



廣東康華醫療股份有限公司

Guangdong Kanghua Healthcare Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code : 3689

GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator



Joint Bookrunners



* For identification purposes only.

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



廣東康華醫療股份有限公司
GUANGDONG KANGHUA HEALTHCARE CO., LTD.*

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	84,000,000 H Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	8,400,000 H Shares (subject to reallocation)
Number of International Offer Shares	:	75,600,000 H Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	:	HK\$14.50 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	:	RMB1.00 per H Share
Stock Code	:	3689

Sole Sponsor and Sole Global Coordinator



Joint Bookrunners



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or about Tuesday, 1 November 2016 and, in any event, not later than Friday, 4 November 2016. The Offer Price will not be more than HK\$14.50 per Offer Share and is expected to be not less than HK\$11.60 per Offer Share, unless otherwise announced. The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction. For further information, see "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

Our Company is incorporated, and substantially all of its businesses are 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 investment in PRC-incorporated businesses. 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 the shares of our Company. Such differences and risk factors are set out in "Risk Factors", "Appendix III — Taxation and Foreign Exchange", "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association".

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors". The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting".

* For identification purposes only.

27 October 2016

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences and **WHITE**
and **YELLOW** Application Forms available from 9:00 a.m. on Thursday, 27 October 2016

Latest time for completing electronic applications under
the **White Form eIPO** service through the designated
website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on Tuesday, 1 November 2016

Application lists open⁽³⁾ 11:45 a.m. on Tuesday, 1 November 2016

Latest time for (a) lodging **WHITE** and **YELLOW**
Application Forms, (b) completing payment for
White Form eIPO applications by effecting
Internet banking transfer(s) or PPS payment
transfer(s) and (c) giving **electronic application**
instructions to HKSCC⁽⁴⁾ 12:00 noon on Tuesday, 1 November 2016

Application lists close⁽³⁾ 12:00 noon on Tuesday, 1 November 2016

Expected Price Determination Date⁽⁵⁾ Tuesday, 1 November 2016

(1) Announcement of the Offer Price, the level of indications
of interest in the International Offering, the level of
applications in the Hong Kong Public Offering and
the basis of allocations of the Hong Kong Offer Shares
to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times
(in Chinese) on or before Monday, 7 November 2016

(2) Results of allocations in the Hong Kong Public Offering
to be available through a variety of channels as described
in “*How to Apply for the Hong Kong Offer Shares —*
Publication of Results” from Monday, 7 November 2016

(3) Announcement containing (1) and (2) above to be
published on the websites of our Company and the
Hong Kong Stock Exchange at www.kanghuagp.com⁽⁶⁾
and www.hkexnews.hk, respectively, from Monday, 7 November 2016

Despatch of H Share certificates and White Form e-Refund
payment instructions/refund cheques on or before⁽⁷⁾⁽⁸⁾ Monday, 7 November 2016

Dealings in H Shares on the Hong Kong Stock Exchange
expected to commence on Tuesday, 8 November 2016

Notes:

(1) All dates and times refer to Hong Kong dates and times.

EXPECTED TIMETABLE⁽¹⁾

- (2) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 1 November 2016, the application lists will not open and close on that day. Please see “*How to Apply for the Hong Kong Offer Shares*” for further details.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section “*How to Apply for the Hong Kong Offer Shares — 6. Applying By Giving Electronic Application Instructions to HKSCC via CCASS*” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, 1 November 2016, and in any event, not later than Friday, 4 November 2016. If, for any reason, the Offer Price is not agreed among the Sole Global Coordinator (on behalf of the Underwriters) and by us by Friday, 4 November 2016, the Hong Kong Public Offering and the International Offering will not proceed.
- (6) The website, and all of the information contained on the website, does not form part of this prospectus.
- (7) H Share certificates for the Hong Kong Offer Shares are expected to be issued on Monday, 7 November 2016 but will only become valid if the Global Offering has become unconditional in all respects at any time prior to 8:00 a.m. on the Listing Date, which is expected to be Tuesday, 8 November 2016. Investors who trade H Shares on the basis of publicly available allocation details or prior to the receipt of the H Share certificates or prior to the H Share certificates becoming valid do so entirely at their own risk.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see “*Structure of the Global Offering*” and “*How to Apply for the Hong Kong Offer Shares*”, respectively.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

We have issued this prospectus solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus 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 public offering of the Offer Shares in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should only rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us or any of the Relevant Persons. Information contained on the website at www.kanghuagp.com does not form part of this prospectus.

	Page
Expected Timetable	i
Contents	iii
Summary	1
Definitions	16
Glossary of Technical Terms	29
Forward-Looking Statements	35
Risk Factors	37
Waivers from Strict Compliance with the Listing Rules	68
Information about this Prospectus and the Global Offering	70
Directors, Supervisors and Parties Involved in the Global Offering	75
Corporate Information	80
Industry Overview	82
Regulatory Overview	94
History, Reorganisation and Corporate Structure	116
Business	127
Financial Information	220

CONTENTS

	Page
Directors, Supervisors and Senior Management	279
Share Capital	294
Substantial Shareholders	298
Cornerstone Investor	301
Relationship with our Controlling Shareholders	304
Connected Transactions	313
Use of Proceeds	321
Underwriting	324
Structure of the Global Offering	335
How to Apply for the Hong Kong Offer Shares	343
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Taxation and Foreign Exchange	III-1
Appendix IV — Summary of Principal Legal and Regulatory Provisions	IV-1
Appendix V — Summary of Articles of Association	V-1
Appendix VI — Statutory and General Information	VI-1
Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection	VII-1

SUMMARY

This summary is intended to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in the Offer Shares. Some of the particular risks of investing in the Offer Shares are set out in “Risk Factors” and you should read that section carefully and in full before you decide to invest in the Offer Shares.

Statements contained in this summary that are not historical facts may be forward-looking statements. Such statements are based on certain assumptions. While our Directors consider such assumptions to be reasonable, whether actual results will meet the expectations underlying these forward-looking statements will depend on a number of risks and uncertainties over which we have no control. Under no circumstances should the inclusion of such information in this prospectus be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by us or any of the Relevant Persons or that these results will be achieved or are likely to be achieved.

SUMMARY

We operate the largest private for-profit general hospital in the PRC, Kanghua Hospital, in terms of the number of registered beds as at 31 December 2015, according to the Frost & Sullivan Report. As at 31 December 2015, Kanghua Hospital was the third largest private for-profit general hospital in the PRC in terms of revenue, and the ninth largest private for-profit general hospital in the PRC in terms of the number of beds in operation, according to the Frost & Sullivan Report. Kanghua Hospital was also the first private for-profit general hospital in the PRC to attain a Grade A Class III rating under the NHFPC classification system, the highest rating attainable by hospitals in the PRC, according to the same source. Kanghua Hospital offers a continuum of healthcare services to a diverse range of patients, particularly those with critical, complex or rare medical conditions. In addition to Kanghua Hospital, we also operate Renkang Hospital, a private for-profit general hospital servicing the local communities in the surrounding area. Renkang Hospital has not applied to be rated under the NHFPC classification system. Located in Dongguan, Guangdong Province, both hospitals complement each other through patient referrals, technical assistance, multi-site practices and research and teaching collaboration. As at 30 April 2016, Kanghua Hospital and Renkang Hospital had 2,006 and 480 registered beds, respectively. In June 2016, we also entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases under development in Chongqing and our first managed hospital and our first presence outside of Guangdong Province.

Guangdong Province is one of the most affluent and developed provinces in the PRC, with its GDP ranking first in the PRC for 27 consecutive years since 1989. However, healthcare resources in Guangdong Province, in particular quality healthcare services, lag behind many other provinces in the PRC, according to the Frost & Sullivan Report. With the strong recognition of our “Kanghua” brand, we are strategically positioned in the Pearl River Delta Region to capitalise on the opportunities driven by the ageing and increasingly affluent population.

We excel in many healthcare disciplines. Kanghua Hospital has (i) one National Key Clinical Discipline (國家臨床重點專科) in plastic surgery accredited by the NHFPC; (ii) three Guangdong Provincial Key Clinical Disciplines (廣東省臨床重點專科) in cardiology, general surgery and medical imaging, respectively, accredited by the Guangdong HFPC; and (iii) two Dongguan Special Disciplines (東莞市特

SUMMARY

色專科) in spine and joint surgery and thoracic surgery, respectively, accredited by the Dongguan HFPB. In terms of revenue in 2015, Kanghua Hospital had, among private general hospitals in Southern China, (i) the largest cardiology discipline; (ii) the largest O&G discipline; and (iii) the second largest orthopaedics discipline, according to Frost & Sullivan.

Our revenue increased from RMB858.9 million in 2013 to RMB985.1 million in 2014, and further to RMB1,063.7 million in 2015. We recorded revenue of RMB380.1 million for the four months ended 30 April 2016, representing a 22.4% increase from our revenue of RMB310.6 million for the four months ended 30 April 2015.

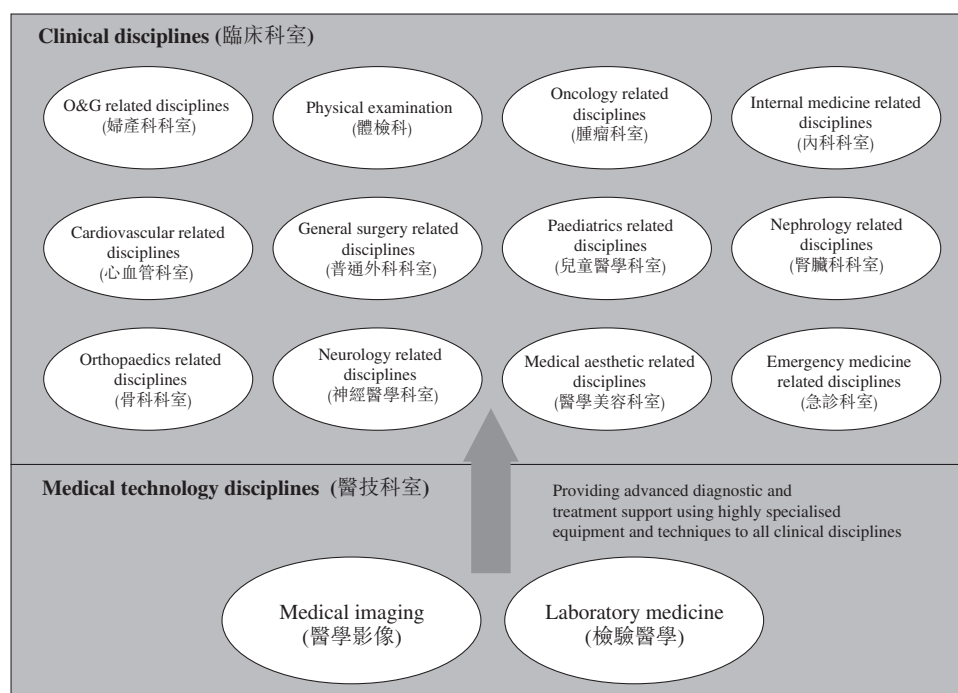
OUR BUSINESS OPERATIONS

Our healthcare services

Our business focuses on providing a continuum of healthcare services to our patients through our multi-disciplinary private for-profit general hospitals. We generate revenue primarily from the following three segments in terms of treatment process:

- (i) *Inpatient healthcare services.* We provide treatment to patients who are hospitalised overnight or for an indeterminate period of time, usually several days or weeks, subject to the patients' conditions and recovery.
- (ii) *Outpatient healthcare services.* We provide treatment to patients who are hospitalised for less than 24 hours.
- (iii) *Physical examination services.* We provide clinical examinations of individuals for signs of diseases and health advisory services.

The following chart sets forth an overview of our healthcare disciplines:



SUMMARY

Future expansion plans

We will focus on expanding our healthcare services, including VIP healthcare services, high-end reproductive medicine, advanced oncology offerings, neurology offerings, high-end preventive healthcare services and holistic elderly care. For details about our expansion of healthcare services, see “*Business — Our Healthcare Services — Expansion of our healthcare services*”. In addition to expansion of our healthcare services, we seek to expand our geographic footprint outside of Guangdong Province by (i) entering into management arrangements with third-party hospitals; or (ii) selective mergers with and acquisitions of hospitals.

Marketing, pricing and payments

We primarily rely on our reputation as a high-quality and ethical healthcare services provider, word-of-mouth, and relationships with insurance providers and other hospitals, clinics and community healthcare centres to attract patients. We do not conduct excessive, exaggerated or high-pressure advertising activities. Our hospitals are private and for-profit and we are generally entitled to set the fees for our healthcare services, pharmaceuticals and medical consumables at our discretion. However, to maintain our market position and to compete effectively with public and not-for-profit hospitals, we generally price our basic medical services and products at a tariff similar to public and not-for-profit hospitals of the same tier, which are generally subject to national and local pricing regulations. For our special services and related products, which are generally more expensive and command a higher profitability than basic medical services and related products, we price them based on our own cost structure. We receive payments primarily from (i) social insurance programmes; (ii) patients who finance their medical treatments themselves and/or are reimbursed by commercial insurance providers; and (iii) business corporations or government administrations who purchase our employee healthcare services.

Our customers and suppliers

Our customers are typically patients from Dongguan and other cities in the Pearl River Delta Region, as well as business corporations and government administrations who purchase our employee healthcare services. During the Track Record Period, each of our five largest customers contributed less than 1% of our total revenue in the respective period.

We primarily rely on our suppliers for (i) pharmaceuticals, medical consumables and medical equipment; and (ii) construction and renovation works, electricity supply and non-healthcare related ancillary management services with respect to our hospitals. During the Track Record Period, Dongguan Yuheng Pharmaceuticals Co., Ltd. (東莞市裕恒醫藥有限公司) was our largest supplier. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, Dongguan Yuheng Pharmaceuticals Co., Ltd. accounted for approximately 34.2%, 37.9%, 25.3% and 32.0% of our total purchases of pharmaceuticals, medical consumables, medical equipment, construction and renovation services and electricity supply and non-healthcare related ancillary management services, respectively. During the Track Record Period and until September 2015, one of our Controlling Shareholders, namely Xingda Property, had a controlling interest in Dongguan Yuheng Pharmaceuticals Co., Ltd. In September 2015, Xingda Property disposed of its equity interest in Dongguan Yuheng Pharmaceuticals Co., Ltd. to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the distribution of pharmaceuticals, medical consumables and medical equipment is not a core part of our operations.

SUMMARY

Rating of our hospitals under the NHFPC classification system

A Grade A Class III rating under the NHFPC classification system signifies the highest standard of hospitals in the PRC and carries significant competitive advantages. Kanghua Hospital was the first private for-profit general hospital in the PRC to attain the Grade A Class III rating under the NHFPC classification system, according to the Frost & Sullivan Report. The Grade A Class III rating certificate of Kanghua Hospital issued by the Guangdong HFPC in January 2011 expired in January 2016 and is subject to review by the Guangdong HFPC in 2017. As confirmed by the Guangdong HFPC and as advised by our PRC Legal Advisers (based on the confirmation from the Guangdong HFPC), during the interim period before the review, Kanghua Hospital is recognised as, and permitted to hold itself out as, a Grade A Class III hospital under the NHFPC classification system.

As advised by our PRC Legal Advisers, the rating of hospitals under the NHFPC classification system is not itself a permit or license to operate a hospital and failure by Kanghua Hospital to maintain its rating of a Grade A Class III hospital will not in general invalidate its Medical Institution Practising License (醫療機構執業許可證) that allows it to operate as a hospital or restrict the scope of healthcare services it may provide.

See the section headed “*Business — Licenses, Permits and Certificates — Grade A Class III rating certificate of Kanghua Hospital*” for details.

Renkang Hospital has not applied to be rated under the NHFPC classification system.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have enabled us to differentiate us from our competitors:

- operator of the largest private for-profit general hospital in terms of the number of registered beds in the PRC with the strong brand recognition and competitive advantages in the Pearl River Delta Region, well positioned to access the expected long-term structural growth in the healthcare market;
- capability to deliver a continuum of healthcare services through multi-disciplinary teams of healthcare professionals and advanced medical facilities with excellence in multiple key disciplines;
- proven track record in operating the first private for-profit general Grade A Class III hospital in the PRC, positioning us to replicate our success with other hospitals to realise rapid growth through management arrangements and selective mergers and acquisitions;
- differentiated offerings of special services, such as our VIP healthcare services and reproductive medicine, to capitalise on the ample opportunities driven by the ageing and increasingly affluent population and the two-child policy; and
- experienced, dedicated and stable senior management team and high-calibre team of healthcare professionals.

SUMMARY

OUR BUSINESS STRATEGIES

We aim to strengthen our foothold in Guangdong Province, expand the range of our service offerings, further develop our network of hospitals, continue to invest to maintain clinical excellence and leverage our experience to build our value and increase patient satisfaction. To accomplish these goals, we plan to implement the following strategies:

- expand our existing operational capacity and service capabilities, in particular offerings of special services to high-end patients;
- improve our clinical service quality and efficiency through our clinical governance;
- attract, retain and develop quality healthcare professionals;
- expand our footprint outside of Guangdong Province through hospital management; and
- explore selective mergers and acquisitions in regions where healthcare resources are scarce and demand for quality healthcare services is unmet.

KEY OPERATIONAL DATA

The following table sets forth the key operational information of our hospitals as at or for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Inpatient healthcare services				
Number of registered beds ⁽¹⁾	1,860	1,860	2,460	2,486
Number of beds in operation ⁽²⁾	1,383	1,484	1,493	1,500
Inpatient visits ⁽³⁾	49,556	51,608	51,299	16,859
Inpatient bed-days ⁽⁴⁾	443,719	454,879	426,814	134,148
ALOS (days) ⁽⁵⁾	9.0	8.8	8.3	8.0
Average spending per visit (RMB) ⁽⁶⁾	10,482	11,341	12,243	13,766
Outpatient healthcare services				
Outpatient visits ⁽⁷⁾	1,208,389	1,297,647	1,319,184	437,035
Average spending per visit (RMB) ⁽⁸⁾	234	261	283	307
Surgical operations				
Number of surgeries ⁽⁹⁾	25,647	28,355	27,838	8,958
Physical examination services				
Physical examination visits ⁽¹⁰⁾	352,386	400,375	455,575	124,883
Average spending per visit (RMB) ⁽¹¹⁾	161	154	137	110

SUMMARY

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Staff				
Doctors ⁽¹²⁾	614	632	642	597
Other medical staff ⁽¹³⁾	863	981	1,016	1,047
Management, administrative, finance staff and other support staff ⁽¹⁴⁾	<u>887</u>	<u>852</u>	<u>870</u>	<u>765</u>
Total ⁽¹⁵⁾	<u><u>2,364</u></u>	<u><u>2,465</u></u>	<u><u>2,528</u></u>	<u><u>2,409</u></u>

Notes:

- (1) Represents the number of beds that were registered in our hospitals' practising licenses as at the end of the relevant period.
- (2) Represents the average number of beds deployed for operation during the given period. We adjust the number of beds in operation from time to time depending on the clinical requirements and patient demand.
- (3) Represents the total number of inpatients (with hospital stay) of our hospitals.
- (4) Represents the total number of bed-days of our hospitals.
- (5) Represents the average number of days an inpatient stays at our hospitals.
- (6) Represents the average spending per inpatient visit calculated by dividing our total revenue from inpatient healthcare services by total inpatient visits.
- (7) Represents the total number of outpatients (without hospital stay) of our hospitals.
- (8) Represents the average spending per outpatient visit calculated by dividing our total revenue from outpatient healthcare services by total outpatient visits.
- (9) Represents the total number of surgeries performed at our hospitals.
- (10) Represents the total number of patient visits for physical examination services of our hospitals.
- (11) Represents the average spending per physical examination visit calculated by dividing our total revenue from physical examination services by total physical examination visits.
- (12) Represents the total number of doctors, including resident doctors, attending doctors, associate chief doctors and chief doctors, employed by our hospitals as at the end of the relevant period. This number does not include the number of part time doctors (i.e. doctors from other hospitals who were engaged in multi-site practice with us and Hong Kong doctors).
- (13) Represents the total number of medical staff (other than doctors), including nurses, pharmacists and technicians in medical technology disciplines, employed by our hospitals as at the end of the relevant period.
- (14) Represents the total number of non-healthcare staff, including management, finance, administration, customer service, marketing and other ancillary functions, employed by our hospitals as at the end of the relevant period.
- (15) Represents the total number of staff employed by our hospitals as at the end of the relevant period.

Our total number of inpatient visits decreased slightly from 2014 to 2015 primarily due to a decrease in inpatient visits at Renkang Hospital which is in turn due to economic slowdown in the local community where Renkang Hospital primarily services. Our inpatient bed-days decreased from 2014 to 2015 primarily due to our continued efforts in improving inpatient clinical efficiency at Kanghua Hospital with a view to achieving an optimal ALOS of approximately eight days and a decrease in the number of inpatients at Renkang Hospital for reasons described above. Our total number of surgeries decreased from 2014 to 2015 primarily due to a decrease in the number of surgeries performed at Renkang Hospital which is in turn due to a decrease in its inpatient visits for reasons described above. Our average spending per visit for physical examination services is decreasing primarily due to increasing proportion of corporate customers who generally purchased less expensive physical examination services than individual customers. Our total number of doctors decreased from 31 December 2015 to 30 April 2016 primarily due to a reduction in the number of doctors employed at Renkang Hospital, particularly junior rank doctors providing basic level

SUMMARY

of healthcare services, for the purpose of rationalising its clinical resources in response to the decrease in overall patient visits attributable to the recent economic slowdown in the local community where Renkang Hospital operates. Our total staff number decreased from 31 December 2015 to 30 April 2016 primarily due to (i) a reduction in the number of support staff employed at our hospitals, as we have outsourced certain non-healthcare related ancillary management services with a view to optimising our core operations; (ii) a reduction in the number of doctors employed at Renkang Hospital as explained above; and (iii) a general increase in staff turnover rate around the Chinese New Year period.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Consolidated statements of profit or loss

The following table sets forth our consolidated statements of profit or loss for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, which are derived from, and should be read in conjunction with the section headed “*Financial Information*” and our consolidated financial statements, including the notes thereto, included in the Accountants’ Report set forth in Appendix I to this prospectus.

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Revenue	858,874	100.0	985,108	100.0	1,063,702	100.0	310,593	100.0	380,121	100.0
Cost of revenue	(669,778)	(78.0)	(761,424)	(77.3)	(824,290)	(77.5)	(250,334)	(80.6)	(300,020)	(78.9)
Gross profit	189,096	22.0	223,684	22.7	239,412	22.5	60,259	19.4	80,101	21.1
Other income	66,338	7.7	70,492	7.2	64,301	6.0	24,783	8.0	10,097	2.7
Other expenses, gains and losses	(2,201)	(0.2)	(2,214)	(0.2)	(4,085)	(0.4)	(656)	(0.2)	(466)	(0.1)
Administrative expenses	(74,365)	(8.7)	(79,855)	(8.1)	(83,657)	(7.9)	(25,839)	(8.3)	(30,454)	(8.0)
Finance costs	(54,126)	(6.3)	(76,895)	(7.8)	(67,153)	(6.3)	(25,168)	(8.1)	(5,142)	(1.4)
Profit before taxation	124,742	14.5	135,212	13.7	148,818	14.0	33,379	10.7	54,136	14.2
Income tax expenses	(15,629)	(1.8)	(27,445)	(2.8)	(29,854)	(2.8)	(998)	(0.3)	(14,414)	(3.8)
Profit for the year/period	109,113	12.7	107,767	10.9	118,964	11.2	32,381	10.4	39,722	10.4
Profit (loss) for the year/period attributable to:										
- owners of the Company	107,309	12.5	102,237	10.4	118,847	11.2	33,839	10.9	40,063	10.5
- non-controlling interests	1,804	0.2	5,530	0.6	117	0.0	(1,458)	(0.5)	(341)	(0.1)
	<u>109,113</u>	<u>12.7</u>	<u>107,767</u>	<u>10.9</u>	<u>118,964</u>	<u>11.2</u>	<u>32,381</u>	<u>10.4</u>	<u>39,722</u>	<u>10.4</u>
Adjusted net profit⁽¹⁾	54,325	6.3	47,886	4.9	66,117	6.2	10,005	3.2	32,631	8.6

Note:

- (1) Adjusted net profit represents profit for the year/period excluding the imputed interest income arising from amount due from a shareholder. Adjusted net profit is not a measure of performance under IFRS. As a non-IFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of imputed interest income on our net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year/period. Please refer to “*Financial Information — Non-IFRS Measure*” for details.

