the second instance is final and legally binding. First judgments or rulings by the Supreme People’s Court are final as well. However, in the case that the Supreme People’s Court or the people’s court at a higher level finds definite error(s) in the legally effective judgment and ruling by the people’s court at a lower level, it has the authority to review the case itself or direct the lower-level people court to conduct a retrial.

The *Civil Procedure Law of the PRC* (hereinafter referred to as the “**Civil Procedure Law**”) was adopted on April 9, 1991, and was amended on October 28, 2007 and August 31, 2012 respectively. The *Civil Procedure Law* sets forth provisions for the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of the civil judgment and ruling. All parties to a civil action conducted within the PRC must comply with the provisions of the *Civil Procedure Law*. A civil case is generally heard by a local court in the defendant’s place of domicile. An action involving a contractual dispute shall come under the jurisdiction of the people’s court in the defendant’s place of domicile or where the contract is performed. The parties to a contract may agree in the written contract to choose the people’s court of the place where the defendant is domiciled, where the contract is performed, where the contract is signed, where the plaintiff is domiciled or where the subject matter of the contract is located to be the competent court, provided that the provisions of the *Civil Procedure Law* regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

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If any party to a civil action refuses to comply with a legally effective judgment or ruling by a people’s court in the PRC, the other party may apply to the people’s court for the compulsory enforcement of the judgment or ruling. For an effective award made by an arbitration tribunal and a people’s court has not issued a ruling prohibiting the enforcement of such an award, if a party fails to comply with the award, the other party may apply to the people court for the compulsory enforcement of the award. However, specific time limits are imposed on the right to apply for such compulsory enforcement. An application for enforcement shall be submitted within two years prior to the expiration of the fulfillment period required by the relevant legal instruments.

When a party applies to a people’s court for enforcing an effective judgment or ruling by a people’s court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by a people’s court in the PRC according to the PRC enforcement procedures if the PRC has entered into, or acceded to an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court’s examination based on the principle of reciprocity, unless the people’s court finds that the recognition and enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, or causing damage to its sovereignty, security and the public interests.

(2) The Company Law of the PRC (“Company Law”), the Special Provisions of the State Council Concerning the Issuing and [REDACTED] of Shares Overseas by Joint Stock Limited Company (“the Special Provisions”) and the Mandatory Clauses of the Articles of Association of Companies Seeking Overseas [REDACTED] (“the Mandatory Provisions”)

On December 29, 1993, *the Company Law* was adopted by the standing committee and came into effect on July 1, 1994, amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively. The amended *Company Law* came into effect on March 1, 2014.

The Special Provisions were adopted by the State Council on July 4, 1994 and took effect on August 4, 1994. *The Special Provisions* applies to the overseas share subscription and [REDACTED] of joint stock limited companies.

The Mandatory Provisions were promulgated by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the Articles of Association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (as summarized in Appendix V). Set out below is a brief summary of *the Company Law* and the major provisions of *the Special Regulations* and the *Mandatory Provisions*.

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General Provisions

A “joint stock limited company” (hereinafter referred to as “**a company**”) is a corporate legal person incorporated under *the Company Law*, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the assets invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Incorporation

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, and at least half of the promoters have their domicile in the PRC.

A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, the promoters are required to subscribe for a portion of the shares to be issued, generally not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

For companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce. The shares shall not be offered to other person until the shares subscribed by the promoters were paid up; for companies incorporated by way of public subscription, the registered capital is in the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce. Pursuant to *the Securities Law of the PRC* (“**the Securities Law**”) adopted on December 29, 1998 by the standing committee and amended four times on August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014 respectively, the total share capital of a company which applies for its shares to be listed shall not be less than RMB30 million.

After the issued shares have been fully paid up, a capital verification institution established by laws must be engaged to conduct capital verification and issue a report thereon. The promoters shall convene an inaugural meeting within 30 days from the date the shares were paid up and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of promoters and subscribers holding shares representing more than 50% of the shares of the company. Functions and powers exercisable by the inaugural meeting include approving the Articles of Association of the Company, electing members of the board of directors and the board of supervisors of the company (directors or supervisors who are representatives of the employees shall be elected democratically by representatives of the employees). The passing of any foregoing resolution of the inaugural meeting requires more than half of the votes cast by subscribers present at the meeting.

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Within 30 days after the conclusion of the inaugural meeting, the Board of Directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established once the registration has been approved by the registration authority and an Enterprise Legal Person Business License has been issued.

During the course of incorporation of the company, the promoters of a company shall be liable for: (a) the payment of all liabilities and expenses incurred in the incorporation process if the company cannot be incorporated; (b) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and c) the compensation for damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share Capital

The promoters of a company may make capital contribution in currency or in non-currency property that may be valued in currency and transferable such as physical objects, intellectual property and land use rights, non-currency property contributed as capital shall be valued and verified.

A company may issue registered or bear shares. However, shares issued to a promoter or a legal person shall be registered shares and shall bear the name of such promoter or legal person. No separate account with a different name may be opened for such shares, nor may such shares be registered in the name of a representative.

Pursuant to the requirements of *the Special Regulations* and *the Mandatory Provisions*, shares issued to foreign investors (including investors from foreign countries, Hong Kong, Macau and Taiwan) and listed overseas are defined as overseas listed foreign invested shares, shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency, and those issued to investors within the PRC other than the aforementioned areas by a company are defined as domestic shares, shall be issued in registered form and subscribed for in RMB.

A company may offer its shares to foreign investors with approval by the securities administration department of the State Council. According to the *Special Regulations*, upon approval of the China Securities Regulatory Commission, a company may agree, in the underwriting agreement on issuing overseas listed foreign invested shares, to retain not more than 15% of the aggregate amount of overseas listed foreign invested shares proposed to be issued.

The [REDACTED] may be equal to or in excess of par value, but shall not be less than par value.

Transfer of Shares

The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council of China. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by Chinese laws or by administrative regulations; the name and address of

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the transferee should be registered in the shareholders' registers upon transfer. No changes required in the aforesaid clause may be made to the shareholders' registers within twenty days prior to a shareholders' general meeting or five days prior to the benchmark date set by the Company for the purpose of distribution of dividends. But if it is otherwise prescribed in relevant provisions of the laws with respect to the registration of change to the register of shareholders of listed companies, then such relevant provisions shall apply. The transfer of bearer shares is effective when the shareholder has delivered the stock to the transferee.

Shares held by the promoter(s) of a company shall not be transferred within one year from the date of incorporation of the company. Shares issued by a company prior to the [REDACTED] of its shares shall not be transferred within one year from the date of its shares being listed on a stock exchange. Directors, supervisors and senior management of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one year from the [REDACTED] date, and shall not transfer the shares they hold in the company within six months after they leave office.

Increase in Capital

The proposed issue of new shares by the company must be approved by shareholders in general shareholders' meeting. *The Securities Law* requires the other conditions for a company to offer new shares to the public: (a) a complete and well-operated organization; (b) capability of making profits continuously and a healthy financial status; (c) no false records or significant irregularities in its financial statements over the last three years; (d) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The [REDACTED] of new shares of a company requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, the company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures stipulated by *the Company Law*:

- (a) The company shall prepare a balance sheet and an inventory of property;
- (b) The reduction of registered capital must be approved in the general shareholders' meeting;
- (c) The company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within thirty days once the resolution approving the reduction in capital being passed;
- (d) Creditors of the company may require the company to clear its debts or provide relevant guarantees; and

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- (e) The company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of Shares

A company shall not purchase its own shares other than for the following purposes:

- (a) to reduce the registered capital;
- (b) to merge with another company(s) holding the company's shares;
- (c) to grant shares as a reward to the staff of the company;
- (d) to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general shareholders' meeting.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares repurchased shall be transferred to the staff of the company within one year. *The Mandatory Provisions* stipulate that upon obtaining approvals from relevant supervisory authorities in the PRC in accordance with the Articles of Association of the company, a company may repurchase its issued shares by way of: (a) a general offer to all of its shareholders to repurchase the same proportion; (b) on a stock exchange by way of open trading; (c) through agreement outside the stock exchange.

A company may not accept its own shares as the subject matter of a pledge.

Shareholders

The Articles of Association of a company set forth the shareholders' rights and obligations and are binding on all the shareholders. Pursuant to *the Company Law* and *the Mandatory Provisions*, a shareholder's rights include:

- (a) the right to receive dividends and other profit distributions based on the number of shares held;
- (b) the right to attend in person or appoint a representative to attend the general shareholders' meeting and to vote in respect of the amount of shares held;
- (c) the right to inspect the Article of Association, register of shareholders, bond records of the company, minutes of the general meetings, resolutions of the Board of the Directors, resolutions of the supervisor's meetings and financial and accounting reports and propose and doubt in relation to the company's operations;
- (d) the right to transfer his/her shares in accordance with applicable laws and regulations as well as the Articles of Association of the company;

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- (e) the right to obtain surplus assets of the company upon its termination or liquidation based on the number of shares held;
- (f) the right to claim against other shareholders who abuse their rights of shareholders for the damages;
- (g) If the procedure for convening the general shareholders' meeting or the meeting of the Board of Directors, or the method of voting violates laws, administrative regulations or the Articles of Association of the company, or if the contents of a resolution violate the Articles of Association of the company, a shareholder may present a petition to a court for cancellation of resolution;
- h) other rights specified in laws and regulations and the Articles of Association of the company.

The obligations of shareholders include: abide by the Articles of Association of the company; pay the subscription monies in respect of shares subscribed for; be liable for the debt and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up; no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status and limited obligations of the company as a legal person to damage the interests of the creditors of the company; and any other obligations specified in the Articles of Association of the company.

General Shareholders' Meeting

The general shareholders' meeting is the organ of authority of a company, which exercises the following functions and powers in accordance with the requirements of *the Company Law*:

- (a) to decide on the company's business plans and investment plans;
- (b) to elect and replace the Directors and Supervisors who are not representatives of the employees and to decide on matters relevant to remuneration of Directors and Supervisors;
- (c) to review and approve reports of the Board of Directors;
- (d) to review and approve reports of the Board of Supervisors or the Supervisors;
- (e) to review and approve the company's proposed annual financial budgets and final accounts;
- (f) to review and approve proposals for profit distribution and for recovery of losses of the company;
- (g) to decide on the increase or reduction of the company's registered capital;

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- (h) to decide on the issue of corporate bonds;
- (i) to decide on merger, division, dissolution, liquidation or change the form of the company;
- (j) to amend the Articles of Association of the company;
- (k) other functions and powers specified in the Articles of Association of the company.

The shareholders' general meeting must be convened once a year. An extraordinary shareholders' meeting shall be held within two months after the occurrence of any of the following circumstances:

- (a) the number of Directors is less than the number provided for in *the Company Law* or less than two thirds of the number specified in the Articles of Association of the company;
- (b) the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- (c) as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;
- (d) when deemed necessary by the Board of Directors;
- (e) as suggested by the Board of Supervisors;
- (f) other circumstances required by the Articles of Association.

The general shareholders' meeting shall be convened by the Board of Directors and shall be presided over by the chairman of the Board of Directors. Where chairman of the Board of Directors is unable or fails to perform the duty, the meeting shall be presided over by vice chairman of the Board of Directors. Where vice chairman of the Board of Directors is unable or fails to perform his duties, the meeting shall be presided over by a Director jointly elected by a simple majority of the Directors.

The written notice to convene the general shareholders' meeting shall be dispatched to all the registered shareholders 45 days before the meeting pursuant to *the Special Regulations* and *the Mandatory Provisions*, stating the matters to be reviewed at the meeting and the date and place of the meeting. Shareholders intending to attend the meeting are required to send written confirmations of their attendance to the company 20 days before the meeting. There is no specific provisions in *the Company Law* regarding the number of shareholders constituting a quorum in a shareholders' meeting, although *the Special Regulations* and *the Mandatory Provisions* provide that a company's general shareholders' meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days notify shareholders again by

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public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the meeting may be held thereafter.

The Mandatory Provisions require classified shareholders' meetings to be held in the event of a variation or derogation of the classified rights of a class. Holders of domestic invested shares and holders of overseas-listed-foreign-invested shares are deemed to be different classes of shareholders for this purpose.

Pursuant to the requirements of *the Company Law*, a shareholder holding, or shareholders holding in aggregate, more than 3% of the shares of the company may propose interim resolution and present it to the Board of Directors in writing. According to *the Special Regulations*, at the annual general shareholders' meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions, which if within the functions and powers of the s general hareholders' meeting, are required to be added to the agenda of the general meeting.

Shareholders present at the general shareholders' meeting possess one vote for each share they hold. However, the company shall have no vote for any shares of the company. A shareholder may entrust a proxy to attend a general shareholders' meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. Resolutions proposed at the general shareholders' meeting shall be approved by more than half of the voting rights cast by shareholders present (including attend in person or represented by proxies) at the general meeting, except that such resolutions as amendment to the Articles of Association, the increase or reduction of registered capital or merger, division, dissolve or the change in the form of the company, shall be approved by shareholders with more than two thirds of the voting rights cast by shareholders present at the general meeting.

Directors

A company shall have a Board of Directors, which shall consist of five to nineteen members. The Board of Directors may have employee representatives democratically elected by employees through workers Conference or other forms. The term of office of the Directors shall be provided for by the Articles of Association, but each term of office shall not exceed three years. The Directors may hold consecutive terms upon re-election.

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Under *the Company Law*, the Board of Directors exercises the following functions and powers:

- (a) to convene the general shareholders' meeting and report on its work to the general shareholders' meeting;
- (b) to implement the resolution of the general shareholders' meeting;
- (c) to decide on the company's business plans and investment plans;
- (d) to formulate the company's proposed annual financial budgets and final accounts;
- (e) to formulate the company's proposals for profit distribution and for recovery of losses;
- (f) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (g) to prepare plans for the merger, division, dissolution or changes in the forms of the company;
- (h) to decide on the company's internal management structure;
- (i) to appoint or dismiss the company's general manager and to decide on the remuneration, and based on the general manager's nomination, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- (j) to formulate the company's basic management system;
- (k) other functions and powers as specified in the Articles of Association.

In addition, *the Mandatory Provisions* provide that the Board of Directors is also responsible for formulating the proposals for amendment of the Articles of Association of a company.

Meetings of the Board of Directors shall be convened at least twice a year. A notice of meeting shall be given to all Directors and Supervisors ten days before the meeting. The Board of Directors may otherwise provide for the notice time and notice period for convening extraordinary meetings.

Meetings of the Board of Directors could be held only if more than half of the Directors are present. If a Director is unable to attend a board meeting, he may appoint another Director by a written power of attorney specifying the scope of the authorization for another Director to attend the meeting on his behalf. Resolutions of the Board of Directors require the approval of more than half of all Directors.

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The Directors are responsible for the resolutions of the Board. If a resolution of the Board of Directors violates the laws, administrative regulations or the company's Articles of Association or resolutions of general shareholders' meeting as a result of which the company suffer serious losses, the Directors participating in the resolution are liable to compensate the company. However, if it can be proven that a Director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such Director may be relieved of that liability.

The Board of Directors shall appoint a chairman and may appoint a vice chairman, who is elected with approval of more than half of all the Directors. The chairman of the Board of Directors shall convene and preside over the meetings of the Board of Directors and inspect the implementation of resolutions of the Board of Directors.

The office of legal representative of a company may be served by the chairman of the Board, the executive Director or the manager as stipulated in company's Articles of Association.

Supervisors

A company shall have a Board of Supervisors of no fewer than three members. The Board of Supervisors shall include representatives of the shareholders and an appropriate ratio of the representatives of the company's staff and workers, where the ratio of the staff and workers' representatives shall not be less than one-third. Directors and senior management personnel may not concurrently serve as supervisors. The term of office of a supervisor shall be three years. If re-elected upon expiration of his term of office, a supervisor may serve consecutive terms.

According to *the Company Law*, the Board of Supervisors shall exercise the following functions and powers:

- (a) check the company's financial affairs;
- (b) supervise the Directors and senior management in the performance of their duties, and put forward proposals on the removal of any director or senior management who violates laws, administrative regulations, the Articles of Association or resolution of the shareholders' meeting;
- (c) require the Director or senior management to make corrections if his act is detrimental to the interests of the company;
- (d) propose the convening of extraordinary shareholders' meetings, and convene and preside over the general shareholders' meetings when the Board of Directors fails to perform the duties of convening and presiding over the general shareholders' meetings;
- (e) put forward proposals at general shareholders' meetings;

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- (f) institute proceeding against the Directors and senior management upon shareholders' request if a Director or senior management violates the provisions of laws, administrative regulations or the Articles of Association in the performance of company duties, thereby causing losses to the company;
- (g) other functions and powers specified in the Articles of Association of the company.

Managers and Other Senior Management

A company shall have a manager who shall be appointed or removed by the Board of Directors. The Board of Directors may decide that a member of the Board of Directors shall serve concurrently as the manager.

According to *the Company Law*, the manager is accountable to the Board of Directors and shall exercise the following functions and powers:

- (a) manage the production, operation and management of the company and arrange for the implementation of resolutions of the Board of Directors;
- (b) arrange for the implementation of the company's annual business plans and investment plans;
- (c) draft the plan for the establishment of the company's internal management organization;
- (d) draft the basic management system of the company;
- (e) formulate the specific rules and regulations of the company;
- (f) recommend the appointment or dismissal of the deputy manager(s) and person(s) in charge of financial affairs of the company;
- (g) decide on the appointment or dismissal of management personnel other than those required to be appointed or dismissed by the Board of Directors;
- (h) other functions and powers delegated by the Board of Directors.

It is also specified by *the Company Law* that where the Articles of Association have other provisions on the functions and powers of the manager, such provisions shall prevail.

Pursuant to *the Company Law*, besides managers, the other senior management include deputy managers and persons in charge of financial affairs, the secretary to the Board of Directors and other personnel specified in the Articles of Association.

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Qualifications and Duties of Directors, Supervisors and Senior Management

According to *the Company Law*, a person may not serve as a Director, Supervisor or senior management if he is:

- (a) a person with no or limited capacity for civil acts;
- (b) a person that was sentenced to criminal punishment for the crime of corruption, bribery, encroachment of property, misappropriation of property or disruption of the order of the socialist market economy, and not more than five years has elapsed since the expiration of the enforcement period; or a person that was deprived of his political rights for committing a crime, and not more than five years has elapsed since the expiration of the enforcement period;
- (c) a Director or factory director, manager of a company or enterprise liquidated upon bankruptcy that was personally responsible for the bankruptcy of the company or enterprise, and not more than three years has elapsed since the date of completion of the bankruptcy liquidation;
- (d) legal representative of a company or enterprise that had its business license revoked and had been closed down by order for violation of law, for which such representative bears individual liability, and not more than three years has elapsed since the date on which the business license of the company or enterprise was revoked;
- (e) a person with a comparatively large amount of personal debts due and unsettled.

A Director, Supervisor and senior management shall comply with the provisions of relevant laws and regulations, administrative regulations and the Articles of Association, perform their duties honestly and protect the interests of the company. *The Company Law* and *the Mandatory Provisions* provide that a director, supervisor and senior management bear duties to act honestly and diligently for the company. The fiduciary duties of the Directors, Supervisors, managers and other senior management may not cease with the termination of their office. Their confidentiality obligation in relation to the company's business secrets shall remain effective upon termination of their office.

A Director, Supervisor and senior management who violate the provisions of laws, administrative regulations or the Articles of Association in the performance of his duties shall be liable to indemnify the company for the losses caused to the company.

Finance and Accounting

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the financial department of the State Council. At the end of each financial year, a company shall prepare a financial and accounting report which shall be audited by an accounting firm as provided by law.

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A company shall make available its financial and accounting report at the company for the inspection by the shareholders within 20 days before the convening of the annual general shareholders' meeting. Companies that issue shares to the public must publish its financial and accounting report.

When a company distributes its after-tax profits for a given year, it shall allocate 10% of profits to its statutory common reserve. A company shall no longer be required to make allocations to its statutory common reserve once the aggregate amount of such reserve exceeds 50% of its registered capital. If a company's statutory common reserve is insufficient to make up its losses of the previous years, such losses shall be made up from the profits for the current year prior to making allocations to the statutory common reserve. A company may, if so resolved by the general shareholders' meeting, make allocations to the discretionary common reserve from its after-tax profits after making allocations to the statutory common reserve from the after-tax profits.

A company's after-tax profits remaining after it has made up its losses and made allocations to its common reserve shall be distributed in proportion to the shareholdings of its shareholders, unless the Articles of Association stipulate that the profits shall not be distributed in proportion to the shareholdings.

A company shall enter under its capital common reserve the premium over the nominal value of the shares of the company on issue, and such other income as the finance department of the State Council requires to be entered under the capital common reserve.

A company's common reserves shall be used for making up losses, expanding the production and business operation or increasing its capital by means of conversion, but the capital common reserve shall not be used for making up the company's losses. Where the funds from the statutory common reserve are converted to registered capital, the remaining funds in such reserve shall not be less than 25% of the company's registered capital after such conversion.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent accounting firm to audit the company's annual report and review and check other financial reports. The accounting firm is to be employed for a term commencing from the close of an annual general shareholders' meeting and ending at the close of the next annual general meeting.

If a company removes or ceases to continue to appoint the accounting firm, it is required to give prior notice to the accounting firm and the accounting firm is entitled to make representations before the shareholders in general shareholders' meeting. The appointment, removal or non re-appointment of the accounting firm shall be decided by the shareholders in general shareholders' meeting and shall be filed with the China Securities Regulatory Commission for record.

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Distribution of Profits

According to *the Company Law*, company shall not allocate its profits before the loss is compensated and the provision on the statutory pension is made. *The Special Regulations* and *the Mandatory Provisions* provide that the dividends or other amounts to be paid to holders of overseas listed foreign invested shares by a company shall be calculated and declared in RMB and paid in foreign currency. The payment of foreign currency to shareholders shall be made through a receiving agent.

Dissolution and Liquidation

Under *the Company Law*, a company shall be dissolved in any of the following events:

- (a) when the term of operation set down in a company's Articles of Association has expired or events of dissolution specified in the company's Articles of Association have occurred;
- (b) the shareholders in a general shareholders' meeting have resolved to dissolve a company;
- (c) a company is dissolved by reason of its merger or demerger;
- (d) a company is subject to the revocation of business license, a closure order or dismissal in accordance with laws;
- (e) in the event that a company encounters substantial difficulties in its operation and management and its continual existence shall cause a significant loss to the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the voting rights of all shareholders of a company present a petition to the court for dissolution of the company.

Where a company is to be dissolved in the circumstances described in (a), (b), (d) and (e) above, a liquidation committee must be formed within 15 days from the date of dissolution. Such liquidation committee shall be composed of Directors or persons decided upon by the general shareholders' meeting. If no liquidation committee is established within the time limit, the company's creditors may request the court to designate relevant persons to form a liquidation committee.

The liquidation committee shall notify creditors within 10 days after the date of its establishment and issue a public notice in the newspapers within 60 days. Creditors shall declare their claims to the liquidation committee within 30 days after the date of receipt of notification, or within 45 days after the date of public notice for those who did not receive any notification.

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The liquidation committee shall exercise the following functions and powers during the liquidation period:

- (a) thoroughly examine the company's properties and prepare a balance sheet and an inventory of properties, respectively;
- (b) notify creditors by notice or public notices;
- (c) dispose of and liquidate relevant outstanding business of the company;
- (d) pay outstanding taxes and taxes arising in the course of liquidation;
- (e) clear the claims and debts;
- (f) dispose of the surplus properties of the company after its debts have been paid off; and
- (g) participate in civil lawsuits on behalf of the company.

If the liquidation committee, having thoroughly examined the company's properties and prepared a balance sheet and an inventory of properties, becomes aware that the company's properties is insufficient to pay its debts, it shall apply to the court for a declaration of bankruptcy of the company. If the company's properties are sufficient to pay its debts, the liquidation committee shall formulate a liquidation plan and submit the same to the general shareholders' meeting or the court for confirmation. After being applied towards the payment of the liquidation expenses, and the wages, social insurance premiums and statutory compensation of staff and workers, outstanding taxes and the settlement of the debts of the company, the properties of a company shall be distributed in proportion to the shareholding of its shareholders.

Upon completion of liquidation, the liquidation committee shall compile a liquidation report and submit the same to the general shareholders' meeting or the court for confirmation, and to relevant administration bureau for industry and commerce for applying for cancellation of the company's registration. A public notice of its termination shall be issued.

Overseas [REDACTED]

A company may issue shares to overseas investors after obtaining approval from the securities regulatory authority of the State Council and its shares may be listed overseas.

Loss of H Share Certificates

The Special Regulations and the Mandatory Provisions provide that in the case of loss of share certificates by the shareholders of overseas listed foreign invested shares, an application for the issue of replacement certificates may be handled in accordance with the law or rules of the securities exchanges or other relevant regulations of the place where the original copy of the register of shareholders of overseas listed foreign invested shares is kept.

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Suspension and Termination of [REDACTED]

The Securities Law provides that where a company is in one of the following circumstances, the stock exchange shall decide to suspend the [REDACTED] and trading of its shares:

- (a) there is a change in the total share capital, equity distribution or etc. of the company and the [REDACTED] conditions are no longer fulfilled;
- (b) the company fails to disclose its financial status as required, or there are falsehoods in the financial and accounting reports that may mislead investors;
- (c) the company has committed a major breach of the law;
- (d) the company has suffered continuous losses for the most recent three years; or
- (e) other circumstances stipulated by the [REDACTED] rules of the relevant stock exchange.

In the event that the conditions for [REDACTED] are not satisfied within the period stipulated by the relevant stock exchange as described in a) above, or the company has refused to rectify the situation in the case described in b) above, or the company fails to become profitable in the next subsequent year in the case described in d) above, or the company is dissolved or declared bankrupt, the relevant stock exchange shall have the right to terminate the [REDACTED] of the shares of the company.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company that is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

(3) The Securities Law and Other Relevant Regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of Securities. In October 1992, the State Council established the Securities Committee and the China Securities Regulatory Commission (“CSRC”). The Securities Committee was the competent authority in charge of unified macro administration of national securities market; its major responsibilities include coordinating the drafting of draft securities laws and regulations, researching into and formulating guidelines, policies and rules on securities market, formulating the development plans of securities market and [REDACTED] plans and advice, directing, coordinating, supervising and inspecting all securities-related work and administering the CSRC. The CSRC was the regulatory and implementing body of the Securities Committee and responsible for the drafting of administration rules of the securities market, supervising securities companies, regulating the [REDACTED] and trading of marketable securities, regulating public [REDACTED] of shares by PRC companies in the PRC and overseas. In 1998, as the securities commission was dismissed, its duties are taken by the CSRC.

The Securities Law comprehensively regulates activities in the PRC securities market. This law involves, among other things, the issue and trading of securities, takeovers by listed

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companies, securities exchanges, securities companies and the duties and responsibilities of the State Council’s securities regulatory authorities. *The Securities Law* provides that a PRC company must obtain prior approval from the State Council’s regulatory authorities to conduct the overseas [REDACTED] of securities directly or indirectly and list its securities outside the PRC.

On December 20, 2012, the CSRC has promulgated *the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and [REDACTED] by Joint Stock Companies* which sets out the provisions on the application documents, application and examination procedures for overseas share issuance and [REDACTED] by companies.

(4) Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (hereinafter referred to as “**the Arbitration Law**”) was passed by the Standing Committee on August 31, 1994, became effective on September 1, 1995 and revised on August 27, 2009. It is applicable to contract disputes and other property interest disputes between equal citizens, legal person and other organizations where the parties have entered into a written agreement to refer the matter to arbitral award. Where the parties entered into arbitration agreement, the court will refuse to handle the proceedings appealed by a party unless the arbitration agreement is null and void.

Under *the Civil Procedure Law* and *the Arbitration Law*, an arbitral award is final and binding on the parties. If a party fails to comply with an arbitral award, the other party to the award may apply to the court for enforcement in accordance with relevant provisions of *the Civil Procedure Law*. A people’s court may refuse to enforce an arbitral award if a party can testify that there is procedural or membership irregularity provided by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award against a party who, or whose property, is not within the PRC, may apply directly to a foreign court with jurisdiction. Similarly, an arbitral award made by a foreign arbitration body to be recognized and enforced by the PRC courts shall be applied by a party to the intermediate courts of the place where the enforcee is domiciled or the property is located, and the PRC courts shall deal with in accordance with any international treaty or the principles of reciprocity concluded or acceded to by the PRC.

On December 2, 1986, the PRC acceded to *the Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (hereinafter referred to as the “**New York Convention**”) which became effective in PRC since April 22, 1987. This Convention provides that all arbitral awards made in a member country of the Convention shall be recognized and enforced by other member countries of the Convention with exception of certain circumstances the member country can refuse to enforce. It was declared by the Standing Committee simultaneously with the accession of the PRC that (a) the PRC will only recognize and enforce foreign arbitral awards on the principle of equality; and (b) the PRC will only apply *the New York Convention* in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. On June 18, 1999, *the Arrangement of the Supreme People’s Court on Mutual Enforcement of Arbitration Awards between the Mainland and Hong Kong* for mutual enforcement of arbitral awards was entered into between the Supreme

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People's Court of PRC and Hong Kong and became effective on February 1, 2000. Under this arrangement, award made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong.

(5) Judicial Judgment and its Enforcement

Under the *Arrangement of the Supreme People's Court between the Courts of the Mainland and the Hong Kong on Mutual Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdiction as Agreed to by the Parties Concerned* issued by the Supreme People's court on July 3, 2008 and became effective on August 1, 2008, in the case of final judgment, defined with payment amount and enforcement power, made between mainland court and Hong Kong court in civil and commercial case with written jurisdiction agreement, the parties concerned shall apply to mainland people's court or Hong Kong court for recognition and enforcement based on this arrangement. "Choice of court agreement in written" in this arrangement refers to a written agreement defining the exclusive jurisdiction of either the mainland people's court or Hong Kong SAR in order to revolve dispute with particular legal relation occurred or likely to occur by the parties concerned since effective date of this arrangement. Accordingly, the parties concerned may apply to the courts in mainland or Hong Kong to recognize and enforce the final judgment made by the courts in Hong Kong or the Mainland that meet certain conditions under this arrangement.

HONG KONG LAWS AND REGULATIONS

Summary of Material Differences Between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Hong Kong Companies Ordinance, Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

(1) Corporate Existence

Under the Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. A joint stock limited company has no minimum capital requirement except for the special provisions of any other laws, administrative regulations and decisions of the State Council.

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Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

(2) Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital other than registered capital. For joint stock limited companies incorporated by promotion, the registered capital is the total share capital subscribed by all promoters that registered at the registration authority. Where a joint stock limited company is incorporated by public subscription, the registered capital is the total paid-up capital that registered at the registration authority. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that may be valued in currency and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

(3) Restrictions on Shareholding and Transfer of Shares

Under PRC law, the domestic shares (“**domestic shares**”) in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the domestic investors and qualified foreign institutional investors of the PRC. The overseas listed foreign shares (“**foreign shares**”) issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, as well as other qualified domestic institutions.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company’s public [REDACTED] cannot be transferred within one year from the [REDACTED] date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the [REDACTED] date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The Articles of Association may set other restrictive requirements on the transfer of the company’s shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and

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transfers of shares under Hong Kong law except for the six-month lock-up on the company’s issue of shares and the 12 month lock-up on the Controlling Shareholders’ disposal of shares as described in the section entitled “Underwriting” in this [REDACTED].

(4) Financial Assistance for Acquisition of Shares

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(5) Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every 12-month period, pursuant to a Shareholders’ special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders’ special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by the CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

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(6) Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors’ authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders’ approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V.