SUMMARY

Non-IFRS measure

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. Adjusted net profit eliminates the effect of a non-cash item, namely imputed interest income arising from amount due from a shareholder. As a non-IFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of imputed interest income on our net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our net profit for the relevant periods. When assessing our operating and financial performance, you should not view adjusted net profit in isolation or as a substitute for our profit for the year/period or any other operating performance measure that is calculated in accordance with IFRS.

Our adjusted net profit was RMB54.3 million, RMB47.9 million, RMB66.1 million, RMB10.0 million and RMB32.6 million for each of the three years ended 31 December 2015 and the four months ended 30 April 2015 and 2016, respectively. For a reconciliation of our adjusted net profit to profit for the year/period, which is the most directly comparable financial measure calculated and presented in accordance with IFRS, please refer to the section headed “*Financial Information — Non-IFRS Measure*”. Imputed interest income arose from an amount due from Kanghua Group. Finance costs arose primarily from our bank loans. During the Track Record Period, amounts due from Kanghua Group and our amounts of bank loans had similar trends. Both amounts due from Kanghua Group and our amounts of bank loans increased from 31 December 2013 to 31 December 2014 and decreased from 31 December 2014 to 30 April 2016. Settlements of amounts due from Kanghua Group would decrease our imputed interest income and settlements of our bank loans would decrease our finance costs. As at 31 December 2013, 2014 and 2015 and 30 April 2016, amount due from Kanghua Group amounted to approximately RMB1,355.4 million, RMB1,444.1 million, RMB490.1 million and RMB448.6 million, respectively. As at the Latest Practicable Date, such amount had been fully repaid by Kanghua Group. Going forward, we will not have any imputed interest income arising from such balance. Meanwhile, we have repaid our bank loans. As at December 31, 2013, 2014 and 2015 and 30 April 2016, our bank loan balance amounted to RMB748.0 million, RMB918.5 million, RMB341.8 million and RMB213.4 million, respectively. As at the Latest Practicable Date, we did not have any bank loan balance. During the Track Record Period, our finance costs primarily consisted of interest on bank loans, which amounted to RMB43.3 million, RMB66.6 million, RMB63.8 million and RMB5.1 million in the three years ended 31 December 2015 and the four months ended 30 April 2016, respectively. Therefore, the effect of decreasing imputed interest income would be substantially offset by a decrease in finance costs.

SUMMARY

Selected items of consolidated statements of financial position

The following table sets forth selected data from our consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	(In thousands of RMB)			
Non-current assets	1,149,884	1,220,208	330,805	337,041
Current assets	671,714	664,816	775,115	706,826
Current liabilities	(1,738,150)	(1,746,656)	(859,172)	(757,397)
Net current liabilities	(1,066,436)	(1,081,840)	(84,057)	(50,571)
Net assets	83,448	138,368	246,748	286,470
Paid-in capital/Share capital	306,700	306,700	250,000	250,000
Reserves	(232,806)	(183,416)	(18,453)	21,610
Total equity	83,448	138,368	246,748	286,470

We had net current liabilities of RMB1,066.4 million, RMB1,081.8 million, RMB84.1 million and RMB50.6 million as at 31 December 2013, 2014 and 2015 and 30 April 2016, respectively, primarily due to our external short-term borrowings from commercial banks. As at 31 December 2013, 2014 and 2015 and 30 April 2016, a portion of our bank borrowings, amounting to RMB236.0 million, RMB173.0 million, nil and RMB23.4 million, respectively, were repayable over one year. These portions were classified as current liabilities because they contain a repayable-on-demand clause. As at the Latest Practicable Date, we had fully repaid our bank borrowings and fully settled all amounts due to our shareholders and related parties.

We recorded an accumulated net loss of approximately RMB280.7 million as at 1 January 2013 due to significant costs and expenses incurred during our initial stage of operations. However, our accumulated loss position improved significantly during the Track Record Period, from an accumulated loss of approximately RMB280.7 million at 1 January 2013 to an accumulated loss of approximately RMB31.8 million at 30 April 2016.

We are confident that we will have sufficient financial resources including our bank balances and cash, stable positive cash flows generated from our operations and unutilised committed banking facilities for us to meet our anticipated cash needs, including working capital requirements, capital expenditure, repayment of our future indebtedness, if any, when it falls due and various contractual obligations, for at least the next 12 months. See the section headed “*Financial Information — Selected Items of Consolidated Statements of Financial Position — Net Current Liabilities*” for details.

SUMMARY

Selected items of consolidated statements of cash flows

The following table sets forth selected data from our consolidated statements of cash flows for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	(In thousands of RMB)				
	(Unaudited)				
Net cash from operating activities	213,634	205,951	198,902	108,707	58,801
Net cash (used in) from investing activities . . .	(379,279)	(118,752)	872,760	89,503	56,377
Net cash from (used in) financing activities . . .	179,118	(95,792)	(1,013,488)	(177,579)	(142,649)
Net increase (decrease) in cash and cash equivalents	13,473	(8,593)	58,174	20,631	(27,471)
Cash and cash equivalents at the beginning of the year/period	32,466	45,939	37,346	37,346	95,520
Cash and cash equivalents at the end of the year/period	45,939	37,346	95,520	57,977	68,049

Although we recorded declining net operating cash flows during the Track Record Period, we had increasing operating cash flows before movements in working capital during the Track Record Period. The decrease in net operating cash flow from RMB213.6 million in 2013 to RMB206.0 million in 2014 was primarily because we settled certain payables primarily relating to medical equipment and leasehold improvements. The decrease in net operating cash from RMB206.0 million in 2014 to RMB198.9 million in 2015 was primarily because we had income tax cash outflows of RMB13.5 million in 2015, while we did not have any income tax cash outflows in 2014 due to our utilization of accumulated tax losses. The decrease in net operating cash from RMB108.7 million for the four months ended 30 April 2015 to RMB58.8 million for the four months ended 30 April 2016 was primarily because of nil income tax cash outflow in the four months ended 30 April 2015 due to our utilization of accumulated tax losses. As at the Latest Practicable Date, we had used up our tax losses previously recognised. We therefore expect our net operating cash flow going forward to be generally in line with our business growth.

Key financial ratios

The table below sets forth the key financial ratios of our Group for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
	Return on total assets ⁽¹⁾	6.6%	5.8%	8.0%
Return on equity ⁽²⁾	213.8%	103.7%	67.0%	47.8%
Current ratio ⁽³⁾	0.39	0.38	0.90	0.93
Gearing ratio ⁽⁴⁾	896.4%	663.8%	138.5%	74.5%

SUMMARY

Notes:

- (1) Return on total assets equals profit for the year/period divided by the arithmetic mean of the total assets as at the beginning and the end of the period and multiplied by 100%. Return on total assets for the four months ended 30 April 2016 was calculated using the profit for the four months ended 30 April 2016 adjusted on an annual basis.
- (2) Return on equity equals profit for the year/period attributable to equity shareholders of our Company divided by the arithmetic mean of the total equity attributable to equity shareholders of our Company as at the beginning and the end of the period and multiplied by 100%. Return on equity for the four months ended 30 April 2016 was calculated using the profit for the four months ended 30 April 2016 adjusted on an annual basis.
- (3) Current ratio equals current assets divided by current liabilities as at the end of the period.
- (4) Gearing ratio equals total interest-bearing loans divided by total equity as at the end of the period and multiplied by 100%.

We had a high gearing ratio of 74.5% as at 30 April 2016, which was primarily because of our bank loans of RMB213.4 million as at 30 April 2016. We used the amount repaid by Kanghua Group to pay off our bank loans during the Track Record Period as part of our efforts to lower our debt level. Our gearing ratio had been greatly improved during the Track Record Period and we expect to continue to lower our gearing ratio. As at the Latest Practicable Date, the amount due from Kanghua Group had been fully repaid to us and our bank loans had been further reduced to nil. As at 31 August 2016, the Company had RMB64.1 million in cash, RMB100.0 million in short term investment products and RMB90.0 million of unutilized bank loan facilities. Considering our cash balance of approximately RMB57.5 million as at the Latest Practicable Date, the fact that we have been accumulating net profits since the beginning of the Track Record Period, together with the expected net proceeds from the Global Offering, we believe we have and will have sufficient funds to support our working capital needs.

RISK FACTORS

Our business is subject to a number of risks as set forth in the “*Risk Factors*” section in this prospectus. 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:

- we operate our business in a heavily regulated industry and our results of operations may be materially and adversely affected if we fail to obtain or renew the licenses, approvals and certificates required for our operations;
- changes in the PRC’s regulatory regime for the healthcare industry could have a material adverse effect on our business;
- our revenue has historically been entirely dependent on our operations in Guangdong Province;
- we may not be able to manage third party hospitals effectively, and due to our engagement in such new line of business, our track record results may not be indicative of future performance; and
- the Grade A Class III rating of Kanghua Hospital carries significant competitive advantages and is subject to upcoming review by the Guangdong HFPC.

MEDICAL DISPUTES

Due to the nature of the healthcare industry and the risks inherent in treating patients, especially patients with complex medical conditions requiring intensive care or high-risk clinical procedures, we are exposed to risks of medical disputes that we cannot entirely eliminate. During the Track Record Period, we had

SUMMARY

experienced certain material medical disputes that (i) involved a patient fatality; or (ii) resulted in monetary compensation of RMB50,000 or more. We began to enrol Kanghua Hospital and Renkang Hospital in medical liability insurance programmes (醫療責任保險) in February 2016. Prior to this, we satisfied the medical liability claims against us using our financial resources.

As advised by our PRC Legal Advisers, (i) none of our medical disputes settled during the Track Record Period involved any determination that we were liable for medical malpractice as stipulated in the Regulations on Handling Medical Malpractice (醫療事故處理條例); and (ii) none of our on-going medical disputes involved any determination that we were liable for medical malpractice as stipulated in the Regulations on Handling Medical Malpractice as at the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, none of our doctors or medical staff were involved in any disciplinary proceedings or otherwise determined to be liable for medical malpractice as stipulated in the Regulations on Handling Medical Malpractice.

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Ai Qin and Xingda Property. All of Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Ai Qin are members of the Wang Family. Pursuant to the Concert Party Agreement, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Ai Qin agreed to vote in concert with Mr. Wang Junyang for all operational and other matters at board meetings or shareholders' meetings of our Company (through himself/herself, Kanghua Group, Xingye Group or Xingda Property, as the case may be). Accordingly, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Ai Qin and Xingda Property are acting together as a group of Controlling Shareholders. Immediately following completion of the Global Offering (without taking into account any H Shares which may be allotted and issued upon any exercise of the Over-allotment Option), our Controlling Shareholders acting as a group will be interested in approximately 74.85% of our issued share capital.

DIVIDENDS

No dividend was proposed or paid during each of the three years ended 31 December 2015 and the four months ended 30 April 2016. We do not currently have a formal dividend policy or a fixed dividend distribution ratio. For more details, please see the section headed "*Financial Information — Dividends*" in this prospectus.

GLOBAL OFFERING STATISTICS

Offering size:	84,000,000 H Shares
Offering structure:	10% Hong Kong Public Offering (subject to reallocation) and 90% International Offering (subject to reallocation and the Over-allotment Option)
Over-allotment Option:	up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price for H Share:	HK\$11.60 to HK\$14.50 per Offer Share

SUMMARY

	Based on an Offer Price of HK\$11.60	Based on an Offer Price of HK\$14.50
Market capitalisation ⁽¹⁾	HK\$3,874 million	HK\$4,843 million
Unaudited pro forma adjusted net tangible assets per H Share ⁽²⁾⁽³⁾	HK\$3.59	HK\$4.30

Notes:

- (1) Calculation based on 84,000,000 H Shares expected to be issued and outstanding following the Global Offering.
- (2) The pro forma adjusted net tangible assets per H Share is calculated after the adjustments referred to in the section headed “Appendix II — Unaudited Pro Forma Financial Information”.
- (3) No adjustment has been made to reflect any transaction we entered into subsequent to 30 April 2016.

LISTING EXPENSES

The total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately RMB79.6 million, assuming the Over-allotment Option is not exercised and based on the mid-point of our Offer Price range of HK\$11.60 to HK\$14.50 per Offer Share. These listing expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the Underwriters, for their services rendered in relation to the Listing and the Global Offering.

As at 30 April 2016, the listing expenses (excluding underwriting commissions) incurred by our Company in relation to the Listing were approximately RMB7.1 million, which was capitalised as prepayment. We estimate that additional listing expenses of RMB72.5 million (including underwriting commissions of RMB28.6 million, assuming the Over-allotment Option is not exercised and based on the mid-point of our Offer Price range of HK\$11.60 to HK\$14.50 per Offer Share) will be incurred by our Company, of which approximately RMB6.5 million is expected to be charged to our consolidated statements of profit or loss and approximately RMB73.1 million is expected to be charged against equity upon the Listing.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,004.6 million (assuming the Over-allotment Option is not exercised and an Offer Price of HK\$13.05 per H Share, being the mid-point of the proposed Offer Price range stated in this prospectus), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering. We intend to use these net proceeds for the following purposes:

- approximately HK\$90.4 million (or 9% of the net proceeds) will be used to expand and ramp up our existing healthcare services at Kanghua Hospital and Renkang Hospital, in particular our offerings of high-end special services as set out in “Business — Our Healthcare Services — Expansion of our healthcare services”;
- approximately HK\$361.6 million (or 36% of the net proceeds) will be used to expand the operating capacity and capability in multi-disciplinary specialised treatment and diagnosis and upgrade the medical facilities of Kanghua Hospital and Renkang Hospital;
- approximately HK\$100.5 million (or 10% of the net proceeds) will be used to expand our hospital management operations with third party hospitals in the PRC, including hiring staff and purchase of medical equipment. As at the Latest Practicable Date, other than Zhonglian Cardiovascular Hospital, we had not identified any other hospitals with which to enter into management agreements;

SUMMARY

- approximately HK\$351.6 million (or 35% of the net proceeds) will be used to expand our healthcare operations in the PRC, including through selective mergers with and acquisitions of other hospitals; and
- approximately HK\$100.5 million (or 10% of the net proceeds) will be used for working capital and other general corporate purposes.

If the actual net proceeds from the Global Offering are lower than the aforesaid amounts, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. If the actual net proceeds from the Global Offering exceed the aforesaid estimated amounts, the surplus will be applied to supplement our working capital.

RECENT DEVELOPMENTS

In June 2016, we entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases under development in Chongqing and our first managed hospital and our first presence outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear our “Kanghua” brand and is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. It is expected to become operational by the end of 2016. Following arm’s length negotiations with Zhonglian Cardiovascular Hospital, we provided a loan in the amount of RMB50.0 million to Zhonglian Cardiovascular Hospital with a view to supporting its launch preparations and operating cash flow during its ramp-up period. The principal amount of the loan is repayable at the expiry of one year and carries a monthly interest rate of 0.42% to be settled monthly in arrears. The interest rate is in line with the prevailing lending rate of major commercial banks in the PRC as it was determined with reference to the benchmark lending rate (貸款基準利率) of the PBOC. As advised by our PRC Legal Advisers, the provision of such loan does not violate mandatory laws and regulations, and the terms of such loan are binding upon both parties. However, our PRC Legal Advisers are of the view that the provision of such loan contravenes the General Lending Provisions (貸款通則), which are not mandatory laws and regulations but guidelines promulgated by the PBOC, and the risk that the PBOC will impose any penalty on us is negligible because: (i) according to the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) promulgated by the Supreme People’s Court on 6 August 2015 (the “Provisions”), private lending contracts concluded between legal persons or other organisations for production and operation purposes are valid, legally binding and enforceable, except for circumstances stipulated in the Contract Law and the Provisions resulting in a void contract; (ii) as the interest rate of the loan is not more than 24% p.a., the people’s courts will rule in favour of the lender in receiving such interest income; and (iii) as at the Latest Practicable Date, we had not received any notice from the regulatory authorities (including the PBOC) against our lending activity and no disputes had arisen from our lending activity. Although our operations have historically been limited to Guangdong Province, we are confident that we are able to leverage our successful track record, clinical and human resources and brand recognition to manage Zhonglian Cardiovascular Hospital and other hospitals in the future.

SUMMARY

In June 2016, as part of our cash management, we invested in an investment product (the “**Investment Product**”) with principal amount of RMB100.0 million and a term of 91 days, which was issued by a reputable PRC commercial bank. The underlying financial instruments of the Investment Product may include various notes, bond funds, assets-backed securities, interbank deposit, money market funds, trust assets, and receivables. The Investment Product is not principal-protected. It is classified as “low risk” by the issuing bank but has not been formally rated by any credit rating agency. In September 2016, our investment in the Investment Product referred to above reached maturity and we received the principal amount of RMB100.0 million and a financial gain of approximately RMB1.1 million; in view of our excess cash position, we re-invested in the Investment Product with a principal amount of RMB100.0 million and a term of 89 days with other material terms of the Investment Product remaining the same.

Our Directors confirm that there has been no material adverse change in our business, financial, operating or trading condition since 30 April 2016, being the most recent date of our audited financial statements, and up to the date of this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company (as amended from time to time), a summary of which is set out in <i>“Appendix V — Summary of Articles of Association”</i>
“Board” or “Board of Directors”	the board of Directors of our Company
“Board of Supervisors”	the board of Supervisors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compounded annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Account”	a securities account maintained by a CCASS Participant with CCASS
“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
“CFDA”	the China Food and Drug Administration (國家食品藥品監督管理總局)
“Chairman”	the chairman of our Board

DEFINITIONS

“CICC”	China International Capital Corporation Hong Kong Securities Limited
“CNAS”	the China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
“Concert Party Agreement”	the agreement dated 10 June 2016 and entered into among Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Ai Qin with respect to interests in our Company, details of which are set out in “ <i>History, Reorganisation and Corporate Structure — Our Corporate Development — The Concert Party Agreement</i> ”. Accordingly, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Ai Qin and Xingda Property are acting together as a group of Controlling Shareholders
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance” or “Hong Kong 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 or supplemented from time to time
“Company”, “Our Company” “we” or “us”	Guangdong Kanghua Healthcare Co., Ltd. (廣東康華醫療股份有限公司), previously known as Dongguan Kanghua Enterprise Co., Ltd. (東莞市康華實業有限公司), a joint stock company with limited liability incorporated in the PRC on 30 January 2002, and except where the context indicates otherwise, includes (i) all of its subsidiaries; and (ii) with respect to the period before our Company became the holding company of its present subsidiaries, the business operated by its present subsidiaries
“Controlling Shareholders”	has the meaning ascribed under the Listing Rules and unless the context otherwise requires, refers to Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Ai Qin and Xingda Property as a group of Controlling Shareholders of our Company, and each of them, a “Controlling Shareholder”
“CPPCC”	the Chinese People’s Political Consultative Conference (中國人民政治協商會議)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Director(s)”	a director(s) of our Company
“Domestic Shares”	ordinary shares issued by our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in RMB
“Dongguan HFPB”	the Dongguan Health and Family Planning Bureau (東莞市衛生和計劃生育局), which was reorganised from the former Dongguan Health Bureau (東莞市衛生局) and Dongguan Population and Family Planning Bureau (東莞市人口和計劃生育局) in April 2014 and includes such predecessor regulatory bodies for the purpose of this prospectus
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company that provides market survey and consulting services
“Frost & Sullivan Report”	an industry report last updated on 15 October 2016 commissioned by us for a fee of RMB800,000, issued by Frost & Sullivan
“GDP”	gross domestic product, being a term that refers to the market value of all final goods and services produced within a region in a given period
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group” or “our Group”	our Company and its subsidiaries
“Guangdong HFPC”	the Health and Family Planning Commission of Guangdong Province (廣東省衛生和計劃生育委員會), which was reorganised from the former Guangdong Province Department of Health (廣東省衛生廳) and Guangdong Province Population and Family Planning Commission (廣東省人口和計劃生育委員會) in October 2013 and includes its predecessor regulatory bodies for the purpose of this prospectus
“H Share Registrar”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“H Shares”	the overseas listed foreign invested ordinary shares in the ordinary share capital of our Company, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of the approval for the listing of, and permission to deal in, on the Hong Kong Stock Exchange, and a “H Share” means any of them
“Healthcare Services Framework Agreement”	the framework agreement dated 1 July 2016 entered into between our Company and Mr. Wang Junyang, the key terms of which are set out under “ <i>Connected Transactions — Exempt continuing connected transactions — The Healthcare Services Framework Agreement</i> ”
“high-end”	(i) with respect to patients, means patients who generally have a higher spending power than the average population and can afford better quality and diversified healthcare services that are usually more expensive than basic medical services. Such patients typically do not rely on social insurance programmes to settle their medical bills but either pay out-of-pocket or seek reimbursement from commercial insurance programmes. Corporations or government administrations that purchase our healthcare services in volume for their employees are also considered high-end patients; and (ii) with respect to services, means healthcare services, such as our special services, that are generally targeted towards high-end patients. Such services typically extend beyond basic medical needs, are specifically tailored for each individual patient and are offered in a premium environment
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC, in its capacity as nominee for HKSCC (or any successor thereto) as operator of CCASS and any successor, replacement or assign of HKSCC Nominees Limited as nominee for the operator of CCASS
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 8,400,000 H Shares initially being offered by our Company pursuant to the Hong Kong Public Offering (subject to reallocation as described in “ <i>Structure of the Global Offering</i> ”)

DEFINITIONS

“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares to the public in Hong Kong for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in <i>“Structure of the Global Offering”</i>
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters listed in <i>“Underwriting — Hong Kong Underwriters”</i> , being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 25 October 2016 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Sole Global Coordinator and the Hong Kong Underwriters, as further described in <i>“Underwriting”</i>
“Huaxin Building”	refers to the complex (華心樓) at Kanghua Hospital which was commissioned to provide VIP inpatient services
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards, which include IAS, amendments and interpretations issued by the International Accounting Standards Board
“Independent Third Party”	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
“International Offer Shares”	the 75,600,000 H Shares initially being offered by our Company pursuant to the International Offering (subject to reallocation as described in <i>“Structure of the Global Offering”</i>) together with, where relevant, up to an additional 12,600,000 H Shares which may be issued pursuant to any exercise of the Over-allotment Option
“International Offering”	the offer of the International Offer Shares outside the United States in offshore transactions in accordance with Regulation S, for subscription or purchase (as the case may be) at the Offer Price, in each case on and subject to the terms and conditions of the International Underwriting Agreement, as further described in <i>“Structure of the Global Offering”</i>
“International Underwriters”	the underwriters named in the International Underwriting Agreement, being the underwriters of the International Offering

DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into by, among others, our Company, the Sole Global Coordinator and the International Underwriters on or about the Price Determination Date, as further described in “ <i>Underwriting</i> ”
“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant
“Joint Bookrunners”	China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, ABCI Capital Limited and BOCOM International Securities Limited
“Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, ABCI Securities Company Limited, BOCOM International Securities Limited and Zhaobangji International Capital Limited
“Kangdi Enterprise”	Dongguan Kangdi Enterprise Co., Ltd. (東莞市康帝實業有限公司), a limited liability company established in the PRC on 25 July 2014 with 50% of its equity interest held by Mr. Wang Zhengren (王政仁) and 50% by Ms. Wang Keying (王可瑩), all of whom are members of the Wang Family, being cousins of Mr. Wang Junyang. Kangdi Enterprise holds a 15% equity interest in Renkang Hospital
“Kanghua Group”	Dongguan Kanghua Investment Group Co., Ltd. (東莞市康華投資集團有限公司), a limited liability company established in the PRC on 29 March 2002, which will hold an approximately 59.13% interest in our Company upon the Listing (assuming the Over-allotment Option is not exercised). It is owned as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici. Kanghua Group, Mr. Wang Junyang, Ms. Wang Aici, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders
“Kanghua Healthcare Management”	Dongguan Kanghua Healthcare Management Co., Ltd. (東莞康華醫療管理有限公司), a limited liability company established in the PRC on 1 February 2016 and a wholly-owned subsidiary of our Company
“Kanghua Healthcare Management (HK)”	Kanghua Healthcare Management (HK) Company Limited (康華醫療管理(香港)有限公司), a limited liability company established in Hong Kong on 17 May 2016 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Kanghua Hospital”	Dongguan Kanghua Hospital Co., Ltd. (東莞康華醫院有限公司), a limited liability company established in the PRC on 15 September 2005 and a wholly-owned subsidiary of our Company
“Kanghua Hospital Lease Agreement”	the lease agreement dated 10 April 2016 entered into between Kanghua Hospital and Kanghua Group, the key terms of which are set out under “ <i>Connected Transactions — Non-exempt continuing connected transactions — 1. The Kanghua Hospital Lease Agreement</i> ”
“Latest Practicable Date”	17 October 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about 8 November 2016, on which the H Shares are first listed and from which dealings in the H Shares are permitted to take place on the Main Board of the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“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 Committee and other PRC Government departments on 27 August 1994
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Chen Wangzhi”	Mr. CHEN Wangzhi, (陳旺枝), our executive Director, chief executive officer, an ultimate beneficial owner of our Company holding a 50% equity interest in Xingda Property and the uncle-in-law of Mr. Wang Junyang, spouse of Ms. Wang Aiqin and brother-in-law of Ms. Wang Aici. Mr. Chen Wangzhi, Ms. Wang Aiqin, Xingda Property, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group and Xingye Group are acting together as a group of Controlling Shareholders

DEFINITIONS

“Ms. Wang Aici”	Ms. WANG Aici (王愛慈), an ultimate beneficial owner of our Company holding a 2.54% equity interest in Kanghua Group and a 20% equity interest in Xingye Group and the aunt of Mr. Wang Junyang, sister of Ms. Wang Aiqin and sister-in-law of Mr. Chen Wangzhi. Ms. Wang Aici, Mr. Wang Junyang, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders
“Ms. Wang Aiqin”	Ms. WANG Aiqin (王愛勤), our executive Director, an ultimate beneficial owner of our Company holding a 50% equity interest in Xingda Property and the aunt of Mr. Wang Junyang, sister of Ms. Wang Aici and spouse of Mr. Chen Wangzhi. Ms. Wang Aiqin, Mr. Chen Wangzhi, Xingda Property, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group and Xingye Group are acting together as a group of Controlling Shareholders
“Mr. Wang Junyang”	Mr. WANG Junyang (王君揚), our executive Director, Chairman, an ultimate beneficial owner of our Company holding a 97.46% equity interest in Kanghua Group and an 80% equity interest in Xingye Group and the nephew of Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin. Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders
“NDRC”	the 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 reorganised from the former Ministry of Health (衛生部) and the National Population and Family Planning Commission (國家人口和計劃生育委員會) in March 2013 and includes such predecessor regulatory board for the purpose of this prospectus
“Non-Competition Undertaking”	the non-competition undertaking dated 11 October 2016 provided by our Controlling Shareholders in favour of us, as further described in “ <i>Relationship with Our Controlling Shareholders — Non-Competition — Non-Competition Undertaking</i> ” in this prospectus
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)

DEFINITIONS

“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK\$14.50 and expected to be not less than HK\$11.60, such price to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company on or before the Price Determination Date
“Offer Price Range”	HK\$11.60 to HK\$14.50 per Offer Share
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional H Shares which may be issued pursuant to any exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company under the International Underwriting Agreement to the International Underwriters, exercisable by CICC (on behalf of the International Underwriters), pursuant to which our Company may be required to issue up to an additional 12,600,000 H Shares (representing not more than approximately 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any, as further described in “ <i>Structure of the Global Offering</i> ”
“PBOC”	the People’s Bank of China (中國人民銀行)
“PBOC rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s interbank foreign exchange rate in the PRC and with reference to prevailing exchange rates on the world financial markets
“Pearl River Delta Region”	Guangdong Province, Hong Kong and the Macau Special Administrative Region, of the PRC
“PRC” or “China”	the People’s Republic of China, but for the purposes of this prospectus only, except where the context requires, references in this prospectus to PRC or China exclude Hong Kong, Macau and Taiwan
“PRC Company Law”	the Company Law of the People’s Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Twelfth National People’s Congress on 28 December 2015 and effective on 1 March 2016, as amended, supplemented and otherwise modified from time to time

DEFINITIONS

“PRC EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅) adopted by the Tenth National People’s Congress on 16 March 2007 and effective on 1 January 2008
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities or, where the context so requires, any of them
“PRC Legal Advisers”	Commerce & Finance Law Offices, our PRC legal advisers
“Price Determination Date”	the date, expected to be on or about 1 November 2016, on which the Offer Price will be determined and, in any event, not later than 4 November 2016
“Promoters”	the promoters of our Company, namely Kanghua Group, Xingye Group and Xingda Property
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Persons”	the Sole Sponsor, Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their or our Company’s respective directors, officers, employees, agents, advisors or representatives or any other person involved in the Global Offering
“Renkang Entrusted Management Agreement”	the agreement dated 8 September 2015 and entered into among our Company, Kangdi Enterprise, Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) in relation to, among other things, the voting power at any general meeting of Renkang Hospital, details of which are set out in <i>“History, Reorganisation and Corporate Structure — Our Corporate Development — The Renkang Entrusted Management Agreement”</i>
“Renkang Hospital”	Dongguan Renkang Hospital Co., Ltd. (東莞仁康醫院有限公司), a limited liability company established in the PRC on 23 August 2005 with 57% of its equity interest being held by our Company, 15% by Kangdi Enterprise, 15% by Ms. Zhang Dandan and 13% by Ms. Wang Aier, respectively
“Renkang Hospital Lease Agreement”	the lease agreement dated 10 April 2016 entered into between Renkang Hospital and Tongli Enterprise, the key terms of which are set out under <i>“Connected Transactions — Non-exempt continuing connected transactions — 2. The Renkang Hospital Lease Agreement”</i>

DEFINITIONS

“Reorganisation”	the reorganisation of our Group in preparation for the Listing, details of which are set out in <i>“History, Reorganisation and Corporate Structure — Our Corporate Development — The Reorganisation”</i>
“RMB” or “Renminbi”	the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAT”	the State Administration of Taxation of the PRC (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 or supplemented from time to time
“Shares”	the shares in the share capital of our Company, with a nominal value of RMB1.00 each, including our Domestic Shares and H Shares
“Shareholders”	the holders of the Shares
“Sole Sponsor” or “Sole Global Coordinator”	China International Capital Corporation Hong Kong Securities Limited
“Southern China”	the southern region of the PRC, including Guangdong Province (廣東省), Guangxi Zhuang Autonomous Region (廣西壯族自治區), Fujian Province (福建省) and Hainan Province (海南省)
“Special Regulations”	the 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), promulgated by the State Council on 4 August 1994
“special services”	means our high-end service offerings, representing VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. See <i>“Business — Our Healthcare Services — Our special services”</i> for details
“sq.m.”	square metre(s)
“Stabilising Manager”	China International Capital Corporation Hong Kong Securities Limited (or any of its affiliates or any person acting for it)
“Supervisor(s)”	the supervisor(s) of our Company

DEFINITIONS

“Tongli Enterprise”	Dongguan Tongli Enterprise Co., Ltd. (東莞市同力實業有限公司), a limited liability company established in the PRC on 23 June 2003 with 43% of its equity interest being held by Ms. Wang Aiqin, 29% by Ms. Wang Aici, 15% by Ms. Zhang Dandan (張丹丹) and 13% by Ms. Wang Aier (王愛兒), respectively, all of whom are members of the Wang Family, being aunts of Mr. Wang Junyang. Pursuant to a nominee arrangement among the Wang Family, (i) Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 16% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang; (ii) Ms. Wang Aiqin (an aunt of Mr. Wang Junyang and the spouse of Mr. Chen Wangzhi) agreed to hold 15% and 6.5% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang and Mr. Chen Wangzhi, respectively; and (iii) Ms. Wang Aiqin agreed to hold 15% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Wencheng (王文成)
“Track Record Period”	the three years ended 31 December 2015 and the four months ended 30 April 2016
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United Kingdom”	means the United Kingdom of Great Britain and Northern Ireland
“U.S.” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“VIP”	(i) with respect to services, means our premium inpatient, outpatient or physical examination services that are specifically tailored to the needs of high-end patients. Such services offer more comfortable, individualised and priority treatments in a luxurious and discreet environment; and (ii) with respect to patients, means patients who use our VIP healthcare services. For more details, refer to “ <i>Business — Our Healthcare Services — Our special services — Our VIP healthcare services</i> ”
“Wang Family”	The family members of the founder of our Group, the late Mr. Wang Jincheng (王金城), including (i) his children; (ii) his siblings; (iii) the spouses of his siblings; and (iv) the children of his siblings
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk

DEFINITIONS

“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xingda Property”	Dongguan Xingda Property Investment Co., Ltd. (東莞市興達物業投資有限公司), a limited liability company established in the PRC on 14 December 2001 which will hold approximately 8.23% in our Company upon the Listing (assuming no Over-allotment Option is exercised). It is owned as to 50% each by Mr. Chen Wangzhi and Ms. Wang Aiqin. Xingda Property, Mr. Chen Wangzhi, Ms. Wang Aiqin, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group and Xingye Group are acting together as a group of Controlling Shareholders
“Xingye Group”	Dongguan Xingye Group Co., Ltd. (東莞市興業集團有限公司), a limited liability company established in the PRC on 15 April 1997 and one of our Controlling Shareholders which will hold approximately 7.49% interest in our Company upon the Listing (assuming no Over-allotment Option is exercised). It is owned as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici, respectively. Xingye Group, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders
“Zhonglian Cardiovascular Hospital”	Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (重慶康華眾聯心血管病醫院有限公司), a limited liability company established in the PRC on 10 June 2014 and beneficially owned by Independent Third Parties. We provide hospital management services to Zhonglian Cardiovascular Hospital in return for certain remuneration, details of which are set out in “ <i>Business — Our Hospitals — Our management arrangement with Zhonglian Cardiovascular Hospital</i> ”

In this prospectus, (i) unless the context otherwise requires, the terms “**associate**”, “**close associate**”, “**connected person**”, “**connected transaction**”, “**subsidiary**” and “**substantial shareholder**” shall have the meanings given to such terms in the Listing Rules; and (ii) the English names of the PRC nationals, enterprises, entities, laws and regulations, departments, facilities, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.

Unless otherwise specified, all references to any holdings of H Shares following the completion of the Reorganisation and the Global Offering assume that the Over-allotment Option is not exercised.

Rounding

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this prospectus in connection with our Group and our business. These terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“ageing society”	refers to a phenomenon that occurs when the median age of a country or region rises due to rising life expectancy and/or declining fertility rates
“ALOS”	average length of stay, refers to the average number of days an inpatient stays in our hospitals; equals to the aggregated hospitalisation days of each inpatient visit during a specific period divided by the total inpatient visits during the correspond period
“anaesthesiology”	the branch of medicine concerned with the relief of pain and the administration of drugs to relieve pain during surgery or other invasive procedures
“angiography”	visualisation of blood vessels by means of injecting radiographic substance into the blood stream
“anorectal”	relating to the anus and rectum
“arthroscopic joint surgery”	a minimally invasive procedure on a joint in which an examination and treatment of damage is performed using miniaturised camera systems through a small incision
“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
“cardiology”	the branch of medicine that deals with diseases and abnormalities of the heart, including congenital heart defects, coronary artery diseases, heart failures and heart valve diseases
“cardiovascular surgery”	surgeries that are performed on the circulatory system, including the heart and blood vessels
“catheterisation laboratory”	a specialised examination room in a hospital staffed by multi-disciplinary healthcare professionals including cardiologists and radiologists and equipped with advanced diagnostic imaging equipment used to visualise the arteries and chambers of the heart and treat any abnormality found
“CCU”	coronary care unit, an intensive care unit that provides high level of specialised care to patients with cardiac conditions that require continuous monitoring and treatments

GLOSSARY OF TECHNICAL TERMS

“Class I hospital”	the smaller hospitals rated as Class I hospitals by the NHFPC hospital classification system, typically having fewer than 100 beds and primarily providing basic healthcare services to the local community
“Class II hospital”	the regional hospitals rated as Class II hospitals by the NHFPC hospital classification system, typically having 100 to about 500 beds, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research initiatives. The Class II hospitals are graded into three sub-levels (A, B, C) based on the assessment of competent authorities and Grade A Class II hospitals are the highest ranking hospitals among Class II hospitals
“Class III hospital”	the largest regional hospitals in the PRC rated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds, providing high quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives. The Class III hospitals are graded into three sub-levels (A, B and C) based on the assessment of competent authorities and Grade A Class III hospitals are the highest ranking hospitals among Class III hospitals
“congenital”	a medical term used to describe a defect or anomaly that is present at birth
“continuum of healthcare”	seamless continuum of healthcare services spanning all levels of intensity provided to a diverse range of patients using a multi-disciplinary approach. Please see the diagram in <i>“Business — Our Healthcare Services — Continuum of healthcare services”</i>
“CT”	computed tomography, a technique that uses X-rays to make detailed pictures of the structures inside the body
“cytogenetics”	a branch of genetics that concerns the microscopic analysis of chromosomes in individual cells
“emergency medicine”	the branch of medicine concerned with the prompt diagnosis and treatment of injuries or trauma or sudden illness, including providing medical and surgical care to patients arriving at the hospital in need of immediate care
“endocrinology”	the branch of medicine that deals with diseases related to hormones and glands

GLOSSARY OF TECHNICAL TERMS

“endoscopy”	the examination and/or treatment of the interior of body organs, joints or cavities using miniaturised camera systems inserted into the body through openings or small incisions
“ENT”	ear, nose and throat
“gastroenterology”	the branch of medicine that deals with disorders of the stomach and intestines
“general hospital”	a hospital that provides multi-disciplinary healthcare services including outpatient, inpatient and diagnosis
“general surgery”	a medical discipline involving knowledge of and familiarity with a broad spectrum of injuries, deformities and diseases that may require surgical treatment, including alimentary tract, abdomen and its contents, glands, breast, skin, soft tissues and endocrine systems
“geriatrics”	the branch of medicine that deals with problems and diseases of old age and ageing people
“haematology”	the branch of medicine that deals with the diseases of the blood
“haemodialysis”	a blood purification process by which blood is diffused across a semi-permeable membrane to remove harmful substances that a normal kidney would eliminate, including poisons, drugs, urea, uric acid and creatinine
“hepatobiliary and pancreatic surgery”	surgeries that are performed on the liver, gallbladder, bile ducts, bile or pancreas
“hernia”	a medical condition in which part of an organ is displaced and pushes through the wall of the structure or muscle that usually contains it
“histopathology”	refers to the microscopic examination of tissues in order to study the manifestations of diseases
“Hong Kong doctors”	Hong Kong qualified doctors who are permitted to practise medicine in the PRC under the Closer Economic Partnership Arrangement (《內地與香港建立更緊密經貿關係的安排》)
“ICU”	intensive care unit, a specially equipped unit that provides intensive care to patients who suffer from serious injuries or illnesses generally through a multi-disciplinary team of healthcare professionals
“inpatient”	a patient who receives healthcare services at a hospital and is hospitalised overnight

GLOSSARY OF TECHNICAL TERMS

“internal medicine”	the branch of medicine dealing with the diagnosis and non-surgical treatment of diseases, especially of internal organ systems
“ISO”	International Organisation for Standardisation, a non-governmental organisation that develops and publishes international standards
“IVF”	in vitro fertilisation, a process of fertilisation by manually combining an egg and sperm in a laboratory dish, and then transferring the embryo to the uterus
“material medical dispute”	a medical dispute arising from our clinical activities that either (i) involved a patient fatality; or (ii) resulted in monetary compensation of RMB50,000 or more
“MICM classification”	an advanced clinical classification of leukaemia based on morphology, immunology, cytogenetics and molecular biology which is essential in designing treatment protocols for leukaemia
“minimally invasive”	advanced surgical techniques that result in less injuries to the body than with open surgeries. Such techniques minimise recovery time, blood loss, post-surgical complications, surgical traumas and infection risks and result in more aesthetically pleasing surgical wounds than conventional open surgeries for the same condition
“MRI”	magnetic resonance imaging, a type of medical imaging technique to visualise detailed internal structure by making use of the property of nuclear magnetic resonance to image the nuclei of atoms inside the body
“multi-disciplinary team”	a healthcare team involving healthcare professionals from a range of disciplines collaborating with each other for the purpose of providing comprehensive healthcare services to address as many of the patient’s needs as possible, including planning and implementing treatment programmes for complex medical conditions
“multi-site doctors”	licensed doctors who are qualified and permitted to practise at multiple sites in the PRC (多點執業醫生)
“multi-site practice”	a doctor providing medical services in two or more medical institutions in the PRC within his or her practising period (多點執業)
“near-miss situation”	a situation that could have had an adverse patient consequence but was avoided

GLOSSARY OF TECHNICAL TERMS

“neonatology”	the branch of medicine that deals with the development, complications and disorders of newborn infants
“nephrology”	the branch of medicine that deals with the physiology and diseases of the kidneys
“neurology”	the branch of medicine that deals with conditions and diseases that affect the nervous system, including the brain, spinal cord, peripheral nerves and muscles as well as special senses of vision, smell, taste and hearing
“neurosurgery”	surgeries that are performed on the nervous system
“NICU”	neonatal intensive care unit, an intensive care unit that provides high level of specialised care to critically ill or premature newborn infants
“nosocomial infection”	an infection that is contracted from the environment or staff of a healthcare facility
“NOTES”	Natural Orifice Transluminal Endoscopic Surgery, an advanced and experimental minimally invasive procedure involving passing surgical instruments and a tiny camera through a natural orifice to perform surgery. By avoiding major incisions, patients generally recover more quickly, experience less pain and have no visible scars while the risk of post-operative complications is significantly reduced
“nuclear medicine”	the branch of medical specialty that applies radioactive substances in the research, diagnosis, and treatment of diseases
“obstetrics and gynaecology” or “O&G”	the branch of medicine that deals with pregnancy care, childbirth and disorders of the female reproductive system
“oncology”	the branch of medicine that deals with cancer
“ophthalmology”	the branch of medicine that deals with disorders and diseases of the eyes
“orthopaedics”	the branch of medicine that deals with injuries and diseases of the musculoskeletal system, including the bones, joints, ligaments, tendons, muscles and nerves
“outpatient”	a patient who receives healthcare services at a hospital but is not hospitalised overnight
“physical examination”	refers to the clinical examination of individuals for signs of disease and healthcare advisory services

GLOSSARY OF TECHNICAL TERMS

“radiofrequency ablation”	a medical procedure in which part of the electrical conduction system of the heart, tumour or other dysfunctional tissue is ablated using the heat generated from an electrical current provided by radio waves
“reconstructive and maxillofacial surgery”	reconstructive surgery relating to the jaws and face
“reproductive medicine”	the branch of medicine that deals with prevention, diagnosis and management of reproductive problems
“rheumatology”	the branch of medicine that deals with diseases relating to the joints, ligaments, muscles and bones, such as rheumatism and arthritis
“stomatology”	the branch of medicine and dentistry that deals with diseases relating to the mouth
“sub-health”	refers to an intermediate stage between health and disease
“taTME”	Transanal Total Mesorectal Excision, a surgical treatment for cancer found in the rectum
“TCM hospital”	a hospital that primarily provides the treatment of traditional Chinese medicine
“thoracic surgery”	surgeries that are performed on the lungs, oesophagus, and other organs in the chest
“traumatology”	the branch of medicine that deals with serious wounds and injuries and the associated surgical and reconstruction procedures
“two-child policy”	refers to the two-child birth policy (二胎政策) in the PRC which allows for each couple to have two children under the newly revised Law on Population and Family Planning (《中華人民共和國人口與計劃生育法》), passed at a session of the National People’s Congress Standing Committee (全國人民代表大會常務委員會) on 27 December 2015, and taking effect on 1 January 2016
“ultrasonography”	a diagnostic medical procedure that uses sound waves to produce images on a screen, which allows medical providers to view internal structures of the body or a developing fetus
“urology”	the branch of medicine that deals with the urinary tracts of males and females, and the reproductive system of males

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

This prospectus 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 situations where best estimates have been 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 prospectus 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 prospectus. 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 prospectus, 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 operations and business prospects;
- our ability to maintain and enhance our market position;
- the effects of 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 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 operations;
- our ability to obtain or extend the terms of the licenses and leases necessary for the operation of our business;
- changes to our expansion plans and estimated capital expenditures;
- adverse changes or developments in the industries in which we operate;

FORWARD-LOOKING STATEMENTS

- fluctuations in inflation, interest rates and exchange rates;
- changes in the availability of, or new requirements, for financing; 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 prospectus 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 prospectus, 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 prospectus to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this prospectus. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully read and consider all of the information in this prospectus, 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 differs from that prevailing in other countries. Our financial condition, business, results of operation, and prospects 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.

Our business is subject to a high level of regulation and supervision at the national, regional and local levels. Such regulation and supervision relates mainly to (i) the quality and use of medical facilities, equipment, supplies and services; (ii) procurement, usage and storage 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 — Laws and Regulations Related to the Healthcare Services Sector in the PRC*”. We are also exposed to potential legal liabilities in the course of our operations arising from medical disputes, whether with or without merit. For more information, please see “— *We may not carry adequate insurance for professional and other liabilities which may arise in our business*” below. In addition, any changes in laws and regulations could broaden the scope of medical disputes, require us to obtain additional licenses, permits, approvals or certificates, increase our operational expenses or result in the invalidation of our currently owned licenses.

New regulations relevant to our business may be introduced in the future, or otherwise be amended or replaced requiring us to conduct our business with additional oversight and regulatory compliance. We cannot assure you that we can adapt to changes in the regulatory environment swiftly enough, or in a cost-efficient manner. We cannot assure you that our operations will not be adversely affected by regulatory developments or that the cost of compliance with new regulations will not be material. It is also possible that different interpretations or enforcement of these regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to implement changes in our facilities, equipment, personnel or services or increase capital expenditure and operating expenses.

Inspections by regulators may be carried out at our hospitals on both an announced and unannounced basis depending on the specific regulatory provisions relating to the different healthcare services we provide. A failure to comply with regulations, the receipt of a poor or lower rating in an inspection, or a receipt of a negative report that leads to a determination of regulatory non-compliance or any failure to rectify any material deficiencies noted in an inspection report could, depending on the nature and severity, result in reputational damage, financial and administrative penalties, conditions being placed on our licenses, the revocation or suspension of our licenses or a decrease in, or cessation of, the services provided by us. If we fail to comply with one or more of these regulations, depending on the nature and severity of such non-compliance, we may face a number of legal consequences, including monetary and administrative

RISK FACTORS

penalties, criminal prosecution, increased compliance costs, exclusion from social insurance programmes, temporary or permanent closure of our hospitals or a complete or partial curtailment of our authorisation to perform a line of service or all of our business in its entirety. Any of these consequences could have a material adverse effect on our business, results of operations and prospects.

Adverse changes in the PRC’s regulatory regime for the healthcare services industry, particularly changes in healthcare reform policies, may have a material adverse effect on our business.