(7) Board of Supervisors

Under the PRC Company Law, the directors and senior management of a joint stock limited company is subject to the supervision and inspection of a Board of Supervisors but there is no mandatory requirement for the establishment of a Board of Supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(8) Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people’s court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior management of a company violates the law, administrative regulation or articles of association of such company and thus infringes the shareholder’s interest. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a [REDACTED] of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company’s articles of association. This allows minority shareholders to act against the directors and supervisors in default.

(9) Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests

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may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters any serious difficulty in its operations or management such that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding 10% or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual interests of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

(10) Notice of Shareholders' Meetings

Under the PRC Company Law, notice of a shareholders' annual general meeting must be given not less than 20 days before the meeting, or, not less than 15 days before a shareholders' interim general meeting. In the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum notice period of a general meeting other than an annual meeting is 14 days; and the notice period for an annual general meeting is 21 days.

(11) Quorum for Shareholders' Meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(12) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at

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a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders with the right to vote present at a shareholders' general meeting.

(13) Financial Disclosure

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its financial reports and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of [REDACTED] under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Hong Kong Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(14) Information on Directors and Shareholders

The PRC Company Law gives the shareholders of a company the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(15) Receiving Agent

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

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(16) Corporate Reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 673, Division 2 of Part 13 of the Hong Kong Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

(17) Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

(18) Mandatory Deductions

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declares any dividends after taxation. The company may not be required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

(19) Remedies of a Company

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been in compliance with the Listing Rules.

(20) Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

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In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(21) Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary **[REDACTED]** or whose primary **[REDACTED]** is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

(1) Compliance Adviser

A company seeking **[REDACTED]** on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its **[REDACTED]** date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(2) Accountants' Report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable

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to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises in the case of a PRC issuer that has adopted China Accounting Standards for Business Enterprises for the preparation of its annual financial statements.

(3) Process Agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are [REDACTED] on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(4) Public Shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares (“foreign shares”) which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which [REDACTED] is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of [REDACTED] of not less than HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the company has an expected market capitalization at the time of [REDACTED] of over HK\$10,000,000,000.

(5) Independent Non-executive Directors and Supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Subject to governmental approvals and the provisions of the Articles of Association, the company may repurchase its own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the company.

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(6) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary [REDACTED] is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V.

(7) Redeemable Shares

The company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(8) Pre-emptive Rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the company’s Articles of Association, prior to (1) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company’s plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(9) Supervisors

The company is required to adopt rules governing dealings by its Supervisors in securities of the company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

The company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the company or its subsidiary: (1) the term of the

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contract may exceed three years; or (2) the contract expressly requires the company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year.

The remuneration committee of the company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the company and its shareholders as a whole and advise shareholders on how to vote.

(10) Amendment to the Articles of Association

The company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the Mandatory Provisions of the Listing Rules and the Mandatory Provisions or the PRC Company Law.

(11) Documents for Inspection

The company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the company;
- reports showing the number and nominal value of securities repurchased by the company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return led with the Shenzhen Administration for Industry and Commerce; and
- for shareholders only, copies of minutes of meetings of shareholders.

(12) Receiving Agents

The company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

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(13) Statements in H Share Certificates

The company is required to ensure that all of its [REDACTED] documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the company and each Shareholder of the company, and the company agrees with each shareholder of the company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the company, each shareholder, Director, Supervisor, manager and officer of the company, and the company acting for itself and for each Director, Supervisor, manager and officer of the company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the company and each shareholder of the company that the H Shares are freely transferable by the holder thereof; and
- authorizes the company to enter into a contract on his behalf with each Director, Supervisors, Managers and officer of the company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(14) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(15) Contract between the Company and its Directors, Officers and Supervisors

The company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to the company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the company between the company and its Directors or officers and between a holder of H Shares and a Director or officer of the company, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms; and
- disputes over who is a shareholder and over the share registrar do not have to be resolved through arbitration.

(16) Subsequent [REDACTED]

The company must not apply for the [REDACTED] of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(17) English Translation

All notices or other documents required under the Listing Rules to be sent by the company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

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(18) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make [REDACTED] of the equity securities of a PRC issuer, including the company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the company's [REDACTED].

Other Legal and Regulatory Provisions

Upon the company's [REDACTED], the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the company.

Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association, PRC Company Law and other applicable laws shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party), or any of its witnesses, or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and China Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

This Appendix set out summaries of the main clauses of our Articles of Association adopted on May 11, 2015, which shall become effective as of the date on which the H shares are [REDACTED] on the Stock Exchange. As the main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all information that is important for investors. As discussed in the appendix headed “Appendix VIII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” to this [REDACTED], the full document of the Articles of Association in Chinese is available for examination.

1 DIRECTORS AND BOARD OF DIRECTORS

(1) Power to allocate and issue shares

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare suggestions for share allotment or issue, which are subject to approval by the shareholders at the shareholders’ general meeting in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws, administrative regulations and supervision rules of shares listed region.

(2) Power to dispose assets of our Company or our subsidiaries

In any case that the Board of Directors intends to dispose assets, if the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of our Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted at the shareholders’ meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of shareholders at the shareholders’ general meeting.

The above disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets.

The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

(3) Indemnification or compensation for loss of office

As provided in the written contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the approval of the shareholders at the general shareholders’ meeting in advance.

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Acquisition of our Company refers to any of the following circumstances:

- i. An offer made by any person made to all the shareholders; or
- ii. An offer is made by any person such that the offeror will become the Controlling shareholder of our Company. The definition of controlling shareholder is the same as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

(4) Loans to Directors, Supervisors or other management personnel

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees. In the event that our Company provides loans in violation of this restriction, the person who receives the loan(s) must payoff the loan(s) immediately, regardless of the conditions of loans. Any loan provided by our Company in violation of the above requirements shall not be mandatorily enforced against us, unless under the following circumstances:

- i. The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of our Company or its parent company; or
- ii. The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

The following transactions are exempted from the above clauses:

- i. Our Company provides our subsidiaries with loans or loan guarantees;
- ii. Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other fund pursuant to the employment contracts approved at the shareholders' meeting to pay all expenses incurred for the purpose of our Company or performing his duties owed to our Company; and
- iii. In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or loan guarantees, provided that the conditions governing the above loans or loan guarantees shall be normal commercial conditions.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor bearing the liabilities or providing properties to ensure that the obligor performs the obligations.

(5) Provide financial aid for acquiring the shares or shares of any of our subsidiaries

Pursuant to the Articles of Association:

- i. Our Company or our subsidiaries (including our affiliated enterprises) shall not provide any financial assistance at any time or in any manner to personnel that acquires or plans to acquire our shares. Such personnel include any who undertake obligations, directly or indirectly, from acquiring the shares; and
- ii. Our Company or any of our subsidiaries (including our affiliated enterprises) shall not provide personnel mentioned in the preceding paragraph with financial aid at any time or in any manner, to mitigate or exempt the obligations of the above personnel.

"Assuming obligations" includes obligator undertaking obligations by signing agreements or making arrangements (no matter whether the agreements or arrangements are enforceable on demand or bearing the obligations by itself or jointly with any other person) or changing its financial status in any other manner.

For the purpose of the above provisions, "Financial aid" includes, but is not limited to:

- i. Gifts;
- ii. Guarantees (including acts of the guarantor assuming liabilities or providing properties to ensure that the obligor performs the obligations), compensation (excluding compensation arising from mistakes of our Company), release or waiver of rights;
- iii. Provision of loans or signing of contracts whereby our Company performs some obligations before others, change of the parties to the loans/contracts as well as the assignment of the rights in the loans/contracts; and
- iv. Financial aid provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.

The following transactions are not prohibited:

- i. Related financial aid provided by our Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our shares or is an incidental part of a master plan of our Company;
- ii. The lawful distribution of our properties by way of dividend;

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- iii. Distribution of dividends in the form of shares;
- iv. Reducing the registered capital, redeeming the shares or adjusting the equity structure pursuant to the Articles of Association;
- v. Our Company granting loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or even if the net assets are reduced, such financial aid is paid from the profit available for distribution; and
- vi. Our Company providing the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, such financial aid is paid from the profit available for distribution.

(6) Disclose matters relating to the contract rights of our Company and voting on the contract/s

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above contracts, transactions, arrangements or suggestions are subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction or arrangement in which a Director or his associates have a material interest, the Director shall not vote and shall not be included in the quorum. Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations. Where related personnel of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the relevant Directors, Supervisors and senior management shall be deemed to have interests.

Prior to our company's first considering of the relevant contracts, transactions or arrangements, if the Directors, Supervisors and senior management have notified the Board of Directors in written and state that with regard to the content of such notice, they have interest in certain contracts, transactions and arrangements thereafter. And within the scope specified by such notice, the relevant Directors, Supervisors and senior management have made disclosures which are in according with this Article of Association.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

(7) Remuneration

Our Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general shareholders' meeting, including:

- i. Remuneration for providing services as the Directors, Supervisors or senior management of our Company;
- ii. Remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- iii. Remuneration for providing other services for management of our Company and our subsidiaries; and
- iv. Compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for in the above contracts.

(8) Resignation, Appointment and Dismissal

None of the following persons shall serve as our Director, Supervisor or senior management:

- i. Anyone who has no civil capacity or has limited civil capacity;
- ii. Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;
- iii. Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of our Company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of our Company or enterprise;
- iv. Anyone who has served as the legal representative of a company or enterprise whose business license was revoked or was ordered to close due to violation of laws, was personally liable, and is within three years of the date on which the business license of such company or enterprise was revoked;
- v. Anyone who has a large sum of debt, which was not paid at maturity;

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- vi. Anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;
- vii. Persons who are subject to the competent authority of securities of the State Council's punishment which prohibit them from entering into the securities market for a period which has not yet expired;
- viii. Anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities;
- ix. Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;
- x. Anyone who is not a natural person;
- xi. Other circumstances which are applicable pursuant to the provisions of the laws and administrative regulations, regulations of the competent authorities or the securities regulators or stock exchanges where our Company's shares are listed.

The validity of the acts of the Directors or senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of eight Directors, three of which are Independent Non-executive Directors. The Board of the Director has one chairman of the Board. The shareholders' meeting can decide whether a vice chairman of the Board shall be elected and the way of election via ordinary resolution. Directors are elected at the general shareholders' meeting. The Directors need not hold any of our shares. It shall be at least 7 days in advance for issuance written notice to our company regarding nomination of Director candidate and regarding the candidate's acceptance of such nomination. Nomination of each candidate for the Director shall be made in a single proposal.

The chairman and vice chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. The general shareholders' meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

The chairman, vice chairman of the Board and other Directors serve three-year terms. Upon expiration of the term, the Director may be re-elected. Director can be the general manager or other senior management personnel at the same time. However, the amount of the Directors who are also general manager or other senior management personnel and the Director who represents employees can not be less half of the amount of the Directors.

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(9) Responsibilities

The Directors, Supervisors and senior management shall bear the obligations of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors and senior management, we shall have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

- i. Require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;
- ii. Cancel any contract or transaction entered into between our Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting on behalf of our Company violated their obligations owed to our Company;
- iii. Require the relevant Directors, Supervisors or senior management to turn over the proceeds obtained from the violation of their obligations;
- iv. Recover funds collected by the relevant Directors, Supervisors or senior management that should have been collected for our Company, including but not limited to commissions;
- v. Require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company;
- vi. Require the Directors, Supervisors or senior management to return properties obtained from violation of their obligations through legal procedure and verdicts.

When performing their responsibilities, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- i. Sincerely taking the best interests of our Company as the starting point of any action;
- ii. Exercising one's rights within but not exceeding the scope of authority;
- iii. Exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless permitted by laws and administrative regulations or with the informed consent of shareholders given in a general meeting;

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- iv. Treating shareholders of the same class equally and shareholders of different classes fairly;
- v. Entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the general shareholders' meeting with its full knowledge;
- vi. Seeking private gain using the properties of our Company in any manner is not allowed, unless agreed by the general shareholders' meeting with its full knowledge;
- vii. Using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to our Company;
- viii. Accepting commissions associated with transactions of our Company is not allowed unless agreed by the general shareholders' meeting with its full knowledge;
- ix. Compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking private gain by taking advantage of one's position and authority in our Company;
- x. Unless agreed by the shareholders at the general shareholders' meeting with its full knowledge, competing with our Company in any manner is not allowed; take advantage of position, take business opportunity which should have belonged to our Company for themselves or others, or conduct business that is similar with our company by themselves or cooperating with others is not allowed, either;
- xi. Misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names;
- xii. Not to, in violation of the provisions of this Articles of Association, lend our Company's funds to any other person or provide security for our Company's shareholders or other persons with any properties of our Company, without the consent of the general meeting or Board of Directors;
- xiii. Not to harm the interests of our Company through use of his/her connected relationship; and
- xiv. Disclosure of any confidential information relating to our Company obtained during employment without the consent of the general shareholders' meeting with its full knowledge; unless in the interest of our Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

agencies as required by (1) the provisions of the law; (2) the public interest; (3) the interest of the Directors, Supervisors or senior management.

The relevant personnel shall return the income obtained from violation of the above provisions to our Company and shall bear the liability of compensation if our Company suffers damage.

The Directors, Supervisors and senior management may not direct the following personnel or institutions ("**related personnel**") to do acts that the Directors, Supervisors and senior management is prohibited from doing:

- i. Spouses or minor children of the Directors, Supervisors and senior management;
- ii. Trustors of the Directors, Supervisors and senior management or the persons mentioned in (i);
- iii. Partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);
- iv. Our Company under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons or other directors, supervisors and senior management of companies mentioned in (i), (ii) and (iii);
- v. Directors, Supervisors or senior management of the controlled companies mentioned in (iv).

The good faith obligation owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms; their obligation to keep the trade secrets of our Company in confidence shall survive the expiration of their terms, until such secrets become public available. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Except as otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the violation of specific duties may be released by informed shareholders in general meetings.

Apart from the obligations set forth in related laws, administrative regulations or the [REDACTED] rules of the stock exchange where the shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the shareholders when exercising their rights and performing their responsibilities:

- i. They shall not cause our Company to operate beyond the scope of business indicated on our business license;

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- ii. They shall sincerely take the best interests of our Company as the starting point of any action;
- iii. They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company; and
- iv. They shall not deprive the shareholders of personal rights and interests, including, but not limited to, the right to receive dividends distributed and to vote, except for restructuring of our Company approved at the shareholders' meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or carrying out their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

Where Directors and senior management violate laws, regulations or the Articles of Association in their duty performance and cause loss to our Company, the shareholders holding 10% or more shares separately or jointly for consecutive 180 days may submit a written request to the Board of Supervisors to file an action with the competent people's court. Where supervisors violate laws, regulations or the Articles of Association in their duty performance and cause loss to our Company, the shareholders may submit a written request to the Board of Directors to file an action with the competent people's court.

Where the Board of Supervisors or if the Board of Directors refuse to file an action upon receipt of the shareholders' written request specified in the preceding paragraph, or fail to file an action within 30 days upon receipt thereof, or where the failure to immediately file an action in an emergency case will cause irreparable damage to the interests of our Company, the shareholder(s) specified in the preceding paragraph may, in their own name, directly file an action to the competent people's court for the interest of our Company.

Where any other person infringes upon the legitimate rights and interests of our Company and causes losses thereto, the shareholder(s) specified in this Articles of Association may file an action with the competent people's court pursuant to the provisions of the preceding two paragraphs.

Where a Director or senior management person violates laws, administrative regulations or our Company's Articles of Association, thereby damaging the interests of the shareholder(s), the shareholder(s) may file an action with the competent people's court.

2 MODIFICATION OF THE ARTICLES OF ASSOCIATION

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and Articles of Association. Where the amendments to the Articles of Association passed by the general meetings need the examination and approval of the competent authorities, these amendments shall be submitted hereto for approval. Where the

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amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

3 RIGHTS CHANGES OF CURRENT SHARES AND CLASSIFIED SHARES

Any plan of our Company to change or abolish the rights of a classified shareholder is subject to the approval of the general shareholders' meeting in the form of a special resolution and the approval of the affected classified shareholders at a separately convened shareholders' meeting in accordance with the Articles of Association before it can be implemented, except when provided in the Articles of Association that the unlisted shares held by our shareholders become listed for trading on an overseas stock exchange.