In 2009, the PRC government unveiled its healthcare reform plan, which aims to ensure that every citizen has access to affordable basic healthcare. Since then, the PRC government has issued new policies addressing the affordability, accessibility and quality of healthcare services, medical insurance coverage, as well as the reform of public hospitals, and has called for additional government spending on healthcare. This extensive reform of the PRC healthcare system is targeted to be completed by 2020.

During the Track Record Period, our business and operations benefited directly from such policies and we expect our future growth will largely be driven by these policies. For example, pursuant to the Notice on the Implementation Measures for the Reform of the Healthcare System (2009 to 2011) (國務院關於印發醫藥衛生體制改革近期重點實施方案) (2009-2011年的通知), which was promulgated by the State Council on 18 March 2009, private hospitals will be treated as equally as public hospitals with respect to whether they may be approved as a designated medical institution for public medical insurance purposes, the selection of scientific research projects, the evaluation of professional titles and the access to further education programs. However, these policies may change significantly in the future or become unfavourable to our business and operations. Future legislative changes may, among other things, limit private or foreign investment in healthcare services, change reimbursement rates for healthcare services provided to publicly insured patients, regulate the treatment fees permitted to be charged. Any such adverse change in the PRC’s regulatory regime for the healthcare services industry could have a material and adverse effect on our business.

Regulatory pricing controls and reimbursement limits under social insurance programmes may affect our pricing of certain healthcare services and products.

PRC government laws and regulations at the national and regional levels impose pricing controls and price ceilings on various healthcare services and products provided by public and not-for-profit healthcare institutions. Furthermore, healthcare services and products covered under social insurance programmes are subject to reimbursement limits, thus, patients receiving such healthcare services and products are required to pay for the excess if their medical expenses exceed the reimbursement limits. See “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC — Laws and regulations on prices of medical services and medicine*”. Our private for-profit general hospitals are not directly subject to the pricing controls imposed on public or private not-for-profit hospitals. However, in order to maintain our market position and compete effectively for patients seeking healthcare services and products subject to regulatory pricing controls in public and not-for-profit hospitals and/or social insurance reimbursement limits, we set the pricing of such services and products at a tariff similar to public or not-for-profit hospitals of the same tier in the same region. We routinely carry out market research to ensure our pricing of such services and products is maintained at a competitive level. As a result, government policies that impose price ceilings, reduce profit margins or restrict social insurance coverage and reimbursement limits will put pressure on our pricing of the relevant healthcare services and products, which may in turn negatively impact our overall profitability.

RISK FACTORS

The PRC government may adjust the price ceilings in the future and subject additional healthcare services and products to pricing controls and/or more stringent social insurance reimbursement limits as part of its healthcare reform plan or for any other reason. We may need to adjust the pricing of our healthcare services and products in line with that of key competitors to maintain our competitiveness, which may reduce our overall profitability and in turn have a material adverse effect on our business, results of operation and prospects. To increase our overall profitability, we may need to ramp up our high-margin special services such as our VIP healthcare services, which we may not be able to implement successfully and could result in fluctuations in our short-term financial performance.

We derive a significant portion of our revenue from healthcare services and products provided to patients covered under social insurance programmes, and the loss of any such revenue could have a material adverse effect on our business, results of operations and prospects.

We receive a significant portion of payments for our medical bills from the PRC government, principally through social insurance programmes. The medical fee of patients for healthcare services and products covered under such programmes is generally paid by the PRC government to our hospitals. The payments received by us under social insurance programmes amounted to approximately RMB207.5 million, RMB264.7 million, RMB267.7 million and RMB102.9 million for each of the three years ended 31 December 2015 and the four months ended 30 April 2016, respectively, representing approximately 24.2%, 26.9%, 25.2% and 27.1% of our total payments received in the same periods, respectively. We expect to continue to receive a significant portion of our total medical bill payments under social insurance programmes. The PRC government also only reimburses medical expenses for certain approved services and pharmaceuticals, and the reimbursement percentages and limits for covered medical expenses may vary widely depending on the region, hospital rating, type of disease and the treatment and pharmaceuticals provided. Our participation in social insurance programmes is dependent on our hospitals' maintaining the relevant "designated" status, which is subject to stringent regulatory scrutiny of, among other things, our medical facilities, staff, quality of healthcare services, procedures, internal controls, clinical governance and risk management. We cannot assure you that our hospitals will be able to maintain their status as a "designated" hospital under any of the social insurance programmes in which we currently participate. The loss of the "designated" status of our hospitals will not only harm our reputation but may also result in a reduced volume of patients visiting our hospitals for healthcare services and products covered by the relevant social insurance programmes. Further, the PRC government may alter its reimbursement policies in coverage plans in the future such that: (i) certain healthcare services and products provided by us will no longer be covered; or (ii) more stringent thresholds on existing coverage may be imposed, such as reducing the admissions and length of stays for inpatients, for whom treatment is generally more costly than outpatients. Any reduction in the rates paid or the scope of services covered may reduce patient accessibility to our hospitals and may lead to reduced patient flow and fees. Both the loss of our "designated" status and any alternation in the PRC government's reimbursement policies in social insurance programmes could lead to a decrease in our revenue generation and profitability which could have a material adverse effect on our business, results of operations and prospects.

Our success is linked to our ability to recruit and retain high quality doctors and other healthcare professionals, such as nurses and technicians. We must also properly manage the employment of our doctors and nurses, as the failure to do so may lead to penalties against our hospitals, including fines, loss of licenses, or an order to cease practice, which could materially and adversely affect our business, results of operations and prospects.

RISK FACTORS

Our operations depend on the number, efforts, ability and experience of our doctors and other healthcare professionals at our hospitals. We compete with other healthcare providers, including those located in the Pearl River Delta Region, to recruit and retain qualified doctors and other healthcare professionals.

The reputation, expertise and demeanour of the doctors and other healthcare professionals who provide medical services at our hospitals are instrumental to our ability to attract patients. The success of our hospitals is, therefore, linked to the number and the quality of the doctors and other healthcare professionals at our hospitals, their admitting practices and our relationships with them. The factors that doctors consider important in deciding where they will work include their compensation package, reputation of the hospital, the quality of equipment and facilities, research capability, platform for career advancement, the quality and number of supporting staff, and market leadership of the hospital. We may not be able to compete with other healthcare providers, whether public or otherwise, on all of these factors. Without a team of quality doctors and other healthcare professionals, our hospitals would not be able to attract patients or offer high quality services to the general public. The loss of a significant number of our doctors and other healthcare professionals, or the inability to attract or retain sufficient numbers of qualified doctors and other healthcare professionals, could have a material adverse effect on our business, results of operations and prospects.

Even if we are able to recruit and retain quality doctors and other healthcare professionals, we may not be able to manage our employees properly. In particular, the practising activities of doctors and nurses are strictly regulated under PRC laws and regulations. Doctors and nurses who practise at medical institutions are required to hold practising licenses and are only permitted to practise within the scope of their licenses and at specific medical institutions at which their licenses are registered. For details, please see *“Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC — Laws and regulations on medical personnel of healthcare institutions”*.

In practice, it may take a period of time for doctors and nurses to transfer their licenses from one medical institution to another or to add another medical institution to their permitted practising institutions. We cannot assure you that any of our personnel transferred from a different hospital or any potential personnel to be hired by our hospitals will complete the transfer of their licenses and the related government procedures on time, if at all, or that our doctors and nurses will not practise outside the permitted scope of their respective licenses. Our failure to properly manage the employment of our doctors and nurses may subject us to administrative penalties against our hospitals including fines, loss of licenses, or, in the worst case scenario, an order to cease practice, any of which could materially and adversely affect our business, results of operations and prospects.

Our revenue has historically been entirely dependent on our operations in Guangdong Province and will remain largely dependent on our operations in Guangdong Province going forward. As such, we are especially sensitive to the local conditions and changes in Guangdong Province, such as with respect to its economy, laws and regulations, and any force majeure events, natural disasters or outbreaks of contagious diseases in this region.

During the Track Record Period, we derived our revenue from Kanghua Hospital and Renkang Hospital, both of which are located in Guangdong Province. Going forward, we expect that a large part of our revenue will remain dependent on our operations in Guangdong Province. We are therefore highly sensitive to the regulatory, economic, environmental and competitive conditions, as well as the public health

RISK FACTORS

landscape, in this region. In particular, many large-scale factories and manufacturing operations located in Guangdong Province, including Dongguan, have closed down or relocated in recent years due to increasing costs, resulting in many of their employees becoming unemployed and leaving for other provinces in the PRC. This trend may continue due to multiple reasons, including a shift in the economic landscape in Guangdong Province. A significant reduction in the aggregate workforce employed in Guangdong Province in general and Dongguan in particular, many of whom may be covered by social insurance programmes, may reduce the demand for our healthcare services, such as employee physical examination and work-related injuries services, resulting in lower volume of patients. Furthermore, significant changes in the laws and regulations governing the healthcare industry in Guangdong Province may have a material effect on our business operations. In addition, if there is an outbreak of contagious disease in Guangdong Province, the volume of patients that would seek non-urgent medical care at our hospitals may decrease if such patients avoid visiting hospitals during such outbreak. The service capability of our hospitals will also be disrupted as a result of the need to implement heightened sanitisation and quarantine procedures. Any epidemic outbreaks in Guangdong Province may disrupt our operations significantly. Furthermore, natural disasters or other catastrophic events that may occur in Guangdong Province, such as earthquakes, fires, droughts, typhoons, floods, outages of critical utilities, disruptions to transportation systems, including as a result of terrorist attacks, may damage or limit our ability to operate our hospitals. Any such unpredictable development in Guangdong Province could have a material adverse effect on our business, results of operations and prospects.

We derive a majority of our revenue from Kanghua Hospital and may be particularly sensitive to adverse developments with respect to that hospital.

Kanghua Hospital is our flagship hospital and contributes the majority of our revenue. Revenue from Kanghua Hospital amounted to approximately RMB705.1 million, RMB802.7 million, RMB874.8 million and RMB319.5 million in 2013, 2014, 2015 and the four months ended 30 April 2016, respectively, representing approximately 82.1%, 81.5%, 82.2% and 84.0% of our total revenue in the same periods, respectively, and is expected to continue to account for a majority of our revenue going forward. Any disruption to the operations of Kanghua Hospital, including as a result of natural disasters, negative publicity, regulatory action or otherwise, could have a disproportionate adverse effect on our business, results of operations and prospects.

While we are evaluating other expansion plans, we may not be successful in identifying or executing on such opportunities or at all. As a result, our future growth and financial performance will depend heavily on our ability to develop Kanghua Hospital, including by enhancing its clinical quality and expanding its service offerings. If we fail to consistently maintain the standard of Kanghua Hospital or develop Kanghua Hospital to compete effectively with other hospitals, our ability to grow may be adversely affected.

The Grade A Class III rating of our Kanghua Hospital carries significant competitive advantages. If we are unable to maintain such rating in the future, our reputation and our ability to compete with other hospitals could be adversely affected.

The Grade A Class III rating of Kanghua Hospital represents the highest rating attainable by hospitals in the PRC under the NHFPC hospital classification system. Such rating is important to our brand and is conducive to attracting patients seeking quality healthcare services.

RISK FACTORS

To maintain such rating, Grade A Class III hospitals must consistently fulfil various stringent requirements. For example, Grade A Class III hospitals are required to implement and maintain meticulous clinical governance, operational controls and risk management systems, and must fulfil various levels of teaching, research and publication, and social responsibilities. Such rating is also subject to stringent periodic and random review procedures. The Grade A Class III rating that has been attained by Kanghua Hospital carries significant competitive advantages, but also requires substantial efforts and on-going costs to maintain. We cannot assure you that Kanghua Hospital will always be able to meet all of the enhanced requirements of a Grade A Class III hospital and maintain such rating, including any additional or more stringent requirements that may be imposed in the future. The Grade A Class III rating certificate of Kanghua Hospital expired in January 2016 and is subject to review by the Guangdong HFPC. As confirmed by the Guangdong HFPC, we expect the review to take place in 2017 and during the interim period, Kanghua Hospital is nevertheless recognised as, and permitted to hold itself out as, a Grade A Class III hospital. See “*Business — Licenses, Permits and Certificates — Grade A Class III rating certificate of Kanghua Hospital*”. However, we cannot assure you that Kanghua Hospital will be able to maintain such rating under the upcoming review or in the future. If we are unable to maintain a Grade A Class III rating for Kanghua Hospital, our reputation and our ability to compete with other hospitals also possessing the Grade A Class III rating could be adversely affected.

Demand for our healthcare services is affected by macroeconomic and political conditions that are outside of our control.

The demand for our healthcare services can be affected by a number of factors that are beyond our control such as general macroeconomic conditions, conditions in the financial services markets, geopolitical conditions and other general political and economic developments. Recent turmoil in the financial markets, including the capital and credit markets, may continue to put pressure on the PRC and/or global economy and could have a negative effect on the demand for our healthcare services. Recent international developments, such as the referendum held in the United Kingdom on 23 June 2016 that resulted in a majority of voters voting to leave the European Union, has caused significant volatility in the global financial markets and could affect the fiscal, monetary and regulatory landscapes in certain jurisdictions and regions, which could cause fluctuations in interest rates and currency exchange rates. It is unclear how this political situation will be resolved in the next few years and how it will impact the global economy generally and the PRC in particular. We may be more susceptible to changes in patient preference, spending power, consumer sentiment and economic conditions than some of our competitors who provide similar services at lower prices. In particular, our patients may become less receptive to our high-margin special services, such as VIP healthcare services, and opt for more economic alternatives and cut back spending on treatments, procedures or services that are not considered medically necessary, such as aesthetic medical treatments, reproductive medicine and certain VIP physical examination services. As such, any changes in consumer spending power and economic conditions may have a material adverse effect on our business, results of operations and prospects.

For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, approximately 70.8%, 68.5%, 70.9% and 70.8% of our total payments received, respectively, was generated from (i) self-pay patients who funded their treatments themselves or sought reimbursement from commercial insurance programmes; and (ii) corporate customers who purchase employee healthcare services. The private medical insurance market, the self-pay market and employee healthcare market are subject to fluctuations in demand and are likely to be adversely affected in an economic downturn,

RISK FACTORS

particularly if employers become unable to employ additional workers or provide health benefits for their existing employees or if there is a decline in the number of people with sufficient income or capital to pay for treatment themselves. To the extent our payers are negatively affected by a decline in the economy, we may experience further pressure on commercial rates, less demand and a reduction in the amounts we expect to collect, any of which could have a corresponding material adverse effect on our business, results of operations and prospects.

The underlying lands and buildings of our hospitals are leaseholds. Termination or non-renewal of our leases may adversely affect our business, results of operations and prospects.

Each of our hospitals had entered into a long lease agreement for its underlying lands and buildings for a term of 10 years. See “*Connected Transactions*”. Under the lease agreements, in the event of certain material breaches by us, such as non-payment of rent, our landlords, who are controlled by Mr. Wang Junyang and Ms. Wang Aici (who are also our Controlling Shareholders), may enforce their right to terminate the lease agreements. Furthermore, our landlords have created security interests over certain land and buildings underlying our hospital operations in favour of financial institutions for financing. If our landlords commit a material breach under the terms of the relevant financing, which is not within our control, the financial institutions may exercise their right of foreclosure to obtain ownership and/or effect a sale of the land and buildings underlying our hospital operations, which may result in significant disruptions. We cannot assure you that our landlords will always have sufficient financial resources to service the debt obligations secured by the land and buildings underlying our hospital operations. Although each of the financial institutions has by written consent agreed that we may continue to use the relevant lands and buildings in such circumstances until the end of the relevant lease term, upon which we shall have the right to purchase or lease them on fair and market terms (see “*Business — Properties*”), we cannot assure you that the relevant financial institutions will not seek other means of enforcing the security interests, which may result in significant disruptions, or that should we decide to purchase the relevant land and buildings, we will be able to raise sufficient financial resources or obtain the requisite approvals in a timely manner.

Under the lease agreements, our landlords may also decide not to renew our leases by giving us advance notice of at least one year before expiration of the leases, although under the leases they must (i) compensate us for economic losses (including loss of revenue) and the necessary expenses incurred as a result of the relocation; (ii) assist us in locating a suitable site and render all necessary assistance for our relocation; and (iii) permit us to occupy the relevant premises until the day-to-day operations of the relocated hospital at the new premises has commenced (the “**Relocation Arrangement**”).

If any of the forgoing events materialises, our ability to use the underlying lands and buildings of our hospitals will be materially adversely affected. If we are unable to procure another suitable location and facilities in a timely manner on commercially reasonable terms for the operations of our hospitals, our business, results of operations and prospects would be materially adversely affected. We cannot assure you that we will be able to secure comparable locations or negotiate leases on comparable terms. Moreover, we cannot assure you that the Relocation Arrangement will alleviate disruption to our business operations, in particular, the amount of compensation paid by our landlords may not be sufficient to fully cover our losses and expenses as a result of relocation.

RISK FACTORS

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

As part of our growth strategy, we are exploring opportunities to among other things, (i) manage third party hospitals under management agreements; and (ii) acquire existing hospitals through selective mergers and acquisitions. See “*Business — Our Strategies*”. To grow our business effectively and expand our geographic foot print, we are seeking expansion opportunities in, and have expanded into, areas outside of Guangdong Province, with which we have limited experience. In particular, in June 2016, we entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases under development in Chongqing. See “*Business — Our Hospitals — Our management arrangement with Zhonglian Cardiovascular Hospital*”. Since our experience in operating hospitals was historically limited to Guangdong Province, we may not be successful in adapting our business model outside this market. We may not be able to overcome the technological, regulatory, commercial and operational challenges relevant to a new market on a timely and cost-efficient manner. As a result, it may be challenging for us to develop, operate and integrate our hospitals in new markets outside of Guangdong Province or capitalise on our brand recognition in the new areas. Additionally, our experience in mergers and acquisitions is limited and we may not be able to identify and execute on suitable acquisition targets as we carry out our expansion plans. We may also not be able to successfully integrate newly acquired hospitals or achieve expected profitability.

Furthermore, our future expansion and subsequent ramping up and integration efforts may require significant time commitments from our management, as well as substantial operational, financial and other resources, and could result in a diversion of resources from our existing hospitals, which in turn could have an adverse effect on our business operations.

Generally, we are subject to the following risks associated with our growth strategy:

- significant demands on our management’s time and attention and diversion of resources from our existing operations;
- difficulties in identifying suitable business targets to expand our business operations to and negotiating commercially acceptable terms for such expansion;
- expansion may be costly and time-consuming and may require us to obtain third party financing, which may not be available on commercially acceptable terms;
- negotiating acceptable lease agreements and renewing them in commercially acceptable terms;
- hiring properly qualified staff and obtaining the requisite licenses for staff to practise locally;
- uncertainties associated with the local rules and regulations which we may not be familiar with;
- achieving the expected operating levels, target return on investment or intended benefits or operating synergies from new business opportunities;
- difficulties in capitalising our brand recognition with respect to hospitals outside of markets familiar to us;
- difficulties in adapting our hospital operation model outside of markets where we operate in;
- local market competition dynamics may not be conducive to our hospital operations;
- local demographics may not be receptive to the types of healthcare services we offer;

RISK FACTORS

- our due diligence may not uncover all material unknown or contingent liabilities or other negative developments with respect to acquired business targets, including those incurred for non-compliance with relevant laws, rules and regulations;
- integrating acquired business targets into our management structure and operations, including with respect to implementation of clinical governance procedures; and
- providing consistent, high-quality services throughout all of our owned and managed hospitals to uphold our reputation and brand.

We cannot assure you that our growth strategy will be successful or implemented successfully. Any failure to manage our growth strategy effectively may materially and adversely affect our ability to capitalise on new business opportunities, place us at a competitive disadvantage and limit our growth, which may in turn have a material adverse effect on our business, results of operations and prospects.

We may not be able to properly identify or effectively execute expansion opportunities and plans, and any business we acquire in relation to our growth and expansion may have unknown or contingent liabilities, which may materially and adversely affect our business, results of operations and prospects.

Our growth strategy depends, to an extent, on our ability to acquire and manage additional hospitals and healthcare businesses. Although we continuously evaluate potential opportunities, we may not be able to identify suitable business targets to expand our business operations, or be able to negotiate commercially acceptable terms for such expansion. We also compete with other companies on seeking suitable business targets. Even if we are able to identify suitable business targets, such expansion can be difficult, time consuming and costly and we may not be able to secure the necessary financing at commercially acceptable terms for such expansion. In addition, new facilities may require a significant number of additional staff, and we may have difficulty in hiring enough properly qualified personnel or in obtaining licenses for such personnel to practise in the relevant location. Furthermore, as we may not achieve the operating levels that we expect from future projects, including managed hospitals and acquired hospitals, we may not be able to achieve our target return on investment on, or intended benefits or operating synergies from, these projects. If we cannot identify suitable expansion opportunities, secure suitable financing or achieve our target return on investment, our business, results of operations and prospects could be materially and adversely affected.

With respect to the execution of our 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, reputation damage as well as being required to relocate our facilities. If we suffer reputational damage or financial loss caused by unknown or contingent liabilities of the business targets that we expand to, our business, results of operations and prospects could be materially and adversely affected.

RISK FACTORS

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

New healthcare facilities typically require a material amount of commitment, capital expenditure (such as capital contribution), as well as investments, for the construction, decoration and/or renovation of the property, recruitment of suitable staff, and acquisition of requisite medical and other equipment. As a result, relevant costs and expenses, such as amortization or related leasehold improvements, depreciation of property, plant and equipment, staff expenses and rental expenses, begin to accrue in this early stage ramp-up period. As such, the development and ramp-up of new healthcare facilities could affect our results of operations and may lead to period-to-period fluctuations in the future.

Ramp-up schedules may also be affected for regulatory reasons as we are generally required to undergo certain regulatory reviews and approval processes from various authorities in the PRC, including relevant 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, particularly in areas outside of Guangdong Province where we have limited experience. Furthermore, we may not be able to fully ramp-up new healthcare facilities in line with their 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 utilisation; (iii) achieving weaker market reception than expected; and (iv) difficulty in recruiting sufficient doctors and other medical staff to work at such facilities. We cannot assure you that we will be able to successfully commence and ramp-up our new healthcare facilities in a timely and cost-efficient manner, or at all, and if we fail to do so, our overall business growth strategy and prospects could be materially and adversely affected. The operating results generated at our new hospitals may not be comparable to the operating results generated at any of our existing hospitals, in particular Kanghua Hospital, and may even operate at a loss. We cannot assure you that our future hospitals will achieve the level of profitability of our existing hospitals, if at all. Any of the above conditions could materially and adversely affect the operation of our new hospitals, our reputation and our ability to compete effectively, which would in turn have a material adverse effect on our business, results of operations and prospects.

We may not be able to manage third party hospitals effectively and/or achieve profitability through such management arrangements, and due to our engagement in such new line of business, our track record results may not be indicative of future performance.