Where the change or abolishment of the right of a classified shareholder is due to the change of laws, administrative regulations or listing rules of the stock exchange where the shares are listed, whether within or without the border, the approval of the general shareholders' meeting in the form of a special resolution or the approval of the affected classified shareholders at a separately convened shareholders' meeting is not needed.

The rights of a classified shareholder shall be viewed as changed or abolished under any of the following circumstances:

- i. Increase or reduce the number of the classified shares, or increase or reduce the number of classified shares with equal or more voting rights, distribution rights or other privileges than this type of classified shares;
- ii. Convert all or part of the classified shares into other types or convert another type of shares, partly or wholly, into this type of classified shares or grant such conversion right;
- iii. Cancel or reduce the right of the classified shares to obtain dividends generated or cumulative dividends;
- iv. Reduce or cancel the right of the classified shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;
- v. Increase or cancel or reduce the right of the classified shares to convert share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the right to obtain the securities of our Company;
- vi. Cancel or reduce the right of the classified shares to receive funds payable of our Company in specified currencies;
- vii. Create new classified shares entitled to equal or more voting rights, distribution rights, or other privileges than the classified shares;
- viii. Impose restrictions on the transfer or ownership of the classified shares or increase such restrictions;

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- ix. Issue subscription or conversion rights for this or other classified shares;
- x. Increase the rights and privileges of other types of shares;
- xi. The restructuring plan of our Company may constitute different types of shareholders to assume responsibilities disproportionately; and
- xii. Amend or abolish clauses stipulated in our Articles of Association.

Whether or not the affected classified shareholders have voting rights at the shareholders' meeting, in the event of matters described above from (ii) through (viii), (xi) and (xii), they have voting rights at the classified shareholders' meeting, but the shareholders that have interests at stake shall have no voting rights at the classified shareholders' meeting.

Shareholders that have interests at stake include:

- i. In the event that a shareholder makes an offer to all the shareholders at the same ratio according to this Articles of Association or purchase their own shares through public transaction in a Stock Exchange, shareholders that have interests at stake shall have the same meaning with Controlling shareholders as defined in this Articles of Association;
- ii. Where our Company purchase its own shares through reaching an agreement outside the Stock Exchange and in accordance with this Articles of Association, shareholders that have interests at stake shall mean the shareholders who are relevant to such agreement;
- iii. In our Company's re-organization plan, shareholders that have interests at stake shall mean shareholder who bear liability at a rate that is lower than other shareholders in the same class or who hold different interests with other shareholders in the same class.

The resolution of the classified shareholders' meeting shall be passed by votes representing more than two thirds of shareholders with voting rights attending the classified shareholders' meeting.

When convening a classified shareholders' meeting, 45 days before the meeting is convened, our Company shall send a written notice to inform all registered holders of the classified shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting.

In the event that the number of shares with voting power represented by shareholders planning to attend the meeting accounts for more than one half of the total number of said classified shares with voting power at the meeting, our Company may convene a classified shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and our Company may convene a classified

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shareholders' meeting once the announcement is delivered. Where there are special rules in the listing rules of the stock exchange where the shares are listed, the special rules prevail. The notice of the classified shareholders' meeting needs only to be sent to the shareholders who have the right to vote at the meeting.

Insofar as possible, any classified shareholders' meeting shall be held in accordance with the same procedures as those of the shareholders' meeting, and unless otherwise provided in the Articles of Association, any clause that relates to the procedures for convening the shareholders' meeting in the Articles of Association shall apply to any classified shareholders' meeting.

Apart from the holders of other classified shares, the holders of Domestic shares and the holders of overseas listed foreign shares are considered as different classified shareholders.

The special procedures for voting by the classified shareholders shall not apply under the following circumstances:

- i. Upon the approval by a special resolution at the general shareholders' meeting, our Company either separately or concurrently issues Domestic shares and overseas listed foreign shares once every 12 months, and the number of those shares to be issued shall not account for more than 20% of each of its outstanding shares;
- ii. The plan to issue Domestic shares and overseas listed foreign shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council; and
- iii. Upon the approval by the securities regulatory authorities of the State Council, the unlisted shares held by our shareholders become listed or traded on an overseas stock exchange.

4 SPECIAL RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE

The resolutions of the shareholders' meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the shareholders (including proxies) attending the general shareholders' meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the shareholders (including proxies) attending the general shareholders' meeting.

5 VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary shareholders have the right to attend or appoint a proxy to attend and vote at the general shareholders' meeting. When voting at the general shareholders' meeting, the shareholder (including proxy) may exercise his or her voting rights in accordance with the number of shares with voting power held with each share representing one vote.

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General meeting adopt open ballot. When voting at a general meeting, shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of supporting votes, the chairman of the meeting is entitled to one additional vote.

6 RULES ON GENERAL SHAREHOLDERS' MEETINGS

The general shareholders' meetings are divided into annual general shareholders' meetings and extraordinary general meetings. The annual general shareholders' meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

7 ACCOUNTING AND AUDITS

(1) Financial and accounting policies

Our Company shall develop its financial accounting policies pursuant to laws, administrative regulations, as well as accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual shareholders' meetings.

Apart from the China Accounting Standards For Business Enterprises and regulations, the financial reports of our Company shall also conform to international accounting standards or the accounting standards of overseas areas where the shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the shareholders 20 days before the annual general shareholders' meeting is convened. Each shareholder is entitled to obtain one copy of the financial report.

Our Company shall send the aforesaid reports to each of the holders of overseas listed foreign shares by postage-paid mail or by the manner as allowed in laws and regulation of the region where our Company lists shares and listing rule of the Stock Exchange at least 21 days before the annual general shareholders' meeting is convened (in any event no more than four months from the end of the relevant financial year) and the recipient's address shall be the address as shown in the register of shareholders.

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Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with PRC accounting standards, regulations as well as international accounting standards or the accounting standards of the overseas area in which the shares are listed.

Our Company must publish the financial reports twice in each fiscal year. Interim financial reports shall be published within 60 days of the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days of the end of each fiscal year.

Our Company shall not keep any accounting books other than those specified by law.

(2) Appointment and Dismissal of Accountants

Our Company shall appoint an accounting firm with independent qualifications that meets appropriate requirements of the PRC to be responsible for auditing its annual report and reviewing and checking its other financial reports.

The first accounting firm of our Company can be appointed by the founding meeting before the first annual general shareholders' meeting and the term of the appointment will expire at the close of the first annual general shareholders' meeting. In event that the founding meeting does not exercise such power, the Board of Directors shall take it.

The term of the accounting firm appointed by our Company shall start at the close of the annual general shareholders' meeting and continue until the close of the next annual shareholders' meeting.

If the position of an appointed accounting firm is vacant, the Board of Directors may appoint an accounting firm before the start of annual general shareholders' meeting. However, if during the vacant period, our Company has other incumbent accounting firm, such accounting firm may take the vacant.

Except the circumstances as above said, our Company shall appoint an accounting firm by the decision of the shareholders' meeting. The Board of Directors shall not appoint accounting firm before shareholders' meeting. Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the shareholders may replace the accounting firm through an ordinary resolution at the general shareholders' meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm.

Remuneration of the accounting firm or the manner in which the remuneration is determined shall be decided on by the shareholders at the general shareholders' meeting.

The remuneration of such accounting firm which is hired by the Board of Directors shall be decided by the Board of Directors.

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Our Company shall send a notice to the accounting firm in advance notifying it of the matters relating to the dismissal, replacement or contract termination, and the accounting firm shall be entitled to attend the general shareholders' meeting and make a statement.

In the event that the accounting firm requests to resign, it shall declare to the general shareholders' meeting whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later. The notice shall include the following statements:

- i. Its resignation does not include any statement that should be disclosed to the shareholders or creditors of our Company; or
- ii. Any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent authorities. If the notice includes statements mentioned in (ii) of the preceding paragraph, our Company shall retain a copy thereof for perusal by the shareholders and send a copy of the above-mentioned statements to all shareholders who are entitled to receive our Company's financial reports in accordance with the addresses registered on the register of shareholders by postage-prepaid mail or subject to applicable laws, regulations and listing rules, post such information at our Company website or a site specified by the stock exchange of the place in which our Company's shares are listed.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

8 NOTICE AND AGENDA OF GENERAL SHAREHOLDERS' MEETINGS

The general shareholders' meeting is the authorized organ of our Company that can perform duties and exercise powers in accordance with the law.

Apart from special circumstances such as where our Company is in crisis, without the approval of a special resolution of the general shareholders' meeting, our Company shall not enter into a contract with any person other than the Directors, Supervisors and senior management that would make a person responsible for the management of all or part of the main business of our Company.

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General shareholders' meetings include annual general shareholders' meeting and extraordinary general meeting. Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- i. The number of Directors is less than the number specified in our Company Law or less than two thirds of the number required in the Articles of Association;
- ii. The uncovered losses of our Company reach one-third of its total paid-in share capital;
- iii. The shareholders holding 10% or more shares separately or jointly request to convene an extraordinary general meeting in writing;
- iv. The Board of Directors considers it necessary or the Board of Supervisors proposes convening an extraordinary general meeting; or
- v. Any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities, the Articles of Association and the listing rules of the place in which our Company's shares are listed.

More than two Independent Non-executive Director and the Board of Supervisors may make a proposal about convening an extraordinary general meeting. The Board of Directors shall issue a written feedback about whether it agrees with such proposal or not within 10 days after receiving such proposal in accordance with laws, administrative regulations and the Articles of Association. In the event that the Board of Director agree to convene an extraordinary general meeting, the notice of convening extraordinary general meeting shall be issued within 5 days after the Board of Directors made a relevant resolution. With regard to the proposal of convening an extraordinary general meeting made by the Independent Non-executive Director, the Board of Directors shall explain the reasons and make a publication if rejection was made. With regard to the proposal of convening an extraordinary general meeting made by the Board of Supervisors, if the Board of Directors made a rejection or does not respond within 10 days after it receiving the proposal, it shall be view as the Board of Directors is unable to or fails to perform its duty of convening the general meeting and the Board of Supervisors may convene and preside over the meeting by it own.

Shareholders who separately or jointly hold 10% or more of the shares may request the Board of Supervisors to convene an extraordinary general meeting in accordance with the following procedures:

- i. Signing a written requirement or several copies with the same format to request an extraordinary general meeting or classified shareholders' meeting and to illustrate the subject of the meetings. The Board of Directors shall issue a written feedback about whether it agrees with such proposal or not within 10 days after receiving such proposal in accordance with laws, administrative regulations and the Articles of Association. The aforesaid number of share holdings is calculated as at the date of the submission of the written requirement by the shareholders;

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- ii. In the event that the Board of Directors agree to convene an extraordinary general meeting, the notice of convening extraordinary general meeting shall be issued within 5 days after the Board of Directors made a relevant resolution. Any revise made to the origin request shall get the approval of the relevant shareholders;
- iii. If the Board of Directors made a rejection or does not respond within 10 days after it receiving the proposal, shareholders who separately or jointly hold 10% or more of the shares may request the Board of Supervisors in written to convene an extraordinary general meeting;
- iv. In the event that the Board of Supervisors agree to convene an extraordinary general meeting, the notice of convening extraordinary general meeting shall be issued within 5 days after the Board of Supervisors made a relevant resolution. Any revision made to the origin request shall get the approval of the relevant shareholders;
- v. If the Board of Supervisors fails to issue a meeting notice in the required period, it is deemed that the Board of Supervisors will not convene nor preside over the general shareholders' meeting and the shareholders holding 10% or more shares separately or jointly for consecutive 90 days may convene and preside over the meeting by themselves. The number of shares holdings by the convening shareholder before the date of the publication of meeting resolutions shall not be less than 10%. The convening shareholder shall submit relevant proofs materials to securities administrative authorities of region where our Company registers and the Stock Exchange at the same time with the issuance of notice of the shareholders' meeting and publication of meeting resolutions.

In the event that the general shareholders' meeting is on schedule, the Board of Directors, the Board of Supervisors and shareholders who separately or jointly hold more than 3% of the shares of our Company may submit a proposal.

When convening a general shareholders' meeting, our Company shall send a written notice to inform all registered shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened. Shareholders planning to attend shall send to our Company a written reply 20 days before the meeting is held.

Our Company shall calculate the number of shares with voting power represented by the shareholders planning to attend the general shareholders' meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of shares with voting power, our Company may convene the general shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the general shareholders' meeting may be convened. The extraordinary general meeting shall not decide on issues which are not listed in the notice.

The notice of the general shareholders' meeting shall include the following contents:

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- i. Specified venue, date and duration of the meeting;
- ii. Specified matters and resolutions to be deliberated at the meeting;
- iii. Provision to the shareholders of the materials and explanations necessary for the shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and proper explanations about related causes and effects when our Company proposes merger/s, redemption of shares, restructuring of stock capital or other restructuring;
- iv. In the event that any of the Directors, Supervisors, managers or other senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, managers or other senior management as a shareholder in a manner different from how they affect other shareholders of the same type, the difference shall be explained;
- v. Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- vi. A clear explanation that all shareholder is entitled to attend and vote at the general shareholders' meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his or her behalf and that such may not necessarily be shareholders;
- vii. Record date for shareholders who are entitled to attend the meeting;
- viii. Name and telephone number of the contact person;
- ix. Specified delivery time and place of the power of attorney for proxy voting of the meeting.

The notice of the general shareholders' meeting shall be sent in person or by postage-paid mail to the shareholders (regardless of whether such shareholders have the right to vote at the general shareholders' meeting). Each recipient's address shall be according to the address indicated on the register of shareholders or subject to applicable laws, regulations and listing rules, post such information at our Company website or a site specified by the stock exchange of the place in which our Company's shares are listed. For holders of Domestic shares, the notice of our general shareholders' meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic shares shall be deemed to have received the notice of our general shareholders' meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight,

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or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The general shareholders' meeting shall not be postponed or canceled and the proposals listed in the notice shall not be canceled without just cause after the notice of general shareholders' meeting was made. If any circumstance that may result in delay or cancellation occur, convener shall make publication and explain the reasons at least 2 working days before the original convening day.

The resolution of the general shareholders' meeting includes ordinary resolution and special resolution. The following matters shall be approved by the general shareholders' meeting through ordinary resolutions:

- i. Work report of the Board of Directors and the Board of Supervisors;
- ii. Plans of earnings distribution and loss make-up schemes drafted by the Board of Directors;
- iii. Appointment or dismissal of the members of the Board of Directors and the Board of Supervisors who are not assumed by staff representatives;
- iv. Remuneration and payment methods of the members of the Board of Directors and the Board of Supervisors;
- v. Annual budget and final account report;
- vi. Annual report of our Company; and
- vii. Other matters in addition to those approved by special resolution stipulated in the laws, administrative regulations, listing rules of the Stock Exchange where the shares are listed or the Articles of Association.

The following matters shall be approved by special resolution at the general shareholders' meeting:

- i. Our Company's capital stock increases or decreases and issues of any type of shares, warrants and other similar securities;
- ii. Issues our Company's bond;
- iii. Division, merger, dissolution and liquidation of our Company and the change of form of our Company;
- iv. Amendment of the Articles of Association;
- v. Substantial assets acquired or disposed of or guarantee granted for an amount exceeding 30% of the latest audited total assets of our Company within one year;

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- vi. Share equity incentive plan;
- vii. Other matters as required by the laws, administrative regulations, listing rules of the stock exchange where the shares are listed or the Articles of Association, and as approved by ordinary resolution of the general shareholders' meeting which are believed could materially affect our Company and need to be approved by special resolution.

Pursuant to the laws, administrative regulations, listing rules of the stock exchange where the shares are listed, with regard to any resolution, if any shareholder shall be abstained from voting or required to vote for or against the resolution only, any voting violation conducted by the shareholder (or its representative) shall not be credited to the vote.

In the event that our Company's shareholders' meeting or resolution of the Board of Directors violates laws or administrative regulations, any shareholder is entitled to request the court to deem it as invalid.

In the event that the convening procedure or voting formula of our Company's shareholders meeting or meeting of the Board of Directors is in violation of laws, administrative regulations or the Articles of Association, or resolution of which violates the Articles of Association, any shareholder is entitled to ask the court to overturn within 60 days after the resolution was made.

9 SHARE TRANSFERS

The shares of our Company holding by the promoters thereof shall not be transferred within one year of the date of establishment of our Company. The shares issued before the [REDACTED] of shares by our Company shall not be transferred within one year of the date on which the stocks of our Company are [REDACTED] and traded on a securities exchange.

The directors, supervisors, and senior management personnel of our Company shall declare, to our Company, information on their holdings of the shares of our Company and the changes thereto. The shares transferrable by them during each year of their term of office shall not exceed 25 percent of their total holdings of the shares of our Company. The shares that they held in our Company shall not be transferred within one year of the date on which the stocks of our Company are [REDACTED] and traded. The aforesaid persons shall not transfer their shares of our Company within six months of their departure from our Company.

Where a director, supervisor or senior manager of our Company, or a shareholder who holds 5% or more of the shares of our Company sells the shares of our Company within six months of purchasing such shares, or repurchases the shares within six months of selling such shares, the gains therefrom, if any, shall belong to our Company, and the Board of Directors of our Company shall recover such gains.

Where the Board of Directors of our Company fails to take action in accordance with the provisions of the preceding paragraph, the shareholders shall have the right to demand it to act within 30 days. Where the Board of directors of our Company fails to take action within

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the said time limit, the shareholders shall have the right to initiate, in their own name, a lawsuit directly in a people's court for the benefit of our Company.

Where the Board of Directors of our Company fails to take action in accordance with the above paragraph, the directors who are accountable thereto shall be held jointly and severally liable pursuant to law.

With regard to the H shares that capital of which has been full-paid, transfer without any limitation is allowed in accordance with the Articles of Association. However, unless such shares meet the following conditions, the Board of Directors may refuse to recognize any transfer document without giving any reason:

- i. Any document that related to share ownership or transfer documents that are related to or may affect the ownership of the shares shall be registered and shall pay to our Company of HK\$2.50 per item of transfer document or a higher fee required by the Board of Director, but such payment shall not exceed the maximum fee provided by the Stock Exchange of Hong Kong in its Listing Rules from time to time;
- ii. The transfer documents only involve shares listed in Hong Kong;
- iii. The stamp duty chargeable on the transfer documents has been paid;
- iv. The relevant share certificate, and upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the shares has been submitted;
- v. If the shares are to be transferred to joint holders, the number of the joint holders shall not exceed four; and
- vi. Our Company does not have any lien on the relevant shares.

Shareholder register's revision or rectification shall be subject to the laws of region where the revised or rectified shareholder register is stored.

No change may be made to the information in the register of shareholders as a result of the share transfer within 30 days before the general shareholders' meeting is convened or within five days prior to the record date on which our Company has decided to distribute dividends.

10 RIGHTS OF OUR COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES

Under any of the following circumstances, our Company may buy back our outstanding issued shares pursuant to the Articles of Association:

- i. Cancellation of the shares to reduce our Company's share capital;

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- ii. Merger with other companies which hold our shares;
- iii. Granting shares to the staff of our Company as incentives;
- iv. Buying back the shares from shareholders who vote against any resolutions adopted at the general shareholders' meeting concerning the merger and division of our Company;
or
- v. Other circumstances as required by the laws, administrative regulations.

In the event our Company buys back the shares for reasons stated in (i), (ii), (iv) of the preceding paragraph, our Company shall cancel or transfer such shares in the required period pursuant to laws, administrative regulations and listing rules. In the event our Company buys back the shares for reasons stated in (iii) of the preceding paragraph, the ratio shall not exceed the maximum provided by the laws and administrative regulations. The fund used for such buyback must be allocated from the after-tax net profit of our Company and shall transfer to employees in the required period.

After approved by the State relevant administrative authorities, Our Company may buy back shares in any of the following ways:

- i. Making a comprehensive buyback offer in the same proportion to all shareholders;
- ii. Buying back shares through public trading on the securities exchange;
- iii. Buying back shares by an agreement outside a stock exchange;
- iv. In other ways approved by the competent authorities of the PRC.

Where our Company buys back the shares by an agreement outside a stock exchange, it shall obtain prior approval at the general shareholders' meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the general shareholders' meeting, our Company may cancel or amend the contract signed in the aforesaid manner or waive any of its rights in the contract. The contract that buys back the shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the shares and obtain the rights to buy them back.

Our Company shall not transfer any contract that buys back the shares or any rights conferred under the contract.

Unless our Company has entered into the liquidation process, we must observe the following provisions for the buyback of issued shares:

- i. Where our Company buys back shares at book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new shares to buy back the old shares;

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- ii. Where our Company buys back the shares at a premium to the book value, the portion of funds equivalent to book value shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new shares made for the purpose of buying back of shares, while the portion of funds higher than book value shall be dealt with in the following manner:
- 1) Where the shares bought back were issued at book value, the funds shall be deducted from the book balance of our distributable earnings;
 - 2) Where the shares bought back were issued at a premium to the book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new shares made for the purpose of buying back of shares. However, the amount deducted from the proceeds obtained from the issue of new shares shall not exceed the total premium amount obtained when the shares bought back were issued or the amount in our premium account (including capital reserve account) when the shares are bought back (including the premium amount of the issue of new shares).
- iii. The funds paid by our Company for the following purposes shall be allocated from our distributable earnings:
- 1) To obtain the right to buy back the shares;
 - 2) To modify any contract to buy back the shares;
 - 3) To release any obligation of our Company under the share buyback contract.
- iv. After the total book value of the cancelled shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable earnings for paying up the book value portion of the shares bought back shall be credited to our premium account (or capital reserve account).

11 DIVIDEND AND DISTRIBUTION METHODS

Our Company may distribute dividends by way of cash or shares or such other manner permitted by laws, administrative regulations, departmental rules and regulations and the regulatory rules of the locality where the [REDACTED] is made (or adopt both ways simultaneously).

Shareholder is entitled to receive interest with regard to payment of the shares which was paid before reminder notice. However, advance payment of the shares is not subject to any dividend thereof.

Our Company shall appoint receiving agents on behalf of shareholders of overseas listed foreign shares. Receiving agents shall receive dividends and other payable funds that are distributed with respect to our overseas listed foreign shares for the shareholders of overseas listed foreign shares.

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Receiving agents appointed by Our Company shall on behalf of shareholders of shares listed in HKEx shall be a trust company registered under the Trustee Ordinance of Hong Kong.

After the shareholders' meeting of our Company make a resolution on dividends distribution plan, the Board of Directors shall complete the distribution within 2 months after the close of the shareholders' meeting.

12 SHAREHOLDER PROXIES

Any shareholder who is entitled to attend and vote at our general shareholders' meeting has the right to appoint one or more persons (who may not necessarily be shareholders) as his or her shareholder proxy to attend and vote at the meeting in his or her place. Pursuant to the authorization of the shareholder, the proxy may exercise the following rights:

- i. Speak for the shareholder at the general shareholders' meeting;
- ii. Demand a poll individually or with others;
- iii. Except otherwise provided by the applicable listing rules or other securities laws and regulations, exercise the right to vote by a show of hands or a poll, but the shareholder proxy may only exercise the right to vote by a poll when more than one proxy is appointed.

The shareholder proxy appointment shall be in writing and shall be signed by the appointor or a person duly authorized in writing. Where the appointor is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorized agent.

The power of attorney must be kept at the residential address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the power of attorney is signed by another person authorized by the appointor by means of power of attorney or other instrument of authorization, the power of attorney or other instrument must be verified by a notary. The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

A legal person shareholder should attend the meeting by its legal representatives or the proxy appointed by the legal representative.

Any form sent by the Directors to the shareholder for appointing a shareholder proxy shall allow the shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the shareholder does not provide instructions.

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The votes of the shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the related meeting is convened.

13 REVIEW THE REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

Our Company shall make a register of shareholders in accordance with evidentiary documents provided by the securities registration authorities.

Pursuant to the understanding reached and agreement entered into between the competent agency in charge of securities under the State and the overseas securities regulatory authorities, our Company may keep the original register of the shareholders of the overseas listed foreign shares overseas and entrust an overseas entity to manage it. The original register of the shareholders of the overseas listed foreign shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of the holders of the overseas listed foreign shares at our residential address. The overseas entrusted entity shall at all times maintain consistency between the original and copy of the register of the holders of the overseas listed foreign shares. In case of inconsistency between the original and copy of the register of the holders of the overseas listed foreign shares, the original shall prevail.

Our Company must keep a complete register of shareholders. The register of Shareholders shall include the following:

- i. Register of shareholders kept at our residential address other than those specified in (ii) and (iii);
- ii. Register of the holders of our overseas listed foreign shares kept at the location of the stock exchange where such shares are listed; and
- iii. Register of shareholders kept in other locations according to the decision of the Board of Directors as required for the [REDACTED] of the shares.

Different parts of the shareholders' register shall not overlap. The transfer of shares registered in a certain part of the register of shareholders shall not be registered elsewhere in the register of shareholders as long as the shares remain registered.

Any alteration or rectification to any part of the register of shareholders shall be made in accordance with the laws in the place where such part of the register of shareholders is maintained.

No change of the register of shareholders as a result of share transfer shall be made within 30 days before the general shareholders' meeting is convened or within five days prior to the record date on which our Company decides to pay dividends.

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When our Company convenes the general shareholders' meeting, pays dividends, goes into liquidation or is involved in other actions that require the confirmation of equities, the Board of Directors or the convenor of the general shareholders' meeting shall fix a date as the equity registration date, upon expiration of which the shareholders whose names appear on the register of shareholders shall be the shareholders.

Any person who objects to the register of shareholders and requests to register his or her name (title) in the register of shareholders or to remove his or her name (title) from the register of shareholders may apply to the court with jurisdiction to amend the register of shareholders.

The shareholders are entitled to obtain the following information, including but not limited to:

- i. The Articles of Association after paying the cost;
- ii. The right to inspect and copy the following after paying a reasonable fee:
 - 1) All parts of the register of shareholders;
 - 2) Personal data of the Directors, Supervisors and senior management;
 - 3) Status of the issued share capital of our Company;
 - 4) Report on the total book value, quantity, maximum and minimum prices of each class of own shares repurchased by our Company since the previous accounting year and all expenses paid by our Company for this purpose;
 - 5) Bond counterfoil of our Company, minutes of the general shareholders' meeting, special resolutions, resolutions of the Board of Directors' meeting, resolutions of the Board of Supervisors' meeting, financial accounting report;
 - 6) The latest audited financial statements, and reports of the Board of Directors, the auditors and the Board of Supervisors;
 - 7) Copy of the latest annual inspection report submitted to the competent administration for industry and commerce or other competent authorities for filing (if applicable).

Whenever a shareholder proposes to inspect the relevant information as described above or requests materials, he or she shall provide our Company with written documents certifying the type and number of the shares held. Our Company shall provide the relevant information and materials in accordance with the requirements of the shareholder after verifying his or her identity and may charge a reasonable fee for providing such copies of the materials.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

14 QUORUM OF GENERAL SHAREHOLDERS' MEETINGS

In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of shares with voting power, our Company may convene the general shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement. Our Company may convene a general shareholders' meeting once the announcement is delivered.

In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of classified shares with voting power, our Company may convene the classified shareholders' meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement. Our Company may convene a classified shareholders' meeting once the announcement is delivered.

15 RESTRICTIONS ON RIGHTS OF THE CONTROLLING SHAREHOLDERS

Apart from the obligations required in laws, administrative regulations, or the listing rules of the stock exchange on which our shares are listed, the Controlling shareholder shall not make any decision that is detrimental to the interest of all or part of the shareholders on the following issues by exercising his or her shareholder voting rights:

- i. Releasing the Directors and Supervisors from the responsibility of acting honestly in the best interest of our Company;
- ii. Permitting the Directors and Supervisors (for their own or others' interests) to deprive our Company of assets in any form, including, but not limited to, any opportunity that is beneficial to our Company; and
- iii. Permitting the Directors and Supervisors (for their own or others' interests) to deprive other shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the general shareholders' meeting pursuant to the Articles of Association.

16 COMPANY LIQUIDATION

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

- i. Cause of dissolution stipulated in the Articles of Association occur;
- ii. The general shareholders' meeting adopts a resolution to dissolve our Company;
- iii. Our Company needs to be dissolved for the purpose of merger or division;

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- iv. Our Company is declared legally bankrupt as a result of failure to pay debts as they fall due;
- v. The business license is revoked, or our Company is ordered to close or be eliminated according to applicable law;
- vi. Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the shareholders, and the difficulties may not be overcome through other means, shareholders who hold more than 10% of the shares carrying voting rights may request the court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (i), (ii), (v) and (vi) above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall consist of the persons determined by the Directors or the general shareholders' meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team for liquidation. In the event that our Company is dissolved in accordance with the provisions set forth in (v) above, the people's court shall organize the shareholders, related agencies and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board of Directors shall state in the notice of the general shareholders' meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

After the resolution to liquidate our Company is adopted by the general shareholders' meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the general shareholders' meeting, the liquidation team shall at least once a year report at the general shareholders' meeting on the income and expenditure of the liquidation team, progress of the business and liquidation of our Company, and submit a final report at the general shareholders' meeting upon completion of liquidation.

Within 10 days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspaper recognized the stock exchange where our Company listed within 60 days. The creditors shall declare their claims to the liquidation team within 30 days of the date on which the notice is received or 45 days of the date of announcement if the notice is not received.

Creditors who declare claims shall state relevant issues related to the claims and provide proofs. The liquidation team shall carry out registration of the creditors' claims. During the period for declaration of claims, the liquidation group shall not make any repayment to any of the creditors.

The liquidation team shall exercise the following powers during the liquidation period:

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- i. Take stock of our Company's assets and prepare a balance sheet and a list of assets respectively;
- ii. Notify or publish an announcement to creditors;
- iii. Deal with and liquidate any pending business associated with our Company;
- iv. Pay off all outstanding taxes and taxes in connection with liquidation;
- v. Settle claims and debts;
- vi. Dispose of the remaining assets of our Company after paying up all the debts; and
- vii. Represent our Company in any civil litigation proceedings.

After taking stock of the assets of our Company and preparing the balance sheet and list of properties, the liquidation team shall draw up a liquidation scheme and submit it to the shareholders' meeting or the people's court for recognition.

After paying off the liquidation expenses, the salaries, social insurance premiums and the statutory compensations of the staff members, the due and payable taxes and the debts of our Company, the liquidation group shall distribute the remaining property in proportion to the shares held by each shareholder.

During the liquidation, our Company shall continue to exist, but shall not carry out business activities irrelevant to the liquidation. The property of our Company shall not be distributed to any shareholder before full payments have been made out of the property.

In the event of liquidation in connection with dissolution of our Company and the liquidation team finds that, after taking stock of our Company's assets and preparing the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the people's court to declare bankruptcy.

After our Company is declared insolvent by ruling of the people's court, the liquidation team shall turn over matters regarding the liquidation to the people's court.

Upon completion of liquidation of our Company, the liquidation team shall prepare a liquidation report, income and expenditure report and financial record during the liquidation period, which, after being verified by a China-registered accountant, shall be submitted to our general shareholders' meeting or the people's court for recognition. Within 30 days of the date of approval by the shareholders' meeting or people's court, the liquidation team shall submit the above-mentioned documents to our Company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

17 OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

(1) General Provisions

Our Company is a permanently existing joint stock limited company.

Our Company may invest in other limited liability companies or joint stock limited company, provided that except as otherwise provided by law, the liabilities of our Company to be invested in are limited to the amount of its capital contribution.