As part of our expansion strategy, we seek to expand our scale and increase our profitability by managing third party hospitals. Through such arrangement, we expect to derive revenue based on a percentage of the financial performance of such third party hospitals. As at the Latest Practicable Date, we had entered into a management agreement with respect to Zhonglian Cardiovascular Hospital in Chongqing. For details, please see “*Business — Our Hospitals — Our management arrangement with Zhonglian Cardiovascular Hospital*”. We have no prior experience in managing third party hospitals. We cannot assure you that we will be able to manage third party hospitals successfully, including Zhonglian Cardiovascular Hospital and other hospitals, with which we may enter into management arrangements in the future. These hospitals may not be able to obtain the licenses, permits or certificates necessary for their operations. If these hospitals do not commence operation as expected or at all, the amount of our management fees could be adversely

RISK FACTORS

affected. As such, we may not be able to achieve profitability through managing third party hospitals. Our track record of operating hospitals is limited to Guangdong Province and we may not be able to replicate our success outside of Guangdong Province. Managing third party hospitals requires substantial management efforts, devotion and other resources such as human resources and clinical resources of our Group. Third party hospitals may also have different management requirements due to factors such as demographics, operating environment and staff quality and we may not be able to accurately assess the amount of management attention and resources we need to devote in order to manage such hospitals effectively. Therefore, we may not always be able to achieve profitability through the management fee arrangement. The operational and financial impact of this line of business on our Group depends to an extent on whether we are able to negotiate favourable terms. For example, we understand it is customary for some hospital management arrangements to include a minimum performance target. If the actual operating performance of the managed hospital falls below such target, the amount of management fee may be adversely affected. If we are not able to negotiate favourable terms, our ability to manage third party hospitals and achieve profitability may be adversely affected. Due to the amount of resources we may need to commit, failure to manage third party hospitals effectively may also adversely affect our existing hospital operations. In addition, if our management agreement with respect to Zhonglian Cardiovascular Hospital or other managed hospitals in the future were to be unilaterally terminated for any reason, our ability to manage and collect management fees from such hospitals would be adversely affected. Any of the foregoing may have a material adverse effect on our business, results of operations and prospects. Furthermore, managing third party hospital represents a new line of business for our Group. To varying degrees, the capital requirements, cost structure, profit margin and cash flow in managing third party hospitals are different from our existing hospital operations. Due to our engagement in such new line of business, our track record results may not be indicative of future performance.

We may not obtain adequate or timely financing for existing and future investments in our hospitals, and our improvement projects may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results.

In order to finance our growth and development, including any potential investments and upgrades in our existing hospitals, we will require additional cash resources. If our internal resources are insufficient to satisfy our cash requirements, we may seek additional financing. If we raise additional financing by issuing additional equity, our shareholders may experience dilution in their shareholdings.

To the extent we engage in debt financing, the indebtedness we incur 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. Serving our debt obligations could also be burdensome for our operations. In the event that we fail to service any 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 conditions, credit availability from banks or other lenders, receipt of necessary PRC government approvals, building investors' confidence, the general performance of the healthcare industry, and in particular, our operating and financial performance. Furthermore, as we do not own the land or buildings in which we operate our hospitals, we

RISK FACTORS

are also potentially constrained by the limited security we are able to provide to debt providers. 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 prospects may be adversely affected.

The shortage of healthcare professionals, together with the costs associated with the increased wages and benefits to attract healthcare professionals to our hospitals, may have an adverse effect on our profitability.

We have experienced and expect to continue to experience pressure to offer significant and increasing wages and benefits to doctors and other medical personnel due to the current shortage of healthcare professionals. In some cases, doctor recruitment and retention is affected by a current shortage of doctors in certain disciplines, and competition for these individuals is particularly intense. In particular, from time to time, we experience difficulties in recruiting high quality and experienced doctors in the disciplines of ultrasonography, neonatology, cardiovascular surgery and ICU primarily due to the general shortage of such doctors in the market. We also experience competition for recruiting doctors in the disciplines of plastic surgery, dermatology and stomatology, particularly from smaller healthcare facilities such as outpatient clinics. These disciplines require less complex clinical resources, have a lower barrier to entry and can be readily offered by outpatient clinics, which are generally able to offer a competitive salary package to doctors and a more flexible and less demanding working environment compared to hospitals. We expect this shortage to continue, and we expect to continue to enhance wages, performance bonuses and benefits to recruit and retain our healthcare professionals. It has become increasingly costly to recruit and retain healthcare professionals in recent years. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our total staff costs on healthcare professionals were approximately RMB154.7 million, RMB180.8 million, RMB202.9 million and RMB72.0 million, representing approximately 23.1%, 23.7%, 24.6% and 24.0% of our cost of revenue in the same periods, respectively. We do not know when and if the number of professional personnel will increase so that there would no longer be a shortage of such doctors and healthcare professionals. The continuation of the shortage of doctors in certain disciplines and medical personnel and the costs associated with the increased wages and benefits to attract such doctors and other healthcare professionals could have an adverse effect on our business and reduce our profitability in the long term.

Furthermore, although multi-site practice is generally considered to be beneficial to the development of private hospitals by facilitating their access to high quality and experienced doctors particularly from public hospitals (see also “*Business — Our Staff — Multi-site practice of doctors*”), our own doctors may also opt to engage in multi-site practice with other healthcare facilities, which may result in a shortage of doctors from time to time. The relevant rules of multi-site practice stipulate that doctors in the PRC may only use their free time for multi-site practice without interfering with their responsibilities with the primary healthcare institution they practise in. Doctors constantly work under pressure and those who use their free time to engage in multi-site practice without taking adequate rest may be more prone to clinical mistakes and job burnout. If our own doctors who participate in multi-site practice with other hospitals fail to manage their time and responsibilities effectively, their performance at our hospitals, and in turn our clinical quality, may be adversely affected. These doctors may also request to reduce their practice hours with us, which may strain our clinical resources, in particular disciplines that are under heavy workload

RISK FACTORS

and generally experience a shortage of doctors. These doctors may also be more susceptible to attrition if their other multi-site practice healthcare facilities, having established rapport, seek to recruit them. According to the relevant rules of multi-site practice, if our own doctors opt to engage in multi-site practice with other healthcare facilities, they should inform, and make the necessary filings with, us. As at the Latest Practicable Date, we had not received any notifications or filings from our doctors that they were engaged in multi-site practice with other healthcare facilities. However, if a significant number of our own doctors begin to engage in multi-site practice with other healthcare facilities in the future, we may experience a shortage of doctors. We may not be able to replenish the shortage of doctors on reasonable terms without paying substantially higher wages and benefits, if at all. As a result, our business, results of operations and prospects may be adversely affected.

Quality deficiencies could adversely impact our brand, reputation and ability to market our services effectively, which could have a corresponding negative impact on our business, results of operations and prospects.

We depend on the strength of our brand and reputation, in particular the prestige conferred by the Grade A Class III hospital rating attained by our Kanghua Hospital. Factors such as poor clinical outcomes, health and safety incidents, problems with our medical equipment, negative press or patient dissatisfaction, could lead to a deterioration in our hospitals' rating or the public perception of the quality of our services, which could result in a reduction in the number of our patients.

Regulatory action by PRC regulatory authorities could also result in a reduction of patient numbers or in us ceasing to provide a service or closing down part of our service offerings because of the negative publicity such regulatory action may generate. In addition, actions taken by a regulator in relation to one or more of our services, regardless of the substantive merit or the eventual outcome of such action, may have a material adverse effect on our reputation and our ability to attract and/or retain medical professionals, expand our business or seek licenses for new services.

Many of our patients have complex medical conditions, are considered vulnerable and often require a substantial level of intensive care and supervision. There is a risk that one or more of such patients could be harmed by our employees, either intentionally, negligently or accidentally. A serious incident involving harm to one or more of our patients could result in negative publicity. Furthermore, the damage to our reputation or to the reputation of our hospitals could be exacerbated by any failure on our part to respond effectively. We cannot assure you that our clinical, educational and other governance procedures will enable us to prevent an event giving rise to significant negative publicity.

Any deterioration of our hospitals' rating, loss of goodwill or damage to our reputation or the value of our brand caused by any of the foregoing factors could have a material adverse effect on our ability to attract new and returning patients and, as a result, adversely affect our business, results of operations and prospects.

Our reputation may be negatively impacted by various circumstances and events, some of which may be beyond our control.

We operate in an industry in which maintaining a reputation for high quality and reliable healthcare services overseen by a professional, high calibre and stable management team is paramount to success. Although as the operator of a Grade A Class III hospital, we currently enjoy a strong reputation in the

RISK FACTORS

market in which we operate as evidenced by the numerous awards and honours that have been bestowed upon our hospitals in recent years, we cannot assure you that we will be able to maintain or further enhance this reputation. While many of the circumstances that may negatively impact our reputation, such as a failure to comply with existing or new regulations, loss of status as a designated service provider under key healthcare programs, the quality of our doctors, other healthcare professionals and services, and the quality of the services we provide are, to a reasonable extent, within our control, there are other circumstances and events that we may have limited or no control over. For example, despite our best efforts, there may be poor clinical outcomes with some of our patients and our employees may engage in conduct that is contrary to laws or regulations. Furthermore, negative publicity surrounding our shareholders, Directors, management and their associates may also impact our reputation, whether or not directly related to us or our operations. In particular, and to the best knowledge of our Directors, there are outstanding charges in the PRC against a relative of certain of our Directors and Controlling Shareholders in relation to a public auction of a plot of land unrelated to our operations that took place in Dongguan in 2010. The initial and successful bidder for the land was found by a PRC court to have colluded with other potential bidders, including the relative, to ensure that no bids were placed higher than the initial bid, in return for a sum of money. The penalties levied against the primary defendants were limited to suspended sentences and monetary penalties corresponding to the amount of the gain received, but the charges against the relative remain outstanding and the corresponding penalties (should the charges against the relative be upheld) are therefore yet to be finally determined. Although the relative is neither our Shareholder, Director, nor otherwise involved in the management of our Company and our PRC Legal Advisers have confirmed that the court proceedings will not have any material adverse impact on our Company, assets or operations, any negative publicity about the relative and court findings in relation to the auction of land, whether or not accurate or justified, may have a material adverse impact on the reputation of our Directors and Controlling Shareholders, which may in turn have a material adverse impact on the reputation of our Company, our hospitals and operations. Any deterioration of our reputation or the value of our brand caused by any of these events could have a material adverse effect on our ability to hire quality healthcare professionals and attract new and returning patients and, as a result, adversely affect our business, results of operations and prospects.

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

We rely on doctors and other healthcare professionals of our hospitals to make proper clinical decisions regarding diagnosis and treatment of our patients. However, it is impossible for us to have direct control or oversight over all the clinical activities of our hospitals or the decisions and actions taken by doctors and other healthcare professionals as their diagnoses and treatments of patients are subject to their professional judgment and in many cases, must be performed swiftly on a real time basis. Any lapse of judgment on the part of our doctors and other healthcare professionals, or any failure by our hospitals to properly manage their clinical activities may result in unsatisfactory treatment outcomes, patient injury or possible patient death. We are especially exposed to these risks from the treatment of complex medical conditions at our hospitals that do not have guaranteed positive outcomes. In addition, there are inherent risks associated with our clinical activities which may result in unfavourable medical outcomes not caused by clinical decisions. We are susceptible to complaints from patients or their relatives associated with our

RISK FACTORS

services from time to time. They may use violence during the course of the disputes, which may result in damage to our equipment and facilities or cause harm to our doctors, other medical staff, patients or visitors. They may also generate negative publicity using the media. In such case, we may choose to settle with the unsatisfied parties without legal proceedings in order to minimise the negative impact on our reputation and operations. As at the Latest Practicable Date, we were involved in 12 on-going medical disputes and we estimate that the aggregate maximum exposure in relation to these disputes will not exceed RMB0.4 million. For further details of our on-going medical disputes, see “*Business — Legal Proceedings and Compliance — Medical disputes*”.

In the future, serious incidents of patient death or injury may occur at our hospitals. Through providing healthcare to patients with various medical conditions, we are exposed to inherent risks in our operations, even in areas for which we have adopted the highest clinical standards. Such risks cannot be entirely eliminated. Any medical dispute occurring at our hospitals 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. Further, 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 adversely affect our business, results of operations and prospects.

We may not carry adequate insurance for 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. We maintain medical liability insurance for each of Kanghua Hospital and Renkang Hospital. However, we may face claims in excess of our insurance coverage or claims which are not covered by our insurance due to other policy limitations or exclusions or where we have failed to comply with the terms of the policy. There is only a limited number of medical liability insurance providers in the market and we may 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 obtain medical liability insurance in the future for our hospitals on acceptable terms or without substantial premium increases or at all, particularly if there is deterioration in our claims experience history. We did not maintain any form of medical liability insurance prior to February 2016. As at the Latest Practicable Date, we had 12 on-going medical disputes, a majority of which are not covered under our current medical liability insurance coverage. See “*Business — Legal Proceedings and Compliance — Medical disputes*”. We cannot assure you that more medical disputes over our clinical activities that took place before February 2016, which are not under our current insurance coverage, will not subsequently surface. Any successful claim against us not covered by or in excess of our insurance cover could have a material adverse effect on our business, results of operation and prospects.

We had an accumulated loss at the end of the Track Record Period, together with a high gearing ratio and declining net operating cash flows.

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we recorded an accumulated loss of RMB232.8 million, RMB183.4 million, RMB71.8 million and RMB31.8 million, respectively, which was impacted by approximately RMB123.3 million in deemed distributions to Kanghua Group during the Track

RISK FACTORS

Record Period. As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had gearing ratios of 896.4%, 663.8%, 138.5% and 74.5%, respectively, which were primarily because of our bank borrowings during the Track Record Period. Our net operating cash flow declined from RMB213.6 million for the year ended 31 December 2013 to RMB206.0 million for the year ended 31 December 2014, and further to RMB198.9 million for the year ended 31 December 2015 and RMB58.8 million for the four months ended 30 April 2016, primarily due to our settlement of certain payables and increased income tax cash outflows as we ceased to be able to offset net operating profits with accumulated tax losses. Please see further information on our accumulated loss, high gearing ratio and declining net operating cash flow during the Track Record Period in the section headed “*Financial Information — Working Capital*” in this prospectus. If we are not able to continue to improve our financial performance in the future, our business, results of operations and prospects may be materially affected.

We recorded net current liabilities during the Track Record Period.

We had net current liabilities of RMB1,066.4 million, RMB1,081.8 million, RMB84.1 million and RMB50.6 million as at 31 December 2013, 2014 and 2015 and 30 April 2016, respectively, primarily due to our external short-term borrowings from commercial banks. Please see further information on our net current liabilities position during the Track Record Period in the section headed “*Financial Information — Selected Items of Consolidated Statements of Financial Position — Net Current Liabilities*” in this prospectus. Although our net current liabilities position had improved during the Track Record Period, we cannot assure you that we will have sufficient financial resources to meet our anticipated cash needs, including capital requirements, capital expenditure, repayment of our future indebtedness, if any, when it falls due and various contractual obligations. In the event that the commercial banks providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on reasonable terms, or at all, our business, results of operations and prospects may be adversely affected.

Our prospects for growth and reputation will be affected if we do not continuously enhance our facilities with the most recent technological advances in diagnostic and surgical equipment.

We utilise various types of medical equipment to carry out our operations. The healthcare industry is characterised by frequent product improvements and evolving technology. As technological advances in the healthcare industry continue to evolve rapidly, in order to compete with other hospitals and healthcare providers for doctors and patients, we must continuously assess our equipment at our hospitals and upgrade or acquire new equipment as a result of technological improvements. Such equipment upgrades and acquisitions represent significant expenditure and may be subject to licensing or other regulatory requirements. If we are unable to upgrade our existing medical equipment or satisfy relevant regulatory requirements for any newly acquired equipment in a timely manner, such that medical practitioners are unable to provide required services and either do not provide the relevant treatment or elect to leave our hospitals, then it could have a material adverse effect on our business, results of operations and prospects.

Rapid technological advances in the healthcare industry and in other hospitals could also, at times, lead to earlier-than-planned obsolescence or redundancy of equipment and result in asset impairment charges, which may materially adversely affect our results of operations. We may from time to time incur impairment charges, which may materially adversely affect our business, results of operations and prospects.

RISK FACTORS

Our operations are susceptible to fluctuations in the costs of pharmaceuticals and medical consumables, which could adversely affect our profitability and results of operations.

The availability and prices of the pharmaceuticals and medical consumables used in our business fluctuate from time to time and are subject to factors beyond our control, including supply, demand, general economic conditions and governmental regulations, each of which may affect our procurement costs or cause a disruption in our supply. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, pharmaceuticals and medical consumables costs accounted for approximately 62.9%, 64.1%, 63.5% and 64.6% of our cost of revenue in the same periods, respectively. We cannot assure you that we will be able to anticipate and react to changes in medical supply costs by changing replacement suppliers or adjusting our service fees in the future, or that we will be able to pass these cost increases onto our patients. Any of these factors may have a material adverse effect on our business, results of operations and prospects.

Our failure to maintain relationships with commercial insurance providers on terms similar to those currently in place could have a material adverse effect on our business, results of operations and prospects.

Commercial insurance providers, such as Ping An Life Insurance Company of China, Ltd. (中國平安人壽保險股份有限公司) and Taikang Life Insurance Co., Ltd. (泰康人壽保險股份有限公司), usually maintain a list of appropriate providers of certain medical services. The list of appropriate healthcare service providers is made available to the patients who are funded by such commercial insurance providers. Patients will not be reimbursed for treatments from hospitals that are not included on the healthcare service provider's list. Accordingly, our ability to attract patients who are funded by commercial insurance providers could be adversely affected if one or more commercial insurance providers for any reason were to: (i) remove our hospitals from its approved list of hospitals; (ii) eliminate coverage of treatment options that we provide; (iii) impose more onerous reimbursement policies; (iv) revoke direct settlement protocols; (v) change its policies in a manner which makes access to our services more difficult or costly to patients; or (vi) otherwise withdraw recognition status of our hospitals. Any change in policy conditions or withdrawal of recognition by a commercial insurance provider could have a material adverse effect on the utilisation of our hospitals, which could have a corresponding material adverse effect on our business, results of operations and prospects.

We have agreements in place with a number of commercial insurance providers setting out, among other things, the prices payable or reimbursable by commercial insurance providers for the services we provide. We may not be able to renew our existing agreements with commercial insurance providers on terms comparable to what we have achieved in the past. Any reduction in the rates paid or the scope of services covered by commercial insurance providers may reduce patients' accessibility to our hospitals, 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, results of operations and prospects. In addition, should any of our agreements with commercial insurance providers be terminated, commercial insurance providers may withdraw recognition of our hospitals from their approved lists of hospitals, resulting in a reduced number of privately insured patients seeking our hospital services. Therefore, our relationship with commercial insurance providers is important to our success. Should some or all of our arrangements with commercial

RISK FACTORS

insurance providers (including but not limited to arrangements on pricing) fail to be renewed or extended, or are renewed on terms less favourable than in the past, discontinued, or are otherwise adversely modified without alternative arrangements being made on comparable terms, this could have a material adverse effect on our business, results of operations and prospects.

Moreover, our direct settlement protocol with commercial insurance providers such as Ping An Life Insurance Company of China, Ltd. (中國平安人壽保險股份有限公司) and Taikang Life Insurance Co., Ltd. (泰康人壽保險股份有限公司) is highly dependent on our information systems being capable of interfacing and communicating with the platforms of such commercial insurance providers in real-time and in a secure manner. Any failure of our information technology systems, which may not be within our control, may result in material disruption of the settlement process and leakage of patients' personal data and other confidential information of the commercial insurance providers. This may adversely affect, and may even result in termination of, our relationship with the commercial insurance providers and also cause damage to our reputation. Our ability to cooperate with other commercial insurance providers may also be adversely affected. This could have a material adverse effect on our business, results of operations and prospects.

We face competition from other hospitals and healthcare providers, and if we do not compete successfully, our profitability and market share may decline.

The healthcare industry in the PRC is competitive. We compete with other public and private general hospitals and, to some extent, specialty hospitals, in particular those located in Guangdong Province. We will also compete with future market entrants as the growth of the healthcare market in the PRC may attract domestic or international players to enter or to expand their existing operations. International market players may have substantially greater financial, marketing or other resources than we do, and the international profile of these operators and their ability to draw resources may constitute attractive features for many patients, thus increasing their competitive advantage. It is also possible that there will be significant consolidation and mergers in the healthcare industry. Our competitors may develop alliances, and these alliances may acquire significant market share. Concentration within the healthcare industry or other potential corporate actions of our competitors could improve their competitive position and market share.

Furthermore, specialty hospitals that focus on one or only a few medical disciplines continue to grow. These hospitals generally have a lower barrier to entry than general hospitals. If the number of such hospitals increases over time, they may attract patients for their respective disciplines who might otherwise go to our hospitals for the same services, causing increased competition for our business, which could, in turn, have a negative effect on our patient volume and overall market share.

Hospitals compete on factors such as reputation, clinical excellence and patient satisfaction. We cannot assure you that we will be able to successfully compete against new or existing competitors, and changes in the competitive landscape may result in price reduction, reduced profitability or loss of market share, any of which could have a material adverse effect on our business, results of operations and prospects.

RISK FACTORS

We may not be able to protect our name and trademarks.

Our name and trademarks support our business. We believe our reputation and brand are associated with the “Kanghua” (康華) name, and that this association has contributed to the success of our business. Marketing efforts that are carried out to promote our hospital services and to strengthen our position within the healthcare industry depend on the association of the “Kanghua” (康華) name with our reputation, and the “Kanghua” (康華) name may be damaged if it is used by third parties whose reputation or brand is not associated with quality, or if such third parties are otherwise the subject of any adverse publicity. Although we are taking steps to protect our name, including applying for registration of corresponding trademarks, the name “Kanghua” (康華) is likely to be too common to obtain trademark protection. As a result, we may not be able to limit the use of the “Kanghua” (康華) name by, or fully protect our name from reputational damage from third parties. We may need to initiate legal proceedings to defend the ownership of our trademarks or brand against any infringement by third parties, which may be costly and time-consuming, may require our management to devote substantial time and resources, and may not ultimately achieve a favourable outcome. Furthermore, the scope and validity of laws governing the protection of trademarks and brand names in the PRC are still evolving and the outcome of any legal actions to protect our intellectual property rights may be uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, results of operations and prospects may be adversely affected.

In addition, other parties may use or register trademarks that look similar to our registered trademarks under certain circumstances, and may cause confusion among consumers. We may not be able to prevent other parties from using trademarks that are similar to ours and our patients may confuse our hospitals with others using similar trademarks. In such cases, the goodwill and value of our trademarks and the public perception of our brand and our image may be adversely affected. A negative perception of our brand and image could have a material and adverse effect on our sales, and therefore on our business, results of operations and prospects.

On account of risks typically associated with the operation of healthcare facilities, patients may contract serious communicable infections or diseases at our hospitals.

Our operations involve the treatment of patients with a variety of infectious diseases. Previously healthy or uninfected individuals may contract serious communicable diseases in connection with their stay or visit at our hospitals. This may result in significant claims for damages against us and, as a result of media coverage, damage of our reputation. For example, although not currently prevalent in Guangdong Province, infections such as Middle East Respiratory Syndrome or H7N9 virus, may pose risks in the future. Furthermore, these germs of infections could also infect employees and thus significantly reduce the service capacity at our hospitals. In addition to claims for damages, any of these epidemic events may lead to limitations on the activities of our hospitals as a result of quarantines, closing of parts of our hospitals at times for sterilisation, regulatory restrictions on, or the withdrawal of, permits and authorisations, and it may indirectly result, through a loss of reputation, in reduced utilisation of our hospitals. Any of these factors may have a material adverse effect on our business, results of operations and prospects.

We depend on the continual service of our key personnel, and loss of the services of one or more of our key executives or a significant portion of our management personnel could weaken our management team and materially adversely affect our business, results of operation and prospects.

Our success depends on the skills, experience and efforts of our senior management team (whose names and biographical details are set out in “*Directors, Supervisors and Senior Management*” of this

RISK FACTORS

prospectus). Our senior management has extensive experience in the healthcare industry and have skills that are important to the operation of our business. In particular, we rely on the expertise, experience and leadership of Mr. Chen Wangzhi, our chief executive officer, who has steered us since the inception of our hospitals.

Individuals with industry-specific experience are uncommon, and the market for such individuals is competitive. As a result, we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management or other key employees, should the need arise. We do not maintain any key man life insurance policies. The loss of services of one or more members of our senior management or of a significant portion of any of our management staff could weaken our management expertise and our ability to deliver healthcare services efficiently, which could in turn have a material adverse effect on our business, results of operations and prospects.

We may fail to deal with clinical and radioactive wastes in accordance with the applicable laws and regulations or otherwise be in breach of the relevant medical, health and safety or environmental laws and regulations.