The Articles of Association stipulate our Company's organization and conduct guidance and is binding on our Company, the shareholders, Directors, Supervisors and senior management. Subject to no violation of the relevant provisions of the Articles of Association, shareholders may sue shareholders; shareholders may sue the Directors, Supervisors and senior management; shareholders may sue our Company, and our Company may sue shareholders, Directors, Supervisors and senior management.

The above said suing includes filing an action or applying for an arbitration with an arbitral institution.

(2) Share and Transfer

Our Company may increase stock capital by the following means:

- i. Issuing new shares to unspecified investors;
- ii. Placing new shares with existing shareholders;
- iii. Giving new shares to existing shareholders;
- iv. Converting the reserve funds into share capital;
- v. Other means approved by the laws, administrative regulations, regulations of the authorities.

Upon approval to increase our Company's capital via an issue of new shares according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws, administrative regulations of the State and supervision rules of the region where our share listed.

Our Company may decrease our registered share capital and shall comply with the procedures stipulated in *Company Law of the PRC*, other related regulations and the Articles of Association.

If our Company decreases our registered capital, we must prepare a balance sheet and a list of properties.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

Our company shall notify creditors, publish an announcement, repay the debts or provide the corresponding guaranty when required by the creditors in accordance with *Company Law of the PRC* when undertaking reduction of the registered capital.

After our Company's reduction in capital, our registered capital may not be less than the statutory minimum amount.

Upon approval by the competent securities department of the State Council, our Company may issue shares to domestic and overseas investors.

For the purpose of the preceding paragraph, overseas investors shall refer to investors from foreign countries, Hong Kong, Macao or Taiwan region who subscribe for shares issued by our Company; domestic investors shall refer to investors within the territory of the PRC (excluding investors from Hong Kong, Macau or Taiwan region) who subscribe for shares issued by our Company.

Upon approval by the competent securities department of the State Council, the domestic shares of the Company can be listed and traded on an overseas stock exchange and can be converted into foreign shares which are listed overseas. After such domestic shares have been converted into foreign shares which are listed overseas, they can be listed and traded on an overseas stock exchange, in compliance with the regulatory procedures, provisions and requirements of overseas stock exchanges.

(3) Shareholders

The shareholders are persons lawfully holding the shares and whose names (titles) are already listed in the register of shareholders. Shareholder is entitled to rights and assumes obligations pursuant to the classification and ratio of his or her shares. Shareholder holding the same classified share has the same rights and assumes the same obligations.

The rights of our ordinary shareholders are as follows:

- i. To receive distribution of dividends and other forms of benefits according to the number of shares held;
- ii. To legally require, convene, preside over, participate in or appoint a shareholder proxy to participate in and exercise voting rights at the shareholders' meeting;
- iii. To supervise and manage our business and operational activities, provide suggestions or submit queries;
- iv. To transfer, grant and pledge the shares held according to the provisions of the laws, administrative regulations, listing rule of the stock exchange where our stocks are listed and the Articles of Association;

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- v. To obtain relevant information according to the provisions of the Articles of Association;
- vi. To participate in the distribution of the remaining assets of our Company according to the number of shares held upon our termination or liquidation; and
- vii. To ask our Company to buy back the shares from shareholders voting against any resolutions adopted at the general shareholders' meeting concerning the merger and division of our Company;
- viii. Other rights conferred by laws, administrative regulations, department rules and the Articles of Association.

When any person is interested directly or indirectly in the shares of our Company, our Company shall not freeze or otherwise impair any of the rights attaching to any share by reason only that the person has not disclosed his interests to our Company.

The share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the shares are listed requires our other senior management to sign the share certificates, they shall also be signed by other such personnel. The share certificates shall become effective after being affixed with the stamp of our Company or print-stamped. Affixing our Company stamp to the share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the share certificates. Under conditions of paperless issuance and trading, the provisions of securities administrative authorities of the region where our shares listed shall apply.

If any person whose name appears in the register of shareholders or requests to register his or her name (title) in the register of shareholders loses his or her share certificates (that is, "**original share certificates**"), he or she may apply to our Company to reissue new share certificates for those shares.

In the event holder of Domestic shares applies to our Company for a reissue after losing the share certificates, the matter shall be dealt with pursuant to related provisions of *the Company Law*.

In the event a holder of overseas listed foreign shares applies to our Company for reissue after losing the share certificates, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign shares is kept, or other related provisions.

If a holder of H shares loses share certificates and applies for a replacement issue, the share certificates shall be issued in compliance with the following requirements:

- i. The applicant shall submit the application in the standard format designated by our Company and attach a notary certificate or legal declaration. The contents of the notary certificate or legal declaration shall include the reason for the

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

applicant's request, circumstances and evidence of loss of share certificates, as well as a statement that nobody else may request to be registered as a shareholder with respect to the pertinent shares;

- ii. Before deciding to issue new share certificates, our Company does not receive any statement in which any person other than the applicant requests to be registered as the shareholder with respect to the shares;
- iii. If our Company decides to issue new share certificates to the applicant, we shall publish an announcement in newspapers designated by the Board of Directors indicating that we plan to reissue new share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days;
- iv. Before publishing the announcement indicating that we plan to re-issue new share certificates, our Company shall submit a copy of the announcement to be published to the stock exchange on which the shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days. If the registered shareholders of the related shares do not approve the application for reissue of new share certificates, our Company shall mail the copy of the announcement to be published to the shareholders;
- v. In the event that nobody raises any objection to the reissue of new share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new share certificates may be reissued according to the application;
- vi. When re-issuing new share certificates, our Company shall immediately cancel the original share certificates and register the cancellation and replacement issue on the register of shareholders;
- vii. All expenses incurred by our Company from the cancellation of the original share certificates and replacement issue of the new share certificates shall be borne by the applicant. Before the applicant has provided reasonable security, our Company shall have the right to refuse to take any action.

(4) Shareholders Failing to be Contacted

In compliance with the provisions of related laws and regulations of the PRC and rules of HKEx, our Company may expropriate unclaimed dividend. However, our Company can only exercise such expropriate right after the expiration of the applicable period which started after the distribution of dividend was declared.

Our Company may terminate sending dividend coupons by mail to any holder of the overseas listed shares. However, the said termination can only be made after the holder

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

fails to withdraw from the dividend coupons for consecutive two times or the dividend coupons can not be delivered to the receiver and returned thereof.

Our Company is entitled to reclaim without payment the Shares of a Shareholder of H Shares failing to be contacted under the circumstances indicated below and sell them to any other persons:

- i. Our Company has paid dividends at least three times on these Shares within 12 years, but no one has claimed the dividends during that period;
- ii. Upon expiration of the 12-year period, our Company publishes an announcement in a newspaper, indicating our intention to sell the Shares and notifies the stock exchange where such Shares are listed of such intention.

(5) The Board of Directors

The Board of Directors is responsible to the general shareholders' meeting and exercises the following powers:

- i. To convene the general shareholders' meeting and report on work to the general shareholders' meeting;
- ii. Implement the resolutions of the general shareholders' meeting;
- iii. Determine our business and investment plans;
- iv. Devise our annual financial budget and closing account plans;
- v. Devise our earnings distribution and loss offset plans;
- vi. Formulate the plans for increasing or decreasing our registered capital, the issuance of corporate bonds or other securities, as well as the [REDACTED] of the stock of our Company;
- vii. Formulate plans for corporate merger, separation, changing the form and dissolution of our Company;
- viii. Formulate plans for major acquisitions, the acquisition of shares of our Company;
- ix. Determine such matters as our external investment, purchase or sale of assets, asset pledge, external guarantee, entrusting wealth management and connected transaction within the scope authorized by the general shareholders' meeting;
- x. Decide on the setup of our Company's internal management organization;

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- xi. Decide on the composition of special committees under the Board of Directors and appoint or dismiss the chairmen (convener) of the special committees under the Board of Directors;
- xii. Appoint or dismiss the president of our Company, the secretary of the Board of Directors and the Secretary of the Company; based on the nomination of the president, appoint or dismiss our managing president, vice president, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;
- xiii. Set our basic management systems;
- xiv. Make the modification plan to this Articles of Association;
- xv. Decide on the equity incentive plan;
- xvi. Manage the disclosure of company information;
- xvii. Propose the appointment or replacement of the accounting firm that performs audits for our Company at the general Shareholders' meeting;
- xviii. Attend to the work report of our president and review the work of the president;
- xix. Review and decide on external guarantees excluding those shall be approved by the general shareholders' meeting pursuant to the Articles of Association;
- xx. Review and supervise our Company's policies and rules with regard to compliance with laws and supervising regulations;
- xxi. Review and supervise the training and continuous expertise development of Directors, Supervisors and senior management;
- xxii. Review company's compliance with the enterprise management rules stipulated in the listing rules and the disclosure of enterprise management rules;
- xxiii. Decide on other major matters and administrative affairs other than those specified in the laws, administrative regulations, regulations of the competent authorities and the Articles of Association to be decided by the general shareholders' meeting and sign other important agreements;
- xxiv. Other powers and duties authorized by the laws, administrative regulations, regulations of the competent authorities, listing rules of the place where the shares of our Company are listed and this Articles of Association as well as the general shareholders' meeting.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

The aforesaid matters that can be exercised by the Board of Directors, or other transactions or arrangements, if according to the listing rules of the stock exchange where the shares of our Company are listed, shall be reviewed and approved by the general shareholders' meeting.

All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (xiv) must be approved by more than a two-thirds vote of the Directors, may be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors. Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors that appoint in writing other Directors to attend the Board of Directors in their place pursuant to the provisions of the Articles of Association) before the Board of Directors meeting can be convened.

Where Directors have associated relationship with the enterprises mentioned in any resolution made by the Board of Directors, such directors shall neither vote on the said resolutions nor act as proxies for other directors to exercise their voting right upon the said resolutions. Such meetings of the Board of Directors may not be held unless attended by more than half of all the non-associated Directors, and resolutions adopted at such meeting shall be passed by more than half of all the non-associated Directors. Where the number of the non-associated directors attending the meeting of the Board of Directors is less than three, the matters shall be submitted to the general shareholders' meeting for examination and deliberation.

The meeting of the Board of Directors shall require the attendance of the Directors in person. Where the Directors are with good reason unable to attend the meeting, they may in writing entrust other Directors to do so. The written power of attorney shall indicate the name of each proxy, entrusted matters, scope of authorization and validity, and shall be signed by or marked with the seal of each principal. Directors who attend the meeting of the Board of Directors as proxies shall exercise their rights in capacity of Director within the scope of authorization. Where the Directors fail to attend the meeting of the Board of Directors and further fail to entrust representatives to do so on their behalf, it shall be deemed that they have waived their voting rights at such meeting.

Where the Directors fail to attend in person two consecutive meetings of the Board of Directors and further fail to entrust other Directors to attend the meeting, they shall be deemed incapable of performing their duties and the Board of Directors shall propose a general shareholders' meeting to replace such Directors.

Each Director has one vote. When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

(6) Independent Non-executive Director

At least one-third of member of the Board of Directors shall be the independent non-executive Directors and the amount shall not be less than three. At least one independent non-executive Director shall have applicable professional qualification or are equipped with applicable accounting or relevant financial management expertise. At least one independent non-executive Director resides in Hong Kong.

(7) Secretary of the Board of Directors

Our Company shall have one secretary of the Board of Directors. The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

(8) Secretary of the Company

Our Company shall have one Secretary of the Company to make sure that the Directors achieve good communication and have complied with the policies and procedures of the Board of Directors. The Board of Directors is responsible for selection, appoint or dismissal of the Secretary of the Company and shall approval the relevant decision through meetings of the Board of Directors rather than through written resolution.

The Secretary of the Company shall be the one that equipped with applicable education and academic background, expertise and qualification or experience that in view of the HKEx, can make it qualified as the Secretary of the Company. Our Company can select the Secretary of the Company from employees who are familiar with the daily business of the Company or hire a service agency as the Secretary of the Company.

(9) Board of Supervisors

Our Company shall set up a Board of Supervisors.

The Board of Supervisors consists of three Supervisors and includes one chairman. The chairman of the Board of Supervisors shall be elected and dismissed by more than a two-thirds vote of the members of the Board of Supervisors.

The Board of Supervisors shall consist of shareholder representative Supervisors and employee representative Supervisors which account for no less than one-third of the Board of Supervisors of our Company. The Supervisors assumed by the employee representatives shall be elected and dismissed democratically by the employees.

Meetings of the Board of Supervisors shall be attended by more than half of the Supervisors before it may be convened. Resolutions of the Board of Supervisors shall require approval from two-third of all the Supervisors.

The Supervisors serve three-year terms. The Supervisors may, after the expiration of the term of office, be re-elected and re-appointed.

The Directors and senior management shall not also serve as Supervisors.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

The Board of Supervisors is responsible to the general Shareholders' meeting and lawfully exercises the following powers:

- i. Examine the financial standing of our Company;
- ii. Supervise the duties performing of Directors and senior management so as to ensure that said Directors and senior management shall not be in violation of any laws, administrative regulations or the Articles of Association of the Company when performing their duties, and put forward suggestions for dismissing any Directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general Shareholders' meetings;
- iii. Require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- iv. Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general shareholders' meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- v. Propose to convene an extraordinary general meeting, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general shareholders' meeting, to convene and preside over the general Shareholders' meeting;
- vi. Submit proposals at the general shareholders' meetings;
- vii. Propose to convene extraordinary meetings of the Board of Directors;
- viii. Represent our Company in negotiating with or in bringing actions against the Directors and senior management in accordance with *Company Law*;
- ix. Investigate into any abnormalities in operation of our Company; if necessary, to engage accounting firms, law firms and other professional institutions to assist its work, and the expenses shall be borne by our Company;
- x. Other powers and duties stipulated in the Articles of Association.

The Supervisors may attend the meetings of the Board of Directors, query or provide suggestions on the resolutions of the Board meeting.

(10) President

Our Company has one president, appointed or dismissed by the Board of Directors.

The president is responsible to the Board of Directors and exercises the following powers:

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

- i. Be in charge of the producing and operational management of our Company and report to the Board of Directors on work;
- ii. To organize the enforcement of resolutions of the Board of Directors;
- iii. Organize the implementation of the annual operation plans and investment schemes decided by the Board of Directors;
- iv. Formulate the structure scheme of the internal management agency of our Company;
- v. Formulate the structure scheme of the branch of our Company;
- vi. Formulate the substantial management system of our Company;
- vii. Formulate the detailed rules of our Company;
- viii. Propose the appointment or dismissal of the executive vice president, vice president, financial officer to the Board of Directors;
- ix. Appoint or dismiss other management personnel except those who shall be appointed or dismissed by the Board of Directors;
- x. Other responsibilities authorized by the Articles of Association and the Board of Directors.

(11) Reserves

When the annual after-tax earnings of our Company are distributed, our Company must allocate 10% of the earnings to our statutory reserve.

When the total amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations need to be provided.

If our statutory reserve is insufficient to offset our losses incurred during the previous year, the earnings generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

After allocation to the statutory reserve from the after-tax earnings of our Company, we may also allocate to the reserves at will from after-tax earnings in line with the resolution(s) adopted at the general shareholders' meeting.

After our Company has made up its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, unless otherwise specified by these Articles of Association.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

If the general shareholders' meeting violates the provisions in the preceding paragraph and profits are distributed to the shareholders before the company makes up for losses or makes allocations to the statutory reserve fund, the profits distributed in violation of the provisions must be returned by such shareholders to the company.

The shares held by our Company itself shall not be subject to profit distribution.

Our reserves must be used only for offsetting our losses, expanding the scale of business and operations or for conversion into capital to increase our capital, but the capital reserve shall not be used to offset our losses.

Where the statutory reserve converses into capital, the remaining statutory reserve shall not be less than 25% of the registered capital of our Company before such conversion.