As part of our normal business operations, we produce and store clinical and radioactive wastes, which may produce effects harmful to the environment or human health. The storage and transportation of such wastes are strictly regulated. Our clinical and radioactive wastes disposal services are outsourced and should the relevant service provider fail to comply with these regulations, we could face sanctions or fines which could adversely affect our brand, reputation, business, results of operation or prospects. Generally, our business is subject to laws and regulations relating to the environment and public health. If the applicable laws and regulations in the PRC were to become more stringent, we could incur additional compliance costs which could in turn have a material adverse effect on our business, results of operations and prospects. Failure to comply with applicable regulations in the PRC could also result in us being held liable or fined and any of our licenses, permits, approvals and certificates could be suspended or withdrawn by the relevant PRC health authorities. Any of these consequences may have a material adverse effect on our business, results of operations and prospects.

Health and safety risks are inherent in the services we provide and are constantly present in our hospitals. A health and safety incident could be particularly serious as the patients at our hospitals may be dependent persons and therefore highly vulnerable. Some of our activities are especially vulnerable to medical risks, including the transmission of infections to employees and patients and the prescription and administration of drugs. Our business operations are also exposed to risks relating to health and safety, primarily in respect of food and water quality, as well as fire safety and the risk that patients may cause harm to themselves, other patients or our employees. From time to time, we may experience incidents at our hospitals where patients seek to coerce our employees for priority attention and treatment or dissatisfied patients display aggressive or violent behaviour towards our employees. If any of the above medical or health and safety risks were to materialise, it could have a material adverse effect on our brand and reputation.

RISK FACTORS

Failure to comply with anti-corruption laws could subject us to investigations, sanctions or fines, which may harm our reputation and have a material adverse effect on our business, results of operations and prospects.

Our internal policies mandate compliance with anti-corruption laws. However, the healthcare industry in the PRC generally poses elevated risks of violations of anti-corruption laws, in particular with respect to improper payments received by our management and staff to facilitate preferential treatment with respect to services and drugs. The PRC government has recently increased its anti-bribery efforts by introducing a range of measures to address such payments, and such measures are particularly strict on Grade A Class III hospitals, such as our Kanghua Hospital. For example, Grade A Class III hospitals are required to: (i) implement robust internal controls and risk management measures specifically addressing bribery and corruption risks; and (ii) undergo annual inspections from relevant regulatory authorities every three years, which include their anti-bribery and corruption status. For further information, see “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC — Policy regarding anti-corruption and anti-commercial bribery*”. We cannot assure you that our management and staff 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 hospitals. We may also be subject to adverse publicity based on false allegations of bribery or corruption within our hospitals. In the event that any bribery incident involving our management or employees materializes, we may be subject to investigations, sanctions or fines, and our reputation could be significantly harmed by any negative publicity stemming from such incidents or any penalties levied against us arising from them, which may have a material adverse effect on our business, results of operations and prospects.

We are subject to laws and regulations relating to the personal information of our patients. Any failure to adequately protect our patients’ personal data could expose us to liability.

As part of our business, we collect and maintain personal medical data and treatment records of our patients. PRC laws and regulations generally require medical institutions and their medical personnel to protect the privacy of their patients and prohibit unauthorised disclosure of personal information. Such medical institutions and their medical personnel will be liable for damage resulting from divulging the patients’ private or medical records without consent.

We are obliged to protect the confidentiality of our patients’ personal information. However, there is a risk that such information could be compromised in the event of a security breach at our hospitals. Such information could be divulged due to, for example, theft or misuse arising from staff misconduct or negligence. Furthermore, any change in privacy laws and regulations in the PRC 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, results of operations, and prospects.

RISK FACTORS

Our operations could be impaired if our information systems fail or if our databases are destroyed or damaged.

The information technology platform at each of our hospitals supports, among other things, management control of patient administration, clinical governance, billing and financial information, settlement with insurance providers and reporting processes. Any system failure that causes an interruption in service or availability of our information systems could have a material adverse effect on our business and/or delay the collection of revenue. In addition, our information systems are potentially vulnerable to computer viruses, break-ins and similar disruptions from unauthorised tampering. The occurrence of any of these events could result in interruptions, delays, the loss or corruption of data, or unavailability of systems, or liability as a result of any theft or misuse of personal information stored in our systems, all of which could harm our reputation and have a material adverse effect on our business, results of operations and prospects.

We have limited control over the quality of the pharmaceuticals, medical equipment, medical consumables and other supplies we use in our operations.

The provision of general hospital healthcare services involves the frequent use of a variety of pharmaceuticals, medical equipment, medical consumables and other supplies, all of which we procure from suppliers we do not have control over. We cannot assure you that all supplies are authentic, free of defects and meet the relevant quality standards. If these products are subsequently found to have been defective at the time of the supply, even though we did not know or could not have known about such defect, we may be subject to liability claims, negative publicity, reputational damage or administrative sanction, any of which may adversely affect our results of operations and reputation. Our Directors confirm that, during the Track Record Period, there were no significant claims of such nature asserted against us. However, we cannot assure you that significant claims of such nature will not be asserted against us in the future, and that adverse verdicts will not be reached or that we will be able to recover losses from our suppliers. In addition, we cannot assure you that we will be able to find suitable replacement suppliers, failing which our profitability, our business, results of operations and prospects will be adversely affected.

Our past performance is not necessarily indicative of future results.

Our historical results may not be indicative of future performance. Our financial and operating results may not meet the expectations of our investors or public market analysts who are tracking our performance, which may cause the future price of our H Shares to decline. Our revenue, cost, expenses, and operating results may vary from period to period as it could be affected by various factors beyond our control. Such factors may include, but are not limited to, changes in the general economic conditions, new trends in the PRC healthcare market, and our ability to control costs and operating expenses. Historically, our operations have largely depended on our ability to treat patients effectively and leveraging our success and reputation to attract new patients. To maintain our growth and profitability, we must continue to strengthen our reputation, attract quality talent, adopt innovative technologies and treatment processes, increase the awareness of our brand through effective marketing, promotional activities and word-of-mouth, and utilise 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 expand our footprint into new geographical locations where we have limited experience. We cannot assure you that we will achieve any of the above. 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 such comparisons to predict the future performance of our operating results or the H Shares.

RISK FACTORS

RISKS RELATING TO DOING BUSINESS IN THE PRC

We are subject to economic, political, and social developments 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, and social 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 emphasising the utilisation 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, results of operations and prospects. 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 by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions have no precedential value and 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 organisation and governance, commerce, taxation, finance, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, the PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC, or may be unclear or inconsistent.

In particular, since the PRC healthcare industry is experiencing ongoing reform, the laws and regulations relating to this industry may be unspecific and may be incomprehensive or inconsistent. Moreover, because of the limited volume of published decisions and their non-binding nature, the interpretation, application 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

RISK FACTORS

exist in the PRC, the enforcement of existing laws or contracts 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 after the violation. In addition, any litigation in the PRC 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 materialisation of all or any of these uncertainties could have a material adverse effect on our financial position and results of operations.

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

We are incorporated in, and all of our assets are situated in the PRC. Most of our Directors and officers also 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 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 1 August 2008, in the case of a valid and 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 Arrangement refers to agreements clearly stipulated in written form by the 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 recognised or enforced by a PRC court. Moreover, we cannot assure you that all final judgments that are compliant with the Arrangement will be recognised 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 the 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. 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, and interest payments, can be made in foreign currencies without prior approval from the

RISK FACTORS

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, results of operations and prospects.

The value of the Renminbi against the U.S. dollar, Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, the political situation as well as economic policies and conditions. On 21 July 2005, the PRC government changed its decade old policy of pegging its currency to the U.S. currency. With the implementation of the new policy, based on market supply and demand the Renminbi was permitted to fluctuate within a regulated and managed band against a basket of certain foreign currencies. With effect from 21 May 2007, the PBOC enlarged the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allowed the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The PBOC further widened the floating band to 1.0% on 16 April 2012, and again to 2.0% on 17 March 2014. These changes in currency policy resulted in an approximate 24.5% appreciation of the Renminbi against the U.S. dollar between 21 July 2005 and 6 June 2014. On 11 August 2015, the PBOC announced that it would request market-makers in the foreign exchange market to provide proposed quotes of the midpoint rates of the daily trading band of the Renminbi against the U.S. dollar based on supply and demand analysis and market conditions of the exchange rates of other currencies. For three consecutive days commencing 14 August 2015, the Renminbi was devalued against the U.S. dollar, leading to declines in the value of the Renminbi against the U.S. dollar of up to 2.8% in currency markets and signalling the largest single-day drop in the value of Renminbi since 1984.

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 Global Offering 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 Global Offering. 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 minimise or reduce our foreign currency risk exposure relating to our foreign currency-dominated assets.

RISK FACTORS

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 financial condition, business, 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 28 June 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% 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 realised 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 30 March 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. To our knowledge, as at 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 6 November 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.

RISK FACTORS

Payments of dividends are subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC could prevent us from serving our customers effectively and could have a material adverse effect on our financial condition, as well as our business, results of operations and prospects.

Any occurrence of force majeure events, natural disasters or outbreaks of epidemics, including those caused by avian influenza or swine influenza, severe acute respiratory syndrome, or SARS, Middle East respiratory syndrome coronavirus, or MERS-CoV. In April 2009, a human swine influenza, also known as Influenza A (H1N1) broke out in Mexico and spread globally. In March 2013, an H7N9 virus was first reported to have infected humans in the PRC, which has been identified by the World Health Organisation as an unusually dangerous virus for humans. In May 2015, an outbreak of MERS-CoV occurred in South Korea and has spread to the PRC, resulting in widespread fear. An outbreak of contagious diseases, and other adverse public health developments in the PRC, would have a material adverse effect on our business operations. These could include restrictions on our ability to provide services to our customers, as well as temporary closure of our hospitals. These events could also adversely affect our customers' demand for our services as they may not want to go to hospitals at all. Such closures or service restrictions would severely disrupt our operations and adversely affect our financial condition and results of operations. An outbreak of any contagious disease in Hong Kong may also cause the price and trading volume of our H Shares to decline significantly. Additionally, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past. Any future occurrence of several natural disasters in the PRC could materially and adversely affect its economy and therefore our business, results of operations and prospects.

RISKS RELATING TO THE GLOBAL OFFERING AND THE H SHARES

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

Prior to the Global Offering, there was no public market for our H Shares. The initial Offer Price 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 may differ significantly from the market price for our H Shares following the completion of the Global Offering. We have applied for the listing of, and permission to deal in, our

RISK FACTORS

H Shares on the Hong Kong Stock Exchange. A listing on the Hong Kong 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 completion of the Global Offering or that the market price of our H Shares will not decline following the completion of the Global Offering.

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 Global Offering.

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;
- 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 Hong Kong 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 sales or perceived sales or conversion of substantial amounts of our Shares in the public market, including any future offering of H Shares or conversion of our unlisted Shares into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholding.

The market price of our H Shares could decline as a result of future sales or issuances of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the perception that such sales or issuances may occur. Moreover, such future sales or perceived sales may also adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at favourable time and price. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for a period of up to twelve months after the Listing 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.

RISK FACTORS

In addition, immediately upon the completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares, comprising 84,000,000 H Shares in issue representing approximately 25.15% of our Company's enlarged share capital (without taking into account any H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and 250,000,000 Domestic Shares representing approximately 74.85% of our Company's enlarged share capital. All of our Domestic Shares are unlisted Shares that 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. According to 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 process (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 listing shall in all respects comply with the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any of our unlisted Shares were to be converted and traded as H Shares on the Hong Kong Stock Exchange, our Shareholders would experience a dilution in their holdings upon such issuance and listing.

Furthermore, if additional funds are raised through our issuance of new equity or equity-linked securities other than on a pro-rata basis to existing Shareholders, the percentage ownership for such Shareholders may be reduced. Such new securities may also confer rights and privileges that take priority over those conferred by the H Shares.

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

The Offer Price for our H Shares is higher than the net tangible assets book value per Share initially issued to our Shareholders prior to the Global Offering. Consequently, purchasers of our H Shares in the Global Offering will experience an immediate dilution in the pro forma combined net tangible assets book value of RMB3.73 (HK\$4.30) per H Share based on the maximum Offer Price of HK\$14.50, and our Shareholders prior to the Global Offering 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 Offer Price.

The Offer Price will be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be on the fifth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

RISK FACTORS

We cannot assure you that the H Shares will remain listed on the Hong Kong Stock Exchange.

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

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

Prior to and immediately following the completion of the Global Offering, our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association 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 interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they are required to abstain from voting on) 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 prospectus may not be fully reliable.

Certain facts and other statistics in this prospectus 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.

There are uncertainties and risks associated with forward-looking statements.

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “expect,” “believe,” “plan to,” “intend,” “could,” “anticipate,” “estimate,” “should” and “will.” Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future business, operations, liquidity and capital resources. Purchasers of our H Shares are cautioned that any forward-looking statements are subject to uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of these assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “*Risk Factors*” section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements

RISK FACTORS

in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

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

There may be coverage in the media regarding the Global Offering 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 is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should read the entire prospectus 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 prospectus and the Application Forms 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 STRICT COMPLIANCE WITH THE LISTING RULES

In preparation of the Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

1. Waivers in relation to non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Listing Rules, continuing connected transactions on normal commercial terms where each or all of the percentage ratios (other than the profits ratio) set out in Rule 14.07 of the Listing Rules, is/are on an annual basis 5% or more are subject to the announcement and annual review requirements as set out in Rule 14A.35 and Rules 14A.55 to 14A.59, annual reporting requirements as set out in Rule 14A.49, and shareholders' approval requirements as set out in Rules 14A.36 to 14A.45 of the Listing Rules.

Certain members of our Group have entered into certain transactions which will constitute continuing connected transactions of our Company under the Listing Rules following the Listing. Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of such continuing connected transactions under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, the term of an agreement must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with such requirement so as to allow the duration of each of (i) the Kanghua Hospital Lease Agreement (10-year term ending on 31 December 2025); and (ii) the Renkang Hospital Lease Agreement (10-year term ending on 31 December 2025) to exceed three years.

For further details of such continuing connected transactions and the waivers, please see "*Connected Transactions — Waiver applications for non-exempt continuing connected transactions*".

2. Waiver in relation to management presence in Hong Kong

Pursuant to Rule 8.12 and Rule 19A.15 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since most of the business operations of our Group are managed and conducted outside of Hong Kong, and substantially all of our executive Directors ordinarily reside in the PRC, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 and Rule 19A.15 of the Listing Rules. Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 and Rule 19A.15 of the Listing Rules subject to the following conditions:

- (a) We have appointed Mr. Wong Wai Hung Simon and Mr. Wong Wai Hang Ricky, as our authorised representatives for the purposes of Rule 3.05 of the Listing Rules to serve as our principal channel of communication with the Hong Kong Stock Exchange. We have provided the Hong Kong Stock Exchange with their contact details, and they can be readily contactable in Hong Kong to deal promptly with enquiries from the Hong Kong Stock Exchange, and will also be available to meet with the Hong Kong Stock Exchange to discuss any matters on short notice. As and when the Hong Kong Stock Exchange wishes to contact our Directors on any matters, each of our authorised representatives will have means to contact all of our Directors promptly at all times. We will

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

implement measures such that (i) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address to our authorised representatives and the Hong Kong Stock Exchange; and (ii) in the event that a Director expects to travel or otherwise be out of office, he or she will provide the phone number of the place of his or her accommodation to our authorised representatives.

- (b) We have provided the Hong Kong Stock Exchange with the contact details of each Director to facilitate communication with the Hong Kong Stock Exchange. Furthermore, each Director who is not an ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange within a reasonable period of time.
- (c) We have appointed a compliance adviser, TC Capital International Limited, pursuant to Rules 3A.19 and 19A.05 of the Listing Rules, which will act as our additional and alternative channel of communication with the Hong Kong Stock Exchange, and its representative(s) will be fully available to answer enquiries from the Hong Kong Stock Exchange. The compliance adviser will have access at all times to our authorised representatives, our Directors and the other senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Hong Kong Stock Exchange in respect of our Company.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

INFORMATION AND REPRESENTATION

You should only rely on the information contained in this prospectus and the Application Forms to make your investment decision. None of us or any of the Relevant Persons has authorised anyone to provide you with any information or to make any representation that is different from what is contained in this prospectus. No representation is made that there has been no change or development reasonably likely to involve a change in our Group's affairs since the date of this prospectus or that the information contained in this prospectus is correct as at any date subsequent to its date.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group.

Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

CSRC APPROVAL

On 22 August 2016, we obtained approval from the CSRC for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Group or the accuracy of any of the statements made or opinions expressed in this prospectus or the Application Forms.

As advised by our PRC Legal Advisers, our Company has obtained all necessary approvals and authorisations in the PRC in relation to the Listing.

APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Save as disclosed in this prospectus, none of our Shares are listed or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisers for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made by us for the H Shares to be admitted into CCASS.

RESTRICTIONS ON THE OFFER AND SALE OF THE OFFER SHARES

Each person subscribing for the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or by his/her subscription of the Hong Kong Offer Shares be deemed to confirm, that he/she is aware of the restrictions on the offering and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the related Application Forms may not be used for the purpose of, and do not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the related Application Forms and the offering and sale of the Offer Shares 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by us or any of the Relevant Persons. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for the Hong Kong Offer Shares, please see “*Structure of the Global Offering*” and “*How to Apply for the Hong Kong Offer Shares*”.

UNDERWRITING

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in “*Underwriting*”, subject to an agreement on the Offer Price between our Company and the Sole Global Coordinator (on behalf of the Underwriters). The International Offering is expected to be fully underwritten by the International Underwriters. For further details about the Underwriters and the underwriting arrangements, see “*Underwriting*”.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or around 1 November 2016 and in any event no later than 4 November 2016.

If the Sole Global Coordinator (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before 4 November 2016, or such later date or time as may be agreed between the Sole Global Coordinator (on behalf of the Underwriters) and our Company, the Global Offering will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, and details of the arrangements relating to the Over-allotment Option and the stabilisation are set out in “*Structure of the Global Offering*” and “*Underwriting — Over-Allotment and Stabilisation*”.

PROCEDURES FOR THE APPLICATION OF HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in “*How to Apply for the Hong Kong Offer Shares*” and the Application Forms.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, or dealing in the H Shares or exercising any rights attached to them, you should consult an expert. It is emphasised that neither us nor any of the Relevant Persons accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, or dealing in the H Shares or exercising any rights attached to them.

REGISTER OF MEMBERS AND STAMP DUTY

All of the H Shares issued pursuant to applications made in Global Offering will be registered on our H Share register to be maintained in Hong Kong by the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on our H Share register will be subject to the Hong Kong stamp duty.

Unless determined otherwise by us, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the Shareholders listed on our H Share register in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, the H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers to the H Share Registrar a signed form in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of the Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- (ii) agrees with us, each of the Shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of the Directors, Supervisors, managers and officers agree with each of the Shareholders 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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- (iii) agrees with us and each of the Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to the Shareholders as stipulated in the Articles of Association.

COMMENCEMENT OF DEALING IN THE H SHARES

Dealing in the H Shares on the Hong Kong Stock Exchange is expected to commence on 8 November 2016. The H Shares will be traded in board lot of 200 H Shares each.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed therein are due to rounding.

MARKET SHARE DATA

The statistical and market share information contained in this prospectus has been derived from official government publications, market data providers and other independent third party sources. We believe that sources of the information are appropriate sources for such information and have reproduced the data and statistics extracted from such official government publications and other sources in a reasonably cautious manner. We have no reasons to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. While we have exercised reasonable care in compiling and reproducing such information unless otherwise indicated, the information has not been verified by us independently. This statistical information may not be consistent without statistical information from other sources within or outside the PRC. You should not unduly rely on such information.

EXCHANGE RATES

Unless otherwise specified, amounts denominated in RMB, Hong Kong dollars and US\$ have been translated, for the purpose of illustration only, in this prospectus at the following rates:

HK\$1.00 : RMB0.86847 (set by the PBOC for foreign exchange transactions prevailing on 17 October 2016)

US\$1.00 : HK\$7.7587 (the noon buying rate on 14 October 2016 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board published on 17 October 2016)

US\$1.00 : RMB6.7277 (the noon buying rate on 14 October 2016 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board published on 17 October 2016)

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No representation is made that any amounts in RMB, US\$ or HK\$ can or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. WANG Junyang (王君揚)	No. 13 Nanshe Nanhu Road Chongkou Village, Houjie Town Dongguan, Guangdong Province PRC	Chinese
Mr. CHEN Wangzhi (陳旺枝)	E15, No. 15 Xiang Yuan Path, Yi Hu Ming Ju, Laguna Verona Phase 2, Huangang Lake District, Houjie Town, Dongguan, Guangdong Province, PRC	Chinese
Mr. WONG Wai Hung Simon (王偉雄)	D16 Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Chinese (Hong Kong)
Ms. WANG Aiqin (王愛勤)	E15, No. 15 Xiang Yuan Path, Yi Hu Ming Ju, Laguna Verona Phase 2, Huangang Lake District, Houjie Town, Dongguan, Guangdong Province, PRC	Chinese
<i>Non-executive Director</i>		
Mr. LV Yubo (呂玉波)	Room 602, No.11 Liuhua New Street Liwan District, Guangzhou, Guangdong Province, PRC	Chinese
<i>Independent Non-executive Directors</i>		
Mr. YEUNG Ming Lai (楊銘灃)	Flat 2203, Block Q, Allway Gardens, Tsuen Wan, Hong Kong	Chinese (Hong Kong)
Dr. CHEN Keji (陳可冀)	Flat 6H, Building 4, Chuihong Garden, Landian Chang Middle Road Haidian District, Beijing, PRC	Chinese
Mr. CHAN Sing Nun (陳星能)	43A, Block 5, Phase 2, Belvedere Garden, 530-590 Castle Peak Road Tsuen Wan, New Territories Hong Kong	Chinese (Hong Kong)

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

SUPERVISORS

Name	Address	Nationality
Mr. CHEN Shaoming (陳少明)	Room 1203, Unit 3, Building 268 New Century Shangheju Daojiao Town, Dongguan Guangdong Province, PRC	Chinese
Mr. WANG Shaofeng (王少鋒)	No.17 Lane Six West, Xinzhuang Village Group, Shanmei Management District, Houjie Town, Dongguan Guangdong Province, PRC	Chinese
Mr. WANG Bingzhi (王炳枝)	302, Block C, Liang Suo Building, Huimin Road, Houjie Town, Dongguan Guangdong Province, PRC	Chinese

Please see the section headed “*Directors, Supervisors and Senior Management*” in this prospectus for details.

Sole Sponsor China International Capital Corporation Hong Kong
Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Sole Global Coordinator China International Capital Corporation Hong Kong
Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Joint Bookrunners China International Capital Corporation Hong Kong
Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

CMB International Capital Limited
Units 1803-4, 18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

ABCI Capital Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road
Central
Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road
Central
Hong Kong

Joint Lead Managers

China International Capital Corporation Hong Kong
Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

CMB International Capital Limited
Units 1803-4, 18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road
Central
Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

Zhaobangji International Capital Limited
Units 1&17, 19/F, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to our Company

As to Hong Kong and U.S. laws:
Skadden, Arps, Slate, Meagher & Flom and affiliates
42nd Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing, 100022
PRC

**Legal Advisers to the Sole Sponsor
and the Underwriters**

As to Hong Kong and U.S. laws:
Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
Central
Hong Kong

As to PRC laws:
Tian Yuan Law Firm
10/F, CPIC Plaza
No. 28 Fengsheng Lane
Xicheng District
Beijing 100032
PRC

Auditor and Reporting Accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Industry Consultant

Frost & Sullivan
Suite 2802-2803, Tower A
Dawning Center
500 Hongbaoshi Road
Shanghai, 201103
PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Compliance Adviser

TC Capital International Limited
Suites 1903-1904, 19th Floor
Tower 6, The Gateway
Harbour City
9 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong
(A licensed corporation carrying on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO)

Receiving Bank

Bank of China (Hong Kong) Limited
1 Garden Road
Central, Hong Kong

CORPORATE INFORMATION

Registered Office	3/F, Outpatient Zone One Dongguan Kanghua Hospital Nancheng Street Road Dongguan Guangdong Province PRC
Head Office in the PRC	1000 Dongguan Avenue Dongguan Guangdong Province PRC
Principal Place of Business in Hong Kong	Unit 3207, Metroplaza Tower 2, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong
Joint Company Secretaries	Mr. WONG Wai Hang Ricky (黃偉恒) (CPA) Flat F, 11/F Block 12 The Cairnhill 108 Route Twisk Tsuen Wan Hong Kong Ms. CHAU Hing Ling (周慶齡) (LLM, FCIS, FCS) Room 1901, 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Authorised Representatives	Mr. WONG Wai Hung Simon (王偉雄) D16 Regalia Bay 88 Wong Mak Kok Road Stanley Hong Kong Mr. WONG Wai Hang Ricky (黃偉恒) Flat F, 11/F Block 12 The Cairnhill 108 Route Twisk Tsuen Wan Hong Kong
Audit Committee	Mr. CHAN Sing Nun (陳星能) (Chairman) Dr. CHEN Keyi (陳可冀) Mr. YEUNG Ming Lai (楊銘灃)
Remuneration Committee	Mr. CHAN Sing Nun (陳星能) (Chairman) Ms. WANG Aiqin (王愛勤) Mr. YEUNG Ming Lai (楊銘灃)

CORPORATE INFORMATION

Nomination Committee

Mr. WANG Junyang (王君揚) (*Chairman*)
Dr. CHEN Keyi (陳可冀)
Mr. YEUNG Ming Lai (楊銘澧)

Principal Banks

DRC Bank (Nancheng Sub Branch)
Marketing Department 2nd Floor
44 Nancheng Road Section, Guantai Road
Dongguan
Guangdong Province
PRC

Agricultural Bank of China Limited (Dongguan Houjie
Sub Branch)
3rd Floor Agricultural Bank
52 Dong Feng Second Road, Houjie Town
Dongguan
Guangdong Province
PRC

Dongguan Bank (Guancheng Sub Branch)
Dongguan Bank, Shop 1-8 Hongfu Building
1 Dongcheng West Road
Dongguan
Guangdong Province
PRC

CITIC Bank (Dongguan Houjie Sub Branch)
CITIC Bank, Xiangxieli Apartment
Tiyu Road, Houjie Town
Dongguan
Guangdong Province
PRC

H Share Registrar

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

Company's Website

<http://www.kanghuagp.com>
(*the information on the website does not form part of this prospectus*)

INDUSTRY OVERVIEW

This section contains information relating to the hospital industry in the PRC. The information and statistics contained in this section and elsewhere in this prospectus have been derived partly from publicly available government and official sources. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics are false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us or any of the Relevant Persons and no representation is given as to their accuracy. Accordingly, you should not place undue reliance on such information or statistics.

SOURCES OF INFORMATION

We engaged Frost & Sullivan, a market research consultant, to prepare the Frost & Sullivan Report for use in this prospectus. Frost & Sullivan, founded in 1961, provides market research on a variety of industries, including healthcare. The information from Frost & Sullivan disclosed in this prospectus 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 organisations. The data collected by Frost & Sullivan was last updated on 15 October 2016 based upon the data available as at the same date. Frost & Sullivan adopts a comprehensive data collection model, which includes primary research with industry stakeholders, secondary research on government statistics, industry reports and annual reports of listed companies, and data validation processes with industry key opinion leaders. Frost & Sullivan assumes that interviewees are not intentionally providing wrong or misleading information and that government statistics do not contain errors. Frost & Sullivan also assumes that no unexpected events such as wars or disasters occur during the relevant forecasting period.

Frost & Sullivan has developed its forecast on the following principal bases 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 healthcare industry in the PRC;
- the healthcare market in the PRC will continue to grow due to the increasing healthcare demand and supply;
- the PRC government will continue to support healthcare reform; and
- the respective healthcare markets where our healthcare facilities are located will grow during the forecast period.

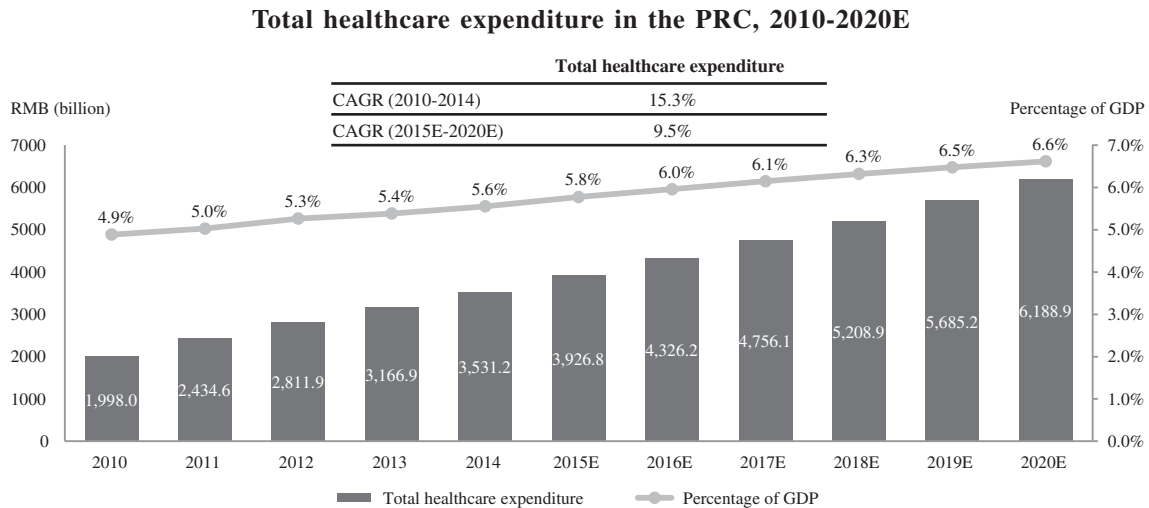
Frost & Sullivan, the Sole Sponsor and we believe that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are reasonable. Frost & Sullivan has independently analysed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. We paid Frost & Sullivan a fee of RMB800,000 for the preparation and update of the Frost & Sullivan Report, which is not contingent on the Global Offering proceeding.

Our Directors confirm to the best of their knowledge, and after making reasonable enquiries, that there have been no adverse changes in the industry since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

INDUSTRY OVERVIEW

THE HEALTHCARE SERVICES MARKET IN THE PRC

The PRC is one of the largest healthcare services markets in the world but remains in an early stage of development compared to more mature markets. The healthcare spending of the PRC has grown steadily in recent years due to a rapidly expanding ageing population and increasing prevalence of various diseases. According to the Frost & Sullivan Report, from 2010 to 2014, total healthcare spending in the PRC grew from RMB1,998.0 billion to RMB3,531.2 billion, representing a CAGR of 15.3%. From 2015 to 2020, total healthcare spending in the PRC is projected to further grow from RMB3,926.8 billion in 2015 to RMB6,188.9 billion, representing a CAGR of 9.5%. The chart below sets forth, for the years indicated, the total actual and estimated healthcare expenditure in the PRC:



Source: Frost & Sullivan Report

Meanwhile, per capita healthcare spending in the PRC grew at a CAGR of 14.7% from RMB1,490.1 in 2010 to RMB2,581.7 in 2014, with spending forecast to grow at a CAGR of 9.0% from RMB2,856.6 in 2015 to RMB4,392.0 in 2020, according to the Frost & Sullivan Report.

Although the PRC has become the world's second-largest economy, its healthcare spending in 2014 as a percentage of GDP only surpassed India among twelve major economies surveyed, according to the Frost & Sullivan Report. The healthcare spending of the PRC as a percentage of GDP grew from 4.9% to 5.6% between 2010 and 2014, and is expected to reach 6.6% in 2020, which would still be lower than those of most other major economies, according to the Frost & Sullivan Report. Similarly, in 2014, per capita spending of the PRC was significantly lower than those of most other major economies, and, in particular, was only around 1/20th of that of the United States, according to the Frost & Sullivan Report. Such comparisons indicate that healthcare market of the PRC has ample room for further growth in the foreseeable future.

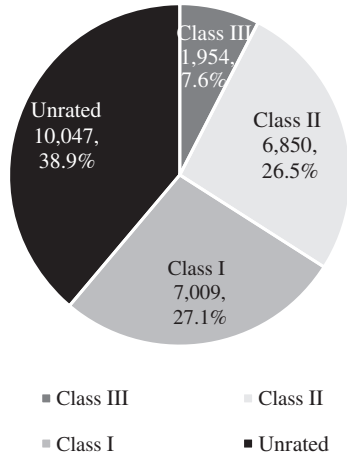
THE HOSPITAL MARKET IN THE PRC

Overview

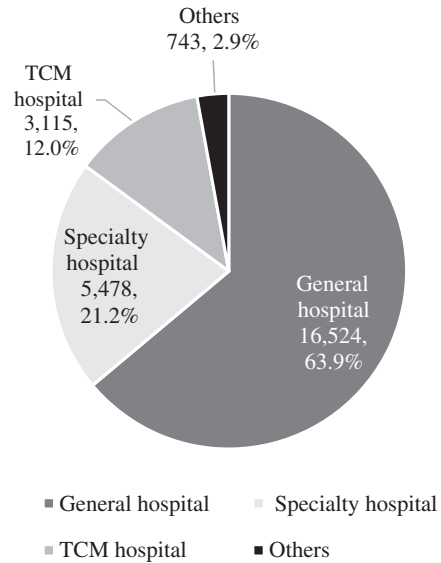
Hospitals in the PRC can generally be classified into (i) public and private hospitals in terms of ownership; and (ii) general, specialty and TCM hospitals in terms of specialisation. Private hospitals can be further classified into for-profit and not-for-profit hospitals. In addition, hospitals are rated based on classes and grades under the NHFPC hospital rating system. There are three classes — Class I, II and III, with Class III being the highest grade. Within each class, there are three grades — Grade A, B and C, with Grade A being the highest grade. The following charts illustrate the breakdown of hospitals in the PRC by class and specialisation as at 31 December 2014:

INDUSTRY OVERVIEW

**Number of hospitals by class,
31 December 2014**



**Number of hospitals by specialisation,
31 December 2014**

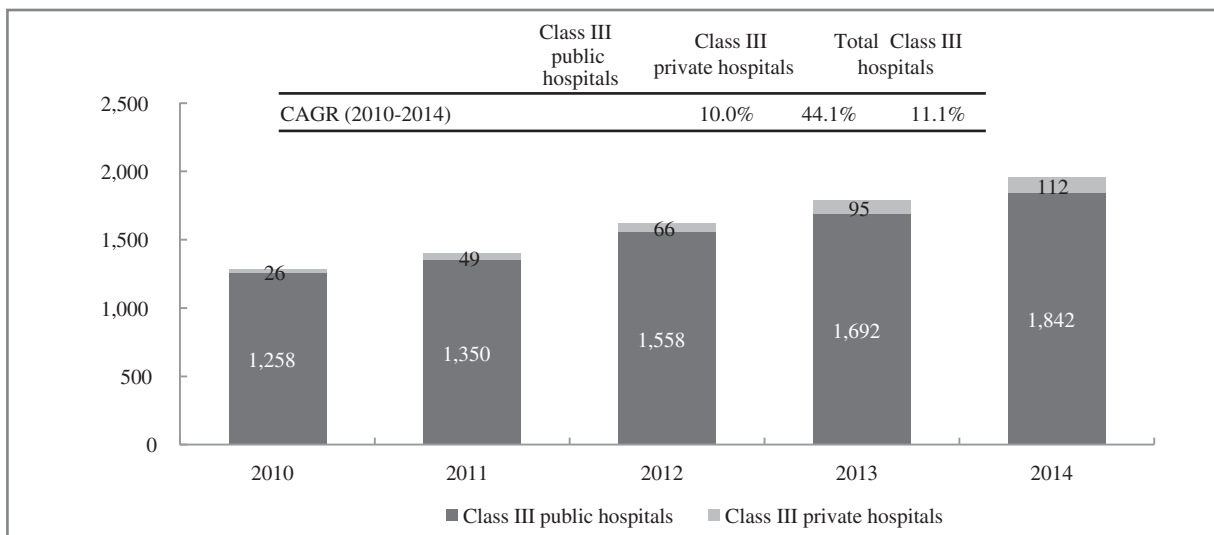


Source: Frost & Sullivan Report

Private and public hospitals in the PRC

Class III hospitals in the PRC represent the largest regional hospitals, typically having more than 500 beds, providing high quality professional healthcare services, servicing a wide geographic area and undertaking higher academic and scientific research initiatives. Although public hospitals have played, and continue to play, a leading role among Class III hospitals, the number of Class III private hospitals increased substantively, with a CAGR of 44.1% from 2010 to 2014, and is expected to further increase in the future, according to the Frost & Sullivan Report. The chart below sets forth, for the years indicated, the number of Class III public and private hospitals in the PRC:

Number of Class III public and private hospitals in the PRC, 2010-2014



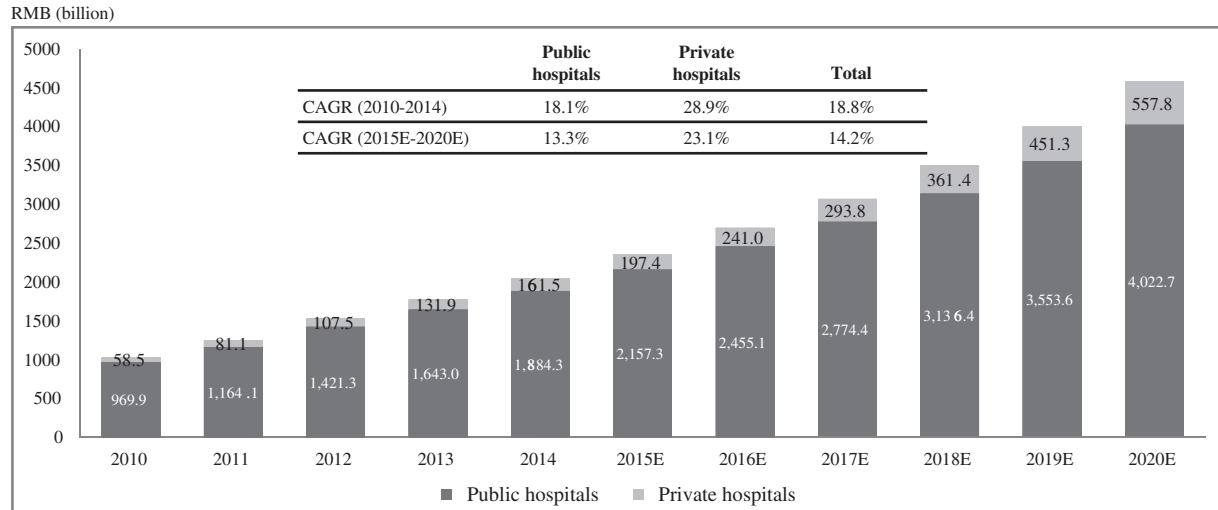
Source: Frost & Sullivan Report

While the scale of private hospitals in the PRC remains relatively small compared to public hospitals, private hospitals are the fastest growing segment in the overall hospital market in the PRC. Frost & Sullivan expects this trend to continue in the next five years.

INDUSTRY OVERVIEW

The revenue of private hospitals in the PRC increased from RMB58.5 billion in 2010 to RMB161.5 billion in 2014, representing a CAGR of 28.9%. Based on historical growth trends, Frost & Sullivan estimates that the revenue of private hospitals will reach RMB557.8 billion in 2020 from RMB197.4 billion in 2015, representing a CAGR of 23.1%. By comparison, the CAGR of revenue for hospitals in the PRC as a whole was 18.8% from 2010 to 2014 and is estimated to be 14.2% from 2015 to 2020. The chart below sets forth, for the years indicated, the total actual and estimated revenue of public and private hospitals in the PRC:

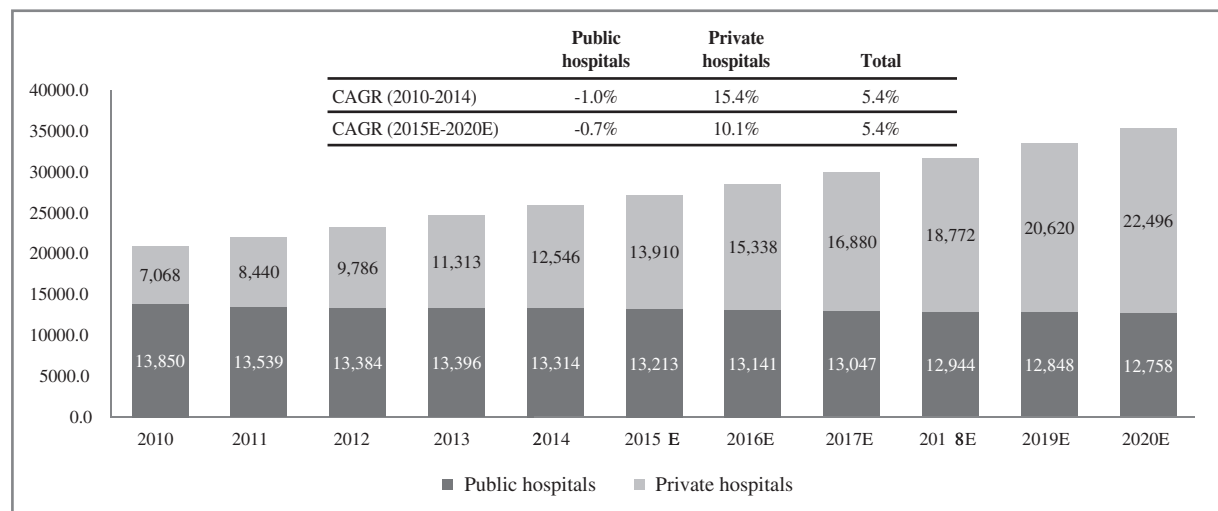
Revenue of public and private hospitals in the PRC, 2010-2020E



Source: Frost & Sullivan Report

In addition to revenue, the number of private hospitals also experienced significant growth. The number of private hospitals in the PRC grew from 7,068 as at the end of 2010 to 12,546 as at the end of 2014, representing a CAGR of 15.4%, with only a small minority of less than 0.9% rated as a Class III hospital. Based on historical growth trends, Frost & Sullivan estimates that the number of private hospitals will grow at a CAGR of 10.1% from 13,910 in 2015 to 22,496 in 2020. Concurrently, the number of public hospitals has declined gradually from 13,850 in 2010 to 13,314 in 2014, representing a CAGR of -1.0%. The chart below sets forth, for the years indicated, the total actual and estimated number of public hospital and private hospitals in the PRC:

Number of public and private hospitals in the PRC, 2010-2020E



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

For factors driving the growth of private hospitals in the PRC, see “— *Key drivers for growth and development of private hospitals in the PRC*”.

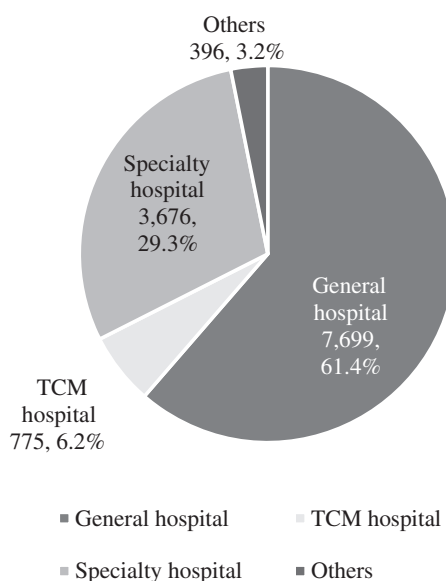
General hospitals in the PRC

Both of our Kanghua Hospital and Renkang Hospital are capable of providing multi-disciplinary healthcare services and, in terms of specialisation, they fall into the general hospital classification.

According to the Frost & Sullivan Report, general hospitals play a key role in the hospital market in the PRC, accounting for (i) more than 60% of total number of hospitals in the PRC, with a CAGR of 4.8% from 2010 to 2014; and (ii) more than 70% of total revenue generated by hospitals in the PRC, with a CAGR of 18.2% from 2010 to 2014.

General hospitals have become the fastest growing segment in hospital number among private hospitals, according to Frost & Sullivan. From 2010 to 2014, general hospitals had the largest CAGR of 16.1% in hospital number, followed by TCM hospitals (14.6%) and specialty hospitals (13.8%). The following chart illustrates the breakdown of private hospitals in the PRC by specialisation as at 31 December 2014:

Number of private hospitals in the PRC by specialisation as at 31 December 2014



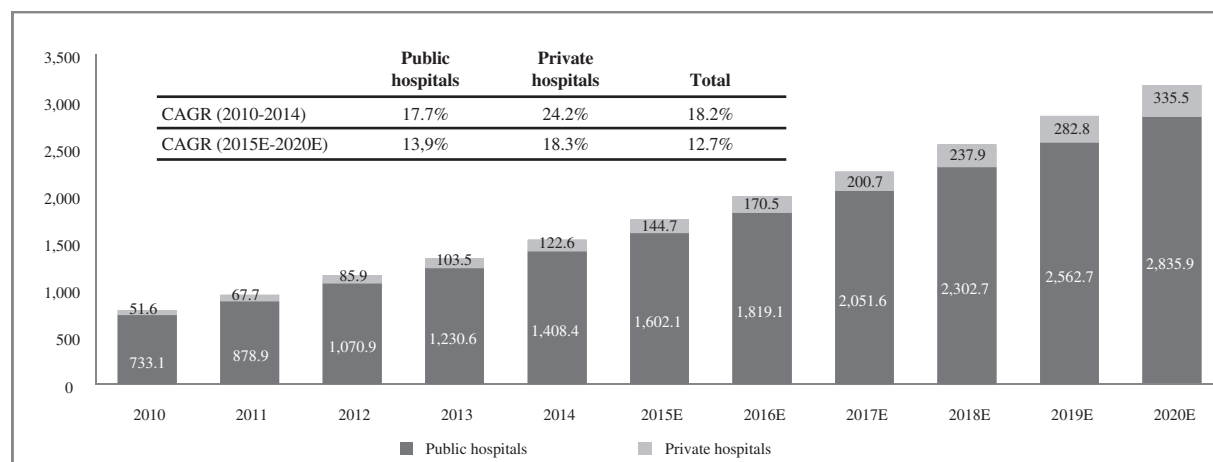
Source: Frost & Sullivan Report

In the PRC, private general hospitals are growing at a faster rate than public general hospitals. The revenue of private general hospitals increased from RMB51.6 billion in 2010 to RMB122.6 billion in 2014, with a CAGR of 24.2%. In the same period, the revenue of public general hospitals increased from RMB733.1 billion to RMB1,408.4 billion, with a CAGR of 17.7%, according to the Frost & Sullivan Report. Frost & Sullivan estimates that the revenue of private general hospitals will reach RMB335.5 billion in 2020, representing a CAGR of 18.3% during 2015 to 2020, while the revenue of public general hospitals will increase to RMB2,835.9 billion, representing a CAGR of 12.1% during the same period. The chart below sets forth, for the years indicated, the total actual and estimated revenue of public and private general hospitals in the PRC:

INDUSTRY OVERVIEW

Revenue of public and private general hospitals in the PRC, 2010-2020E

RMB (billion)



Source: Frost & Sullivan Report

General hospitals typically have a greater scale than specialty hospitals on account of the wide range of healthcare services general hospitals provide. According to Frost & Sullivan, general hospitals have a higher entry barrier into the hospital market in the PRC than specialty hospitals, as general hospitals require: (i) higher upfront investments with substantially longer payback periods; (ii) a high calibre team of doctors in multiple key departments to compete with leading public hospitals; (iii) more clinical and medical technology resources (iv) more complex clinical governance structures to manage the offering of multi-disciplinary healthcare services; and (v) more professional and experienced hospital operators and managers.