(12) Settlement of Disputes

Our Company shall comply with the following rules governing the settlement of disputes:

- i. Whenever there occur any dispute or claim between holders of the overseas listed foreign Shares and our Company, holders of the overseas listed foreign Shares and our Company's Directors, Supervisors, president or other senior management, or holders of the overseas listed foreign Shares and holders of domestic Shares regarding the rights or obligations relating to the affairs of our Company conferred or imposed by the Articles of Association, *the Company Law* or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

Where the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or the dispute as a whole must be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is our Company or a shareholder of our Company, a Director, a Supervisor, president or other senior management.

Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration;

- ii. A claimant may elect for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre ("HKIAC") in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body so elected by the claimant.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY

If a claimant elects for arbitration at HKIAC, any party to the dispute or claim may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC;

- iii. The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations;
- iv. The award of an arbitration body shall be final and binding on all parties.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this [REDACTED] received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 April, 2015 of the properties held by the Group.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

[REDACTED]

The Board of Directors
Wenzhou Kangning Hospital Co., Ltd.
Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

Dear Sirs,

In accordance with your instructions to value the properties held by Wenzhou Kangning Hospital Co., Ltd. (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April, 2015 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property interest in Group I by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

In valuing the portions of the property interest in Group II which was under development as at the valuation date, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees expected to be incurred for completing the development.

APPENDIX VI

PROPERTY VALUATION REPORT

In valuing the remaining property interest in Group II which was completed as at the valuation date, due to the nature of this portion of the property and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued by Cost Approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the [REDACTED] of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificate, Building Ownership Certificate and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers — [Tian Yuan Law Firm], concerning the validity of the property interests in the PRC.

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We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in March 2015 by Mr. Joseph Zhou. Mr. Joseph Zhou is a China Real Estate Appraiser and has 12 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 21 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

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SUMMARY OF VALUES

Group I – Property interest held and occupied by the Group in the PRC

No. Property	Market value in existing state as at 30 April, 2015 RMB
1. Units 102, 103, 104 and 105 of Building Nos. 1 and 2 Dongshou, Unit 302 of Building No. 2 Dongshou and Nos. 1 to 24 underground car parking spaces No. 1 Shengjin Road Huanglong Residential District Lucheng District Wenzhou City Zhejiang Province The PRC	[16,235,000]

Group II – Property interest held under development by the Group in the PRC

No. Property	Market value in existing state as at 30 April, 2015 RMB
2. Wenzhou Kangning Hospital under construction located at the eastern side of Shengjin Road and the southern side of Yinglou Road Lucheng District Wenzhou City Zhejiang Province The PRC	[139,322,000]
Total:	<u>[155,557,000]</u>

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PROPERTY VALUATION REPORT

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April, 2015 RMB
1.	Units 102, 103, 104 and 105 of Building Nos. 1 and 2 Dongshou, Unit 302 of Building No. 2 Dongshou and Nos. 1 to 24 underground car parking spaces No. 1 Shengjin Road Huanglong Residential District Lucheng District Wenzhou City Zhejiang Province The PRC	<p>The property comprises 4 commercial units on Level 1 of a 6-storey composite building, a residential unit on Level 3 of a 6-storey composite building and 24 underground car parking spaces which were completed in 2009.</p> <p>The units of the property have a total gross floor area of 706.59 sq.m..</p> <p>The land use rights of the 5 units of the property have been granted for terms expiring on 25 July 2046 and 25 July 2076 for commercial and residential uses respectively.</p>	As at the valuation date, except for portions of the property which were rented to an independent third party, the property was occupied by the Group for commercial, residential and car parking uses.	[16,235,000]

Notes:

- (1) Pursuant to 5 State-owned Land Use Rights Certificates — Wen Guo Yong (2014) Di No. 1-05038, Wen Guo Yong (2014) Di No. 1-05042, Wen Guo Yong (2015) Di No. 1-11833, Wen Guo Yong (2015) Di No. 1-11836 and Wen Guo Yong (2015) Di No. 1-11842, the land use rights of 5 units of the property with a total apportioned area of approximately 125.02 sq.m. have been granted to the Company, for terms expiring on 25 July 2046 and 25 July 2076 for commercial and residential uses respectively.
- (2) Pursuant to 5 Building Ownership Certificates — Wen Fang Quan Zheng Lucheng Qu Zi Di Nos. 715438, 729721, 826751, 826750 and 822297, 5 units of the property with a total gross floor area of approximately 706.59 sq.m. are owned by the Company.
- (3) According to 24 Car Parking Spaces Purchase Agreements entered into between Wenzhou Mingou Real Estate Development Co., Ltd. and the Company, the 24 underground car parking lots were purchased by the Company at an aggregate amount of RMB2,220,000.
- (4) According to a Tenancy Agreement dated 20 March 2015 entered into between the Company and Jin Guolan (金國蘭), portions of Unit 102 of the property with a gross floor of approximately 52.68 sq.m. are rented to Jin Guolan for a term commencing from 20 March 2015 and expiring on 19 March 2017 at a monthly rent of RMB2,000 for commercial use.
- (5) In the valuation of this property, we have attributed no commercial value to 24 underground car parking spaces which have not obtained any title certificates. However, for reference purpose, we are of the opinion that the market value of these car parking spaces as at the valuation date would be RMB[2,880,000] assuming all relevant title certificates have been obtained and these car parking spaces could be freely transferred.
- (6) In our valuation, we have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables range from RMB22,000/sq.m. to RMB31,000/sq.m. for commercial units, RMB10,500 to RMB12,900 for residential unit and RMB100,000 to RMB120,000 for per car parking lot. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed unit rate of RMB24,800/sq.m. for commercial units, RMB10,400 for residential unit and RMB120,000/lot for car parking space of the subject property.
- (7) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (a) The Company has obtained the land use rights and building ownership rights mentioned in notes 1 and 2. The Company is entitled to transfer, lease, mortgage or otherwise dispose of 5 units of the property with a total gross floor area of approximately 706.59 sq.m.;
 - (b) The Company has not obtained the title certificates for 24 underground car parking spaces mentioned in note 4. The Company is entitled to occupy and use these car parking spaces and will have rights to transfer, lease and mortgage these car parking spaces after obtaining the relevant title certificates. Since these car-parking spaces are not used for operation, the title defects of them will not have material adverse effect on the operation of the Group; and
 - (c) The Tenancy Agreement is legally binding.

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VALUATION CERTIFICATE

Group II – Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April, 2015 RMB
2.	Wenzhou Kangning Hospital under construction located at the eastern side of Shengjin Road and the southern side of Yinglou Road Lucheng District Wenzhou City Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 18,635 sq.m. and 3 medical buildings which were being constructed thereon and an ancillary building was scheduled to be constructed thereon ("CIP" buildings) as at the valuation date.</p> <p>The development of the property is scheduled to be completed in November 2017. Upon completion, the development will have a total gross floor area of approximately 61,754.90 sq.m. The details are set out as below:</p>	As at the valuation date, apart from 4 buildings which were occupied by the Group for hospital use, the property was under construction.	[139,322,000]

Building Name	Planned Gross Floor Area sq.m.
[Outpatient Building A]	[14,510.50]
[Outpatient Building B]	[29,581.60]
[Medical Building]	[3,092.80]
[Guard Room] (to be constructed)	[30.00]
Underground part	[14,540.00]
Total:	[61,754.90]

As advised by Company, the total development cost is estimated to be approximately RMB[126,880,000] of which RMB[30,706,176] had been paid as at the valuation date.

Apart from the CIP buildings, the property also comprises 4 medical buildings ("Completed buildings") with a total gross floor area of approximately 15,451.04 sq.m. which were completed in 2013.

The land use rights of the property have been granted for a term expiring on 15 November, 2059 for medical use.

Notes:

(1) Pursuant to a State-owned Land Use Rights Grant Contract — 3303012013A22036 dated 13 May, 2013, the land use rights of the property were contracted to be granted to the Company with the particulars as follows:

Site Area	:	18,635 sq.m.
Land Use	:	Medical
Land Term	:	50 years
Plot Ratio	:	0.80–2.90
Land Premium	:	RMB13,631,900

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- (2) Pursuant to a State-owned Land Use Rights Certificate — Wen Guo Yong (2013) Di No. 324504, the land use rights of a parcel of land with a site area of approximately 18,635 sq.m. on which the property is situated, have been granted to the Company for a term expiring on 15 November, 2059 for medical use.
- (3) Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 2013-030100056 issued by Construction and Planning Bureau of Wenzhou City in favour of the Company, the construction works of the CIP buildings of the property with a total planned gross floor area of approximately 61,754.90 sq.m. have been approved.
- (4) Pursuant to a Construction Work Commencement Permit — No. 3303022013102804101 issued by Housing and urban-rural construction Committee of Wenzhou City in favour of the Company, the commencement of the construction works of the CIP buildings with a total gross floor area of approximately 61,754.90 sq.m. has been permitted.
- (5) Pursuant to 4 Building Ownership Certificates — Wen Fang Quan Zheng Lu Cheng Qu Zi Di Nos. 765065, 730194, 765067 and 765066, 4 buildings of the property with a total gross floor area of approximately 13,970.04 sq.m. are owned by the Company.
- (6) In the valuation of the property, we have attributed no commercial value to portions of the Completed buildings of the property with a total gross floor area of approximately [1,481] sq.m. which have not obtained Building Ownership Certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of this part (excluding the land) as at the valuation date would be RMB[4,554,000] assuming all relevant title certificates have been obtained and the units could be freely transferred.
- (7) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - (a) The Company has obtained the land use rights of the property and is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property;
 - (b) The Company has obtained the Building Ownership Certificates as mentioned in note 5 and is entitled to transfer, lease, mortgage or otherwise dispose of these buildings of the property;
 - (c) For the CIP buildings, the Company has obtained all the requisite approvals and permits in relation to the relevant construction stage of the CIP buildings and there is no violation on any legal permit procedures; and
 - (d) Portions of the Completed buildings of the property mentioned in note 6 have not obtained any construction approvals. According to the relevant laws and regulations, the Company may be subject to mandatory rectification and a fine in maximum amount of approximately 10% of the construction cost. The proportion of gross floor area of these portions buildings is relatively small comparing to the total gross floor area held by the Company and these portions buildings are used for ancillary purpose. The title defects of these portions buildings will not have material adverse effect on the operation of the Group.
- (8) As the property is the major asset held by the Group, we are of the view that the property is a material property.

Details of the material property

- | | | |
|--|---|--|
| (a) General description of location of the property | : | The property is located at the eastern side of Shengjin Road and the southern side of Yinglou Road of Lucheng District which is at the midland of Wenzhou City. The site of the property is in irregular shape and neighbouring Mount Jing scenic. It is easy to be accessed by Wenzhou Bus Line 40, 39, 57, 26, 61, and 69 from each direction of the city. |
| (b) Details of encumbrances, liens, pledges, mortgages against the property | : | Nil. |
| (c) Environmental Issue | : | No environmental study is carried out. |
| (d) Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil. |
| (e) Future plans for construction, renovation, improvement or development of the property and estimated associated costs | : | As advised by the Group, the total development cost of the CIP buildings is estimated to be approximately RMB[126,880,000] of which RMB[30,706,176] had been paid as at the valuation date. The development is scheduled to be completed in November 2017. |

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

The Company was established as a joint stock cooperative enterprise in the PRC on February 7, 1996 by Mr. Guan Weili, Mr. Wang Xianjing, Mr. Xia Aiguang and Ms. Wang Hongyue, and was converted into a limited liability company under the PRC Company Law on December 19, 2011. It was later converted into a joint stock limited company on October 15, 2014. Our registered address is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC. Our Company has established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on May 12, 2015. Ms. Ng Wing Shan has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V to this [REDACTED]. A summary of certain relevant aspects of the laws and regulations of the PRC and Hong Kong is set out in Appendix IV to this [REDACTED].

B. Changes in Share Capital of our Company

Our Company, previously known as Wenzhou Kangning Mental Convalescent Hospital (溫州市康寧精神康復醫院) and was renamed as Wenzhou Kangning Hospital (溫州康寧醫院) in November 2004, was established on February 7, 1996 as a joint stock cooperative enterprise with a registered capital of RMB6.0 million and was held as to 36% by Mr. Guan, 27% by Mr. Wang, 27% by Mr. Xia and 10% by Ms. Wang Hongyue. The following sets out the changes in our share capital since our establishment:

- (a) In January 2010, Mr. Xia transferred 10% and 17% of his equity interest in our Company to Ms. Wang Hongyue and Mr. Guan for a consideration of RMB600,000 and RMB1,020,000, respectively. The considerations were determined with reference to the then registered capital of our Company, and were settled on January 18, 2010. In addition, in January 2010, Mr. Wang transferred 7% and 20% of his equity interest in our Company to Mr. Guan and Ms. Wang Lianyue for a consideration of RMB420,000 and RMB1,200,000 respectively. The considerations were determined with reference to the then registered capital of our Company, and were settled on January 18, 2010. As a result of the above transfers, our Company was held as to 60% by Mr. Guan, 20% by Ms. Wang Hongyue and 20% by Ms. Wang Lianyue.
- (b) In August 2010, our Company increased its registered capital from RMB6.0 million to RMB20.0 million and was subscribed by the then Shareholders on the basis of their respective shareholding by way of cash.
- (c) In December 2011, our Company was converted into a limited liability company under the PRC laws.

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- (d) In March 2013 and April 2013, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen, which are independent third parties, (Beijing CDH Weixin and Beijing CDH Weisen collectively referred to as "**Beijing CDH**") made the first round of investment in our Company by way of capital injection and acquiring shares from the then Shareholders. After completion of such investment, the registered capital of our Company was increased from RMB20.0 million to RMB28.0 million and our Company was held as to approximately 42.82%, 26.83%, 11.41%, 7.59%, 6.70% and 4.65% by Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin and Beijing CDH Weisen, respectively.
- (e) On July 28, 2014, Ms. Wang Hongyue transferred approximately 0.40% and 0.40% of her equity interest in the Company to Renai Kangning and Enci Kangning for a consideration of RMB2,083,928 and RMB2,104,872 respectively. The considerations were based on the valuation made when Defu and Beijing CDH invested in our Company in 2013 and were properly and settled on July 28, 2014 and July 25, 2014, respectively. On July 28, 2014, Mr. Guan transferred approximately 0.11% and 3.09% of his equity interest in the Company to Enci Kangning and Xinshi Kangning for a consideration of RMB596,904 and RMB16,158,296, respectively. The considerations were based on the valuation made when Defu Fund and Beijing CDH invested in our Company in 2013 and settled on July 28, 2014 and April 27, 2015, respectively. The purpose for the above transfers of equity interests to Renai Kangning, Enci Kangning and Xinshi Kangning was for the motivation of our Directors, Supervisors, senior management, employees and external consultants and provide incentives for their contributions to our Company. As of the Latest Practicable Date, the interests of Enci Kangning, Renai Kangning and Xinshi Kangning were held by 27 individuals, 41 individuals and 38 individuals, respectively, consisting of one Director, two Supervisors, three external consultants (who advise on our medical research, teaching and training and/or quality control), and the remainings were senior management and employees of the Group. After completion of the above transfers, our Company was held approximately as to 39.62% by Mr. Guan, 26.83% by Defu Fund, 10.61% by Ms. Wang Hongyue, 7.59% by Ms. Wang Lianyue, 6.70% by Beijing CDH Weixin, 4.65% by Beijing CDH Weisen, 3.09%, by Xinshi Kangning, 0.51% by Enci Kangning and 0.40% by Renai Kangning, respectively.
- (f) On October 15, 2014, our Company was converted into a joint stock limited company under the PRC laws, with a registered capital of RMB50.0 million, divided into 50,000,000 Domestic Shares of nominal value of RMB1.00 each, all of which were fully paid up. Upon completion of the conversion, Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning, held 19,810,250, 13,416,750, 5,304,350, 3,794,500, 3,347,750, 2,326,400, 1,543,000, 258,000 and 199,000 Domestic Shares, representing approximately 39.62%, 26.83%, 10.61%, 7.59%, 6.70%, 4.65%, 3.09%, 0.51% and 0.40%, of the then equity interest in our Company, respectively.
- (g) In March 2015, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen made the second round of investment in our Company by way of capital injection, and the registered share capital of our Company was increased from RMB50,000,000 to

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RMB52,800,000. After completion of the capital injection, Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning, held 19,810,250, 15,384,541, 5,304,350, 3,794,500, 3,838,754, 2,667,605, 1,543,000, 258,000 and 199,000 Domestic Shares, representing approximately 37.52%, 29.14%, 10.04%, 7.19%, 7.27%, 5.05%, 2.92%, 0.49% and 0.38%, of the then equity interest in our Company, respectively.