VIP healthcare services in the PRC

VIP healthcare services extend beyond basic healthcare needs and provide patients with high quality service with more experienced doctors, more frequent and attentive nursing services, and the latest medical technology and equipment within a premium environment. The average spending of outpatient and inpatient VIP healthcare services are much higher than the average spending of basic healthcare services, and the price is set by the service provider and filed with local price bureau and health department. Different hospitals usually have different types of VIP services, and charge patients according to the service provided. VIP services are usually not reimbursed by social insurance programmes.

According to the Frost & Sullivan Report, the middle and high income population in the PRC is expanding rapidly. Such population is more prone to chronic diseases due to the fast pace of life and pressure from work, family and society. Meanwhile, such population has higher spending power and increasing health awareness and is not generally satisfied with the healthcare services provided by most public hospitals, which are usually crowded, uncomfortable and less patient-centric. As a result, high-end hospitals and VIP healthcare services that are targeted to provide high quality and comprehensive healthcare services to such population have emerged in recent years. VIP healthcare services is a key trend of the healthcare services market in the PRC.

Many public hospitals located in major cities have VIP healthcare services. However, as VIP healthcare services are primarily targeted towards wealthy patients, many people are concerned that such services will compete for the already scarce healthcare resources in the PRC and cause them to become even more inaccessible for the poor. The notion that public hospitals offer high profitability VIP healthcare services to the privileged population contravene the principle of public welfare (公益性質). In order to minimise the expansion of VIP healthcare services at public hospitals for public policy reasons, the PRC government has limited the offering of VIP healthcare services in public hospitals to no more than 10% of the total

INDUSTRY OVERVIEW

service volume. Such limit imposed by the PRC government has widened and will further widen the supply-and-demand gap in the premium healthcare services market. Because of this, Frost & Sullivan expects that private hospitals in the PRC will be able to sustain rapid growth in VIP healthcare services. VIP healthcare services at private hospitals do not rely on social insurance programmes, but may partner with commercial insurance providers to partially cover the high prices of the quality medical services they command.

Healthcare professionals in the PRC

According to Frost & Sullivan, with the world's largest population of over 1.3 billion, there is a great imbalance between the supply and demand of healthcare professionals in the PRC. As at 31 December 2014, Frost & Sullivan estimated that for every 1,000 people, there were only 1.7 licensed doctors and 2.2 nurses in the PRC, lower than those of most other major economies. Furthermore, according to Frost & Sullivan, there is a lack of quality doctors in the PRC; as at 31 December 2014, only approximately 55% of all doctors in the PRC had a bachelor degree or above. In contrast, a bachelor degree or above is a requisite of becoming a doctor in other developed countries. According to Frost & Sullivan, the shortage of doctors in the PRC is in part attributable to the phenomenon that many medical students in higher education did not choose to practise medicine upon graduation; from 2008 to 2014, there was only one additional doctor for every five additional medical students in higher education. According to Frost & Sullivan, complex, long hours, high risk and highly stressful working environment and long training period are key factors deterring people in the PRC from committing to the medical practice. According to Frost & Sullivan, the demanding job nature of doctors in the PRC is not proportionally rewarded, especially for doctors with junior qualifications whose salary level is significantly lower than their counterparts in other developed countries.

According to Frost & Sullivan, the shortage of doctors in the PRC is particularly severe in the paediatrics discipline. According to Frost & Sullivan, as at 31 December 2014, there were approximately 99,747 paediatricians in the PRC, representing approximately one paediatrician for approximately every 2,300 children and, based on the average children to paediatrician ratio in other developed countries, a shortage of approximately 200,000 paediatricians. According to Frost & Sullivan, for the year 2014, the number of paediatric outpatient visits and emergency cases increased by 6.6%, while the number of paediatricians only increased by 1.5%. The shortage is expected to worsen in view of the two-child policy. According to Frost & Sullivan, other healthcare disciplines that generally experience a shortage of doctors in the PRC from time to time include emergency medicine, anaesthesiology, O&G and ophthalmology.

According to Frost & Sullivan, doctors in the PRC, in particular those with experience and senior qualifications, have historically preferred to work in public hospitals as they generally believe public hospitals would offer them a stable career track with higher visibility than private hospitals. According to Frost & Sullivan, as at 31 December 2014, approximately 87.1% and 12.9% of the doctors in the PRC were employed in public hospitals and private hospitals, respectively. According to Frost & Sullivan, private hospitals are generally in a less competitive position in attracting high quality and experienced doctors than public hospitals.

According to Frost & Sullivan, the average annual salary of all health workers, including healthcare professionals (doctors, nurses, pharmacists, laboratorians), administrators, and other technicians and staff, at healthcare institutions in the PRC in 2014 was approximately RMB74,705.

INDUSTRY OVERVIEW

Key drivers for growth and development of private hospitals in the PRC

According to the Frost & Sullivan Report, key growth and development drivers of private hospitals in the PRC include the following:

- ***Favourable government policies towards private hospitals.*** Private hospital development was designated as a priority in the 2016 annual government work report for healthcare development. As part of the new healthcare reform, the PRC government encourages private capital to establish healthcare institutions and allows the exemption of part of the administration fees for private for-profit hospitals. In addition, the public medical insurance has been expanded to cover certain qualified private hospitals which will attract more patients to visit private hospitals.
- ***Ageing population and increasing prevalence of chronic diseases.*** In the PRC, the number of people aged over 65 is expected to increase at a CAGR of 5.3% from approximately 143.9 million (representing approximately 10.5% of the total population) in 2015 to approximately 186.6 million (representing approximately 13.2% of the total population) in 2020. In addition, unhealthy lifestyles and wide-spread pollution have led to the increasing prevalence of chronic diseases. These factors will result in increasing demand for healthcare services in the PRC. 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 centres of major cities, leaving many areas, including emerging urban and suburban areas as a result of ongoing urbanisation trends, underserved in terms of healthcare resources.
- ***Improving affordability of patients.*** The disposable income of urban and rural residents in the PRC grew rapidly along with the economic boost in the last decade. The increasing purchasing power of the population in the PRC continues to drive the demand for high-end healthcare services offered by private hospitals.
- ***Multi-site practice.*** As discussed at the 2016 annual sessions of NPC & CPPCC, with a view to optimising healthcare resources in the PRC, the government has implemented multi-site practice pilot programs in several cities (including Dongguan) to allow doctors in public hospitals to practise in private hospitals. Under such programs, private hospitals may invite specialists from public hospitals to provide services from time to time. This may reduce the domination of doctors by public hospitals and benefit the development of private hospitals.
- ***Expansion of medical insurance coverage.*** As discussed at the 2016 annual sessions of NPC & CPPCC, the PRC government is expected to increase investment into the healthcare services industry and achieve full coverage of medical insurance of critical illness across the country. Meanwhile, measures will be taken to merge the basic medical insurance systems for rural and urban residents. These policies demonstrate the government's initiatives to improve rural and urban residents' capability to afford healthcare services as well as to increase medical insurance reimbursement. An expansion of medical insurance coverage may result in a more even allocation of healthcare resources to private hospitals.

According to the Frost & Sullivan Report, the abovementioned drivers of private hospitals in the PRC also apply generally to the hospital landscapes of (i) Guangdong Province, where our hospitals are currently located, and (ii) Chongqing, where Zhonglian Cardiovascular Hospital, our managed hospital currently under development, is located.

INDUSTRY OVERVIEW

Barriers to entry and challenges faced by private hospitals in the PRC

According to the Frost & Sullivan Report, there are significant barriers to entry for private hospitals in the PRC, including the following:

- **High upfront capital requirements.** 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. According to the Frost & Sullivan Report, it takes about five to eight years for a new market entrant to begin generating profits.
- **Regulatory and compliance issues.** The approval process for developing and building hospitals in the PRC is highly regulated. Obtaining the necessary licenses to open and operate a private hospital is a complicated and lengthy process. The guidelines and rules may change during the process without prior notice, and may negatively affect the establishment of a private hospital.
- **Difficulty in recruitment.** Healthcare professionals are in high demand in the PRC. The resources and time required to train healthcare professionals, in particular doctors, are high. Since most healthcare professionals prefer employment in public hospitals (which usually has better reputation, a greater scale and provides a clearer career track), private hospitals must compete with public hospitals for renowned and experienced healthcare professionals.

According to the Frost & Sullivan Report, private hospitals in the PRC face certain challenges, including the following:

- **Competition from public hospitals.** Public hospitals in the PRC have a dominant share of the overall healthcare market and enjoy the strong brand recognition and awareness, and many are able to offer greater service delivery capabilities.
- **Small scale.** Many private hospitals have difficulty competing with public hospitals due to their comparatively smaller sizes.
- **Limitations on multi-site practice.** While the multi-site practice policy has been implemented in several areas in the PRC, it has not yet been nationally implemented. Currently, the majority of medical personnel are still employed by public hospitals and hiring difficulties are still faced by private hospitals, preventing their development.
- **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 may not be sufficiently supplemented by commercial insurance.
- **Shortage of premium services.** In order to compete effectively with public hospitals, private hospitals must differentiate themselves by offering high-end patient-centric services in a premium environment. The establishment of such services typically requires high overhead and sophisticated medical capability.

According to the Frost & Sullivan Report, the abovementioned barriers to entry and challenges faced by private hospitals in the PRC also apply generally to the hospital landscapes of (i) Guangdong Province, where our hospitals are currently located, and (ii) Chongqing, where Zhonglian Cardiovascular Hospital, our managed hospital currently under development, is located.

Competitive landscape

Overview

According to Frost & Sullivan, Kanghua Hospital was the first private for-profit general hospital in the PRC to attain a Grade A Class III rating, the highest rating for hospitals in the PRC, under the NHFPC

INDUSTRY OVERVIEW

hospital classification. According to Frost & Sullivan, Kanghua Hospital was ranked: (i) first in terms of the number of registered beds among private for-profit general hospitals in the PRC as at 31 December 2015; and (ii) third in terms of revenue among private for-profit general hospitals in the PRC for the year 2015.

According to Frost & Sullivan, (i) registered beds refers to the number of beds that is registered in a hospital's medical practising license and signifies the maximum number of beds that the hospital may be permitted under the PRC rules and regulations to deploy for its operations from time to time; and (ii) the number of registered beds of a hospital is subject to approval and periodic review by competent health authorities in the PRC having regard to a wide range of factors, including the scale of the hospital, scope of healthcare services, human resources, clinical environment, resources and capacity and expansion plans.

The table below sets forth the top five private for-profit general hospitals in the PRC in terms of the number of registered beds as at 31 December 2015:

Ranking of top five private for-profit general hospitals in the PRC in terms of the number of registered beds

Rank	Hospital	31 December 2015
1.	Kanghua Hospital	1,980
2.	Hospital A (located in Henan)	1,400
3.	Hospital B (located in Dongguan)	1,329
4.	Hospital C (located in Foshan)	1,200
5.	Hospital D (located in Suqian)	1,200

Source: Frost & Sullivan Report

The table below sets forth the top five private for-profit general hospitals in the PRC in terms of revenue for the year 2015:

Ranking of top five private for-profit general hospitals in the PRC in terms of revenue

Rank	Hospital	2015 Revenue (in RMB million)
1.	Hospital C (located in Foshan)	990.8
2.	Hospital B (located in Dongguan)	973.0
3.	Kanghua Hospital	874.8
4.	Hospital D (located in Suqian)	856.6
5.	Hospital E (located in Suzhou)	814.4

Source: Frost & Sullivan Report

Competitive landscape in Guangdong Province

Both of our hospitals, namely Kanghua Hospital and Renkang Hospitals are located in Guangdong Province. Since the implementation of reform and opening up policy in 1978, Guangdong Province has become one of the most affluent and developed provinces in the PRC. In 2015, the GDP of Guangdong Province reached RMB7,281.3 billion, ranking it 1st in the PRC for 27 consecutive years since 1989, according to the Frost & Sullivan Report. In 2014, the disposable income per capita of Guangdong Province reached RMB25,685, approximately 27.4% higher than the national average of RMB20,167, and ranked sixth in the PRC, according to the Frost & Sullivan Report. The per capita healthcare spending in

INDUSTRY OVERVIEW

Guangdong Province increased from RMB1,445.9 in 2010 to RMB2,641.1 in 2014, representing a CAGR of 16.3%, according to the Frost & Sullivan Report. Driven by increasing healthcare demand, per capita healthcare spending in Guangdong Province is expected to continue to increase at a higher rate than the national average, from RMB2,946.9 in 2015 to RMB4,918.1 in 2020, representing a CAGR of 10.8%, according to Frost & Sullivan Report.

However, healthcare resources in Guangdong Province, especially quality healthcare services, lag behind many other provinces in the PRC, according to the Frost & Sullivan Report. In 2015, for every 1,000 people in the resident population (常住人口), Guangdong Province had 4.02 beds, 2.11 (assistant) medical practitioners (助理執業醫師) and 2.35 registered nurses (註冊護士), ranking relatively low compared to other major provinces in the PRC, according to the Frost & Sullivan Report. Healthcare services in Guangdong Province are under pressure to meet the healthcare needs of a population that is rapidly expanding and this signifies growth opportunities in the healthcare services market in Guangdong Province, according to the Frost & Sullivan Report.

According to the Frost & Sullivan Report, healthcare providers in Guangdong Province primarily consist of hospitals, primary healthcare institutions (such as community health centres and clinics) and other healthcare institutions (such as women and children care institutions, centres of disease control and special diseases prevention institutions), among which hospitals play the most important role.

According to the Frost & Sullivan Report, there were a total of 1,260 hospitals (comprising 771 public hospitals and 489 private hospitals) in Guangdong Province as at 31 December 2014, with public hospitals playing a dominant role. According to the Frost & Sullivan Report, general hospitals account for the majority of hospitals in Guangdong Province, representing approximately 60% of all hospitals in Guangdong Province as at 31 December 2014. According to the Frost & Sullivan Report, private hospitals in Guangdong Province are expected to grow at a considerably faster rate than public hospitals in terms of (i) revenue; (ii) hospital number; (iii) number of hospital beds; and (iv) inpatient and outpatient visits. According to the Frost & Sullivan Report, this signifies that the private hospital market in Guangdong Province has growth opportunities but also increasing competition as existing participants scale up their operations and new participants emerge to seize such opportunities.

The table below sets forth the top five private for-profit general hospitals in Guangdong Province in terms of the number of registered beds as at 31 December 2015:

**Ranking of top five private for-profit general hospitals in Guangdong Province
in terms of the number of registered beds**

Rank	Hospital	31 December 2015
1.	Kanghua Hospital	1,980
2.	Hospital B (located in Dongguan)	1,329
3.	Hospital C (located in Foshan)	1,200
4.	Hospital F (located in Maoming)	900
5.	Hospital G (located in Dongguan)	900

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

The table below sets forth the top five private for-profit general hospitals in Guangdong Province in terms of revenue for the year 2015:

Ranking of top five private for-profit general hospitals in Guangdong Province in terms of revenue

Rank	Hospital	2015 Revenue (in RMB million)
1.	Hospital C (located in Foshan)	990.8
2.	Hospital B (located in Dongguan)	973.0
3.	Kanghua Hospital	874.8
4.	Hospital H (located in Guangzhou)	460.0
5.	Hospital I (located in Shanton)	400.0

Source: Frost & Sullivan Report

Competitive landscape in Chongqing

Our managed hospital, Zhonglian Cardiovascular Hospital, is a specialty hospital currently under development in Chongqing. According to the Frost & Sullivan Report, in line with the total healthcare spending in the PRC, the total healthcare spending in Chongqing has grown steadily in recent years, from RMB43.3 billion in 2010 to RMB73.7 billion in 2013, and is expected to reach RMB85.6 billion in 2014, representing a CAGR of 18.6% from 2010 to 2014.

According to the Frost & Sullivan Report, from 2010 to 2014, the number of private hospitals in Chongqing increased at a CAGR of 15.4%, which was considerably higher than the increase in the number of public hospitals at a CAGR of 2.1% during the same period. According to the Frost & Sullivan Report, the number of private hospitals in Chongqing in 2014 exceeded that of public hospitals; out of the total of 565 hospitals in Chongqing in 2014, 289 of them were private hospitals while 276 of them were public hospitals. According to the Frost & Sullivan Report, as at 31 December 2014, most of the private hospitals in Chongqing were not rated under the NHFPC hospital classification system, and there was no Class III private hospital in Chongqing. However, according to the Frost & Sullivan Report, from 2010 to 2014, the number of Class I private hospitals grew at a CAGR of 27.1% and the number of Class II private hospitals grew at a CAGR of 41.4%; such significant increase indicates the demand for, and the improvement in, quality healthcare services in private hospitals in Chongqing.

According to the Frost & Sullivan Report, Chongqing was one of the first cities in the PRC to have entered into an ageing society (高齡化社會) with the proportion of population aged above 65 growing from approximately 11.6% to 12.0% from 2010 to 2014, which was higher than the national average of the respective year. According to Frost & Sullivan, a larger ageing population indicates a wider prevalence of cardiovascular diseases such as hypertension and heart diseases. Frost & Sullivan estimated that, based on data published by the NHFPC, there were approximately 4,500,000 and 770,000 people in Chongqing suffering from hypertension and heart diseases, respectively, in 2014. According to the Frost & Sullivan Report, the increasing patient pool will drive the demand for the healthcare treatments offered by cardiology departments and cardio-surgery departments in general hospitals and cardiovascular hospitals in Chongqing.

According to the Frost & Sullivan Report, Chongqing Qianjiang National Hospital (重慶市黔江民族醫院), Chongqing Tung Wah Hospital (重慶東華醫院) and Chongqing Nanchuan Hongren Hospital (重慶南川宏仁醫院) are among the leading private hospitals in Chongqing.

REGULATORY OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC government. This section sets out an introduction to a summary of the main applicable laws, rules, regulations and policies, which have a significant impact on the following key aspects of our business:

- those relating to the reform of healthcare institutions affect our ability to implement our current business strategy to expand our operations;
- those relating to the administration and classification of healthcare institutions, supervision over pharmaceuticals in healthcare institutions, medical equipment and treatment, medical personnel, environmental protection, and labour protection regulate our day-to-day operations and affect our compliance costs;
- those relating to medical disputes have an effect on our potential liabilities arising from day-to-day operations; and
- those relating to taxation and foreign exchange matters have an impact on our operations and business.

For more details on how these regulations may affect our current and future business, see “*Business*” in this prospectus.

LAWS AND REGULATIONS RELATED TO THE HEALTHCARE SERVICES SECTOR IN THE PRC

Not-for-profit and for-profit healthcare institutions in the PRC

Healthcare institutions in the PRC are mainly identified as not-for-profit healthcare institutions (“NMI”) and for-profit healthcare institutions (“PMI”). Key basis for identifying either type of the two healthcare 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 investors. Positive accounting balance resulting from operations 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 NHFPC 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 connection with their incorporation, a healthcare institution must state its business nature to healthcare administrative authorities and must specify on its practice registration as “not-for-profit” or “for-profit”.

Regulations on the reform of healthcare institutions

The Opinions on Promoting Further Reform of the Healthcare System

The Opinions on Promoting Further Reform of the Healthcare System (中共中央國務院關於深化醫藥衛生體制改革的意見), which were promulgated by the State Council on 17 March 2009, advocate a range of measures to reform healthcare institutions in the PRC and establish a basic healthcare system covering urban and rural residents. Measures aimed at reforming healthcare institutions include the separation of: (i) government agencies from public healthcare institutions, (ii) PMIs from NMIs, (iii) sponsorship from operations of public hospitals, and (iv) pharmaceutical dispensing from pharmaceutical prescription. The

REGULATORY OVERVIEW

opinions include proposals for the establishment and improvement of corporate governance systems of public healthcare institutions, and checks and balances in decision-making, execution, supervision processes between organisers and operators of public healthcare institutions and the rational flow of medical personnel, to promote the vertical and horizontal communication between different medical institutions, research and exploration of multi-site practice of doctors. The opinions also encourage private capital to invest in healthcare institutions (including investments by foreign investors), the development of private healthcare institutions and the reform of public healthcare institutions (including those established by state-owned enterprises) through private capital investment.

The Notice on Further Encouraging and Guiding Private Capital to Invest in Healthcare Institutions

The Notice of the State Council on Forwarding the Opinions of the NDRC, the NHFPC and other Departments on Further Encouraging and Guiding Private Capital to Invest in Healthcare Institutions (關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知), which was promulgated by the General Office of the State Council on 26 November 2010, sets 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 organisations are permitted to establish medical institutions together with domestic medical institutions, enterprises or other economic organisations 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 the PRC will be tested on a pilot basis and then be gradually expanded; and to simplify and standardise 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 policies for the NMIs, entry policy for service providers under medical insurance plans, employment conditions and purchase of large medical equipment.

The Several Opinions on Promoting the Development of Healthcare Service Industry

The Several Opinions on Promoting the Development of Healthcare Service Industry (國務院關於促進健康服務業發展的若干意見) were promulgated by the State Council on 28 September 2013. The opinions encourage the private sector to invest in the healthcare service industry by various means including new establishment and participation in restructuring, and also encourage private capital investment in NMIs for provision of basic healthcare services. The opinions propose the idea of relaxing the requirements for sino-foreign equity joint or cooperative joint healthcare institutions and expand eligibility in the pilot program for wholly foreign-invested healthcare institutions. 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.

REGULATORY OVERVIEW

The Decision on Several Important Issues relating to Promoting Overall Reform

The Decision on Several Important Issues relating to Promoting Overall Reform (中共中央關於全面深化改革若干重大問題的決定), which was promulgated by the Central Committee of the Communist Party of the PRC on 12 November 2013, encourages private investors to invest in ill-funded and diversification-required service industries and participate in the restructuring of public hospitals by various means. The decision also permits multi-site practice, and allows private-invested healthcare institutions to be included in the medical insurance system.

The Several Opinions on Accelerating the Development of Healthcare institutions with Social Capital

The Several Opinions on Accelerating the Development of Healthcare institutions with Social Capital (關於加快發展社會辦醫的若干意見), which were promulgated on 30 December 2013 by NHFPC and the State Administration of Traditional Chinese Medicine, stipulate the policies that support the development of private-invested healthcare institutions, including the (i) gradual relaxation of requirements for foreign investment in healthcare institutions; (ii) relaxation of requirements for service sectors, allowing social capital's investment in the areas which are not explicitly prohibited; (iii) relaxation of requirements for the deployment and use of large medical equipment in private hospitals; (iv) improvement of supporting policies for the development of private hospitals in aspects such as medical insurance and price control; and (v) acceleration of the approval processing regarding the establishment and operation of private hospitals.

The opinions also explicitly state that the government will (i) give prior support to the establishment of NMI by social capitals, accelerate the formation of a healthcare institutions structure that consists of NMIs as principal body and PMIs as complementary; (ii) optimise allocation of medical resources by social capitals; (iii) strictly control the development size of public healthcare institutions and leave space for development of social capitals under the principles of scale controls, structure adjustment and appropriate scale; (iv) reduce limitations of applications and qualifications for applying for setting up a medical institution; (v) set up public, transparency, fair and normative entry permission system for establishing healthcare institutions by social capitals; and (vi) put reasonable requirements of share structure with respect to healthcare institutions invested by sino-foreign equity or cooperative joint venture. Healthcare administrative department at provincial 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 healthcare institutions, the government will support the development of key medical specialists, introduction and training of talent, informationisation construction, multi-site practice and promotion of academic status.

The Guiding Opinions on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment

The Guiding Opinions on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見), which were promulgated on 26 November 2014 by the State Council, encourage the investment of social capital in certain key sectors. The opinions stipulate that the PRC government will continue to (i) promote the

REGULATORY OVERVIEW

restructuring of eligible public healthcare institutions with the participation of social capital; (ii) encourage social capital's participation in healthcare sector by means such as sole proprietorship, joint ventures, cooperative ventures, joint operation and leasing; (iii) improve the implementation of preferential tax policies on NMIs and the exemption policies of administrative and institutional fees on the constructions of NMIs or PMIs; (iv) implement the same price policy with regard to the utilisation of electricity, water, gas