Upon completion of the [REDACTED], but without taking into account any H Shares which may be issued pursuant to the [REDACTED], our registered share capital will be increased to RMB[REDACTED], comprising 52,800,000 Domestic Shares and [REDACTED] H Shares issued under the [REDACTED], representing approximately [REDACTED] and [REDACTED] of our registered capital, respectively.

Save as aforesaid, there has been no alteration in our share capital since our establishment.

C. Shareholder Resolutions of the Company

On May 11, 2015, the Shareholders passed, among other things, the following resolutions at the first extraordinary general meeting of 2015:

- (a) approving the issue of H Shares with a par value of RMB1.00 each (the number of the H Shares so issued shall be [REDACTED] Shares representing approximately [REDACTED] of the total issue share capital of our Company after the [REDACTED]) and granting of the [REDACTED] in respect of no more than 15% of the number of H Shares issued;
- (b) authorizing the Board to handle all matters relating to, among other things, the issue of H Shares and the [REDACTED] of H Shares on the Stock Exchange; and
- (c) subject to the completion of the [REDACTED], the Articles of Association has been approved and adopted, which shall only become effective on the [REDACTED] Date and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities.

D. Our Principal Subsidiaries

For further details of our principal subsidiaries, please refer to Appendix I — "Accountant's Report".

E. Changes in Share Capital of Our Subsidiaries

Save as disclosed below, there has been no alteration in the registered share capital of any of our subsidiaries within the two years immediately preceding the date of this [REDACTED]:

- (a) On September 3, 2013, Yueqing Kangning, a wholly-owned subsidiary of our Company was established in the PRC with a registered capital of RMB1,000,000.

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- (b) On September 22, 2014, Shenzhen Yining, a non-wholly owed subsidiary of our Company, was established in the PRC with the registered share capital of RMB10,000,000. Our Company owns 70% equity interest in Shenzhen Yining and Shenzhenshi Yidi Investment Co., Ltd (深圳市醫的投資有限公司) an independent third party, owns 30% of the equity interest in Shenzhen Yining.
- (c) On February 2, 2015, Linhai Kangning, a non-wholly owed subsidiary of our Company, was established in the PRC with the registered share capital of RMB2,000,000. Our Company owns 80% equity interest in Linhai Kangning and Mr. Qu Kaisheng, an independent third party, owns 20% of the equity interest in Linhai Kangning.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this [REDACTED] which are or may be material, a copy of each has been delivered to the Registrar for registration:

- (a) A joint venture agreement entered into by our Company and Shenzhenshi Yidi Investment Co., Ltd dated June 6, 2014 in respect of the establishment of Shenzhen Yining;
- (b) A joint venture agreement entered into by our Company and Mr. Qu Kaisheng dated December 29, 2014 in respect of the establishment of Linhai Kangning;
- (c) A capital increase agreement entered into by our Company and our Shareholders dated March 16, 2015;
- (d) The joint venture agreement entered into by Beijing Jialikang Hospital Management Consulting Co., Ltd. and our Company dated May 31, 2015 in respect of establishment of Beijing Yining;
- (e) A capital increase agreement of Shenzhen Yining entered into by our Company, Shenzhenshi Yidi Investment Co., Ltd, Shenzhenshi Dongwu and Shenzhen Yining dated June 16, 2015, in respect of capital increase of Shenzhen Yining.
- (f) The Non-competition Agreement;
- (g) The Deed of Indemnity;
- (h) The Hong Kong Underwriting Agreement.

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B. Our Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, our Company has registered the following trademark which is material to our business:

No.	Trademark	Registration No.	Class	Date of Registration	Owner	Place of Registration	Expiration Date
1	康寧精神	8871233	44	February 20, 2015	Our Company	PRC	April 20, 2022

Our Company has applied for the registration of the following trademarks, the registration of which has not yet been granted:

No.	Trademark	Application No.	Class	Application Date	Applicant	Application Place
1		303315023	35,36,42,44,45	February 28, 2015	Our Company	Hong Kong
2		303315032	35,36,42,44,45	February 28, 2015	Our Company	Hong Kong
3		15852777	35	December 3, 2014	Our Company	PRC
4		15853058	42	December 3, 2014	Our Company	PRC
5		15853532	44	December 3, 2014	Our Company	PRC
6		15852845	41	December 3, 2014	Our Company	PRC

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No.	Trademark	Application No.	Class	Application Date	Applicant	Application Place
7		15852671	5	December 3, 2014	Our Company	PRC
8	怡宁 YI NING	15903669	44	December 10, 2014	Our Company	PRC

(b) Domain Names

As of the Latest Practicable Date, our material domain names are as follows:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1	knhosp.cn	Our Company	August 9, 2013	August 9, 2023
2	kn120.com	Our Company	June 9, 2004	June 9, 2017
3	knjs.com.cn	Our Company	September 15, 2012	September 15, 2022
4	knjs.net	Our Company	August 29, 2012	August 29, 2022

Same as disclosed, we have no other material trademarks, patents or other intellectual property rights as at the Latest Practicable Date.

3. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS

A. Directors, Supervisors and Chief Executive

(a) Disclosure of Interest

Immediately following completion of the [REDACTED] and without taking into account any H Shares which may be sold pursuant to the exercise of the [REDACTED], the interests or short positions of the Directors, Supervisors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant, to Section 352 of the SFO, to be entered into in the register referred to in that section, or which will be required,

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pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the H Shares are [REDACTED] will be as follows:

Name of Directors	Capacity/Nature of Interest	Number of Shares Interested	Approximate percentage of shareholding in the relevant class of Shares	Immediately after completion of the [REDACTED]	
				Approximate percentage of shareholding in the total share capital of the Company (assuming the [REDACTED] is not exercised)	Approximate percentage of shareholding in the total share capital of the Company (assuming the [REDACTED] is fully exercised)
Mr. Guan Weili ⁽¹⁾	Beneficial owner/ Interest of spouse	23,604,750 Domestic Shares ^(L)	44.71%	[REDACTED]	[REDACTED]
Ms. Wang Lianyue ⁽¹⁾	Beneficial owner/ Interest of spouse	23,604,750 Domestic Shares ^(L)	44.71%	[REDACTED]	[REDACTED]
Ms. Wang Hongyue ⁽²⁾	Beneficial owner/ Interest in a controlled corporation	6,847,350 Domestic Shares ^(L)	12.96%	[REDACTED]	[REDACTED]

Notes:

(L): Long Position.

(1): Mr. Guan Weili is the spouse of Ms. Wang Lianyue and therefore, Mr. Guan Weili is deemed to be interested in the Shares held by Ms. Wang Lianyue, and Ms. Wang Lianyue is deemed to be interest in the Shares held by Mr. Guan Weili by Part XV of the SFO.

(2): Ms. Wang Hongyue is the general partner of Xinshi Kangning, which is a limited liability partnership and holds approximately 13.73% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. Wang Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in our Company. Mr. Xu Yi is the spouse of Ms. Wang Hongyue and is a limited partner of Xinshi Kangning, who holds approximately 6.19% interest in Xinshi Kangning.

(b) Particulars of Service Contracts

Each of our Directors and Supervisors has entered into a service contract with our Company on April 8, 2015. The principal particulars of these service contracts are (a) the term of office commencing from the date when their respective appointments are approved by the Shareholders and; and (b) are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to enter into a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

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(c) Directors and Supervisors’ Remuneration

For the three years ended December 31, 2012, 2013 and 2014, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors and Supervisors were RMB755,799, RMB1,031,503 and RMB1,072,452 respectively. Save as disclosed under Note article 26 to the financial information in the Accountants’ Report set out in Appendix I of this [REDACTED], no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three years ended December 31, 2012, 2013 and 2014.

Under the current arrangements, our Directors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2015 under arrangement in force as of the date of this [REDACTED] which is expected to be approximately RMB1,190,000 in aggregate.

Under the current arrangements, our Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2015 under arrangement in force as of the date of this [REDACTED] which is expected to be approximately RMB268,000 in aggregate.

B. Substantial Shareholders

(i) Interests in our Company

Save as disclosed in the section headed “Substantial Shareholders” in this [REDACTED], our Director, Supervisors or chief executive are not aware of any other person, not being a Director, Supervisor or chief executive, who has an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

(ii) Interests in other members of our Group

So far as is known to our Directors, the following persons, not being a Director, Supervisor or chief executive of our Company, are interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group or has option in respect of such capital:

<u>Name of shareholders of other members of our Group</u>	<u>Name of other members of our Group</u>	<u>Number of securities interested/ Registered share capital⁽¹⁾</u>	<u>Approximate percentage of shareholding</u>
Shenzhenshi Yidi Investment Co., Ltd. (深圳市醫的投資有限公司)	Shenzhen Yining	RMB7,000,000	30%
Mr. QU Kaisheng (屈凱勝)	Linhai Kangning	RMB400,000	20%

Note:

(1) Registered share capital represents the registered share capital contributed by the relevant shareholder.

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C. Personal Guarantees

As of the Latest Practicable Date, our Directors and Supervisors had not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

D. Agency Fees or Commissions Paid or Payable

Save as disclosed in the section headed “Underwriting” in this [REDACTED], no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this [REDACTED].

E. Related Party Transactions

During the two years preceding the date of this [REDACTED], we have engaged in the material related party transactions as described in Note 35 to the financial information in the Accountants’ Report set out in the Appendix I to this [REDACTED].

F. Disclaimers

Save as disclosed in this [REDACTED]:

- (a) None of our Directors, Supervisors or chief executive of our Company has any interests and short positions in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once our H Shares are [REDACTED]. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) In connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “Qualification of Experts” of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this [REDACTED], been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

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- (c) None of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once our H Shares are [REDACTED] on the Stock Exchange; in connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in paragraph headed “Qualification of Experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to our business;
- (d) Save as disclosed in this [REDACTED] or the Underwriting Agreements, none of the Directors, Supervisors or parties referred to under the section headed “Other Information — Qualification of Experts” in this Appendix is materially interested in any contract or arrangement at the date of this [REDACTED] which is significant to the business of our Group;
- (d) In connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Qualification of Experts” of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and
- (e) So far as is known to our Directors, none of our Directors or Supervisors or their respective associates or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

4. OTHER INFORMATION

A. Estate Duty

We have been advised that no material liability for estate duty under PRC laws is likely to fall upon us.

B. Indemnity

Our Controlling Shareholders entered into the Deed of Indemnity in favor of our Company on June 3, 2015, to indemnify, among other matters:

- (a) The late charges or other penalties imposed by the social security and housing provident funds authorities. See “Business — Legal Compliance and Proceedings”;
- (b) The legal liabilities or economic losses in connection with the deficiencies of certain properties owned or leased by our Group. See “Business — Legal Compliance and Proceedings”;
- (c) The legal liabilities or economic losses in connection with the deficiencies in respect of environmental protection verification procedures of certain members of our Group. See “Business — Legal Compliance and Proceedings”; and

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- (d) The legal liabilities or economic losses in connection with the deficiencies in respect of the fire safety verification for Cangnan Kangning and Qingtian Kangning. See “Business — Legal Compliance and Proceedings.”

C. Litigation

Save as disclosed in this [REDACTED], as of the Latest Practicable Date, our Company is not involved in any material litigation, arbitration or administrative proceedings. Save as disclosed in this [REDACTED], so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

D. Restrictions on Share Repurchase

Please refer to the section headed “Appendix V Summary of the Articles of Association of our Company — rights of our company to buy back our outstanding issued shares” for more details.

E. Joint Sponsors and Joint Sponsors’ Fee

Each of the Joint Sponsors has declared their independence pursuant to Rule 3A.07 of the Listing Rules. The Joint Sponsors have made an application on our behalf to the Listing Committee for [REDACTED] of, and permission to deal in, our H Shares, including any [REDACTED] which may be issued pursuant to the exercise of the [REDACTED]. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

We have entered into engagement agreements with each of the Joint Sponsors respectively, pursuant to which we agreed to pay a total of US\$1 million to the Joint Sponsors to act as the sponsors to our Company in the [REDACTED].

F. Preliminary Expenses

Our estimated preliminary expenses (excluding commissions to be payable to the Underwriters, the SFC transaction levy and the Stock Exchange trading fee) are approximately RMB30.3 million. All preliminary expenses and all expenses relating to the [REDACTED] will be borne by the Company.

G. Compliance Adviser

We have appointed REORIENT Financial Markets Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

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H. Qualification of Experts

The qualifications of the experts who have given their opinion or advice which are contained in, or referred to in, this [REDACTED], are as follows:

Name	Qualification
Citigroup Global Markets Asia Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance), and type 7 (providing automated trading services) of the regulated activities under the SFO
CITIC CLSA Capital Markets Limited	Licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Tian Yuan Law Firm	PRC Legal Adviser
Frost & Sullivan	Industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property Valuer

I. No Material Adverse Change

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since December 31, 2014 (being the date to which the latest audited consolidated financial statements of the Group were prepared).

J. Binding Effect

This [REDACTED] shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

K. Bilingual [REDACTED]

The English language and Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and [REDACTED] from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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L. Miscellaneous

Save as disclosed in this [REDACTED],

- (a) Within the two years preceding the date of this [REDACTED], we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) No share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) We have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) The Company has no outstanding convertible debt securities or debentures;
- (e) Within the two years immediately preceding the date of this [REDACTED], no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of the Company;
- (f) There is no arrangement under which future dividends are waived or agreed to be waived;
- (g) There has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months; and
- (h) None of the equity and debt securities of our Company, if any, is [REDACTED] or dealt with in any other stock exchange nor is any [REDACTED] or permission to deal being or proposed to be sought.

M. Consents

Each of the experts as referred to in the paragraph headed “Qualification of Experts” of this Appendix has given, and has not withdrawn, their respective written consents to the issue of this [REDACTED] with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

Save as disclosed in this [REDACTED], none of the experts named above has any shareholding interests in any member of our Group or the right (other than the penal provisions) of sections 44A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

N. Promoters

Our Promoters are Mr. Guan, Defu Fund, Ms. Wang Hongyue, Ms. Wang Lianyue, Beijing CDH Weixin, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning. Save as disclosed in this [REDACTED], within the two years immediately preceding the date of this [REDACTED], no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to the Promoters named above in connection with the [REDACTED] and the related transactions described in this [REDACTED].

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this [REDACTED] delivered to the Registrar of Companies in Hong Kong for registration were copies of the [REDACTED], [REDACTED] and [REDACTED], the written consents referred to in the section entitled “4. Other Information — M. Consents” in Appendix VII to this [REDACTED] and copies of the material contracts referred to in the section entitled “2. Further Information about Our Business — A. Summary of our Material Contracts” in Appendix VII to this [REDACTED].

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Kirkland & Ellis at 26th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this [REDACTED]:

- (a) The Articles of Association;
- (b) The accountants’ report on our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this [REDACTED];
- (c) The report on the unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix II to this [REDACTED];
- (d) The consolidated audited financial statements of our Group for the three years ended December 31, 2012, 2013 and 2014;
- (e) The material contracts referred to in the paragraph headed “Summary of our Material Contracts” in Appendix VII to this [REDACTED];
- (f) The service contracts referred to in the paragraph headed “Particulars of Service Contracts” in Appendix VII to this [REDACTED];
- (g) The written consents referred to in the paragraph headed “Consents” in Appendix VII to this [REDACTED];
- (h) The PRC legal opinions issued by Tian Yuan Law Firm, the PRC Legal Adviser of the Company;
- (i) The PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation; and
- (j) The property valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the summary of which is set forth in the appendix VI to the [REDACTED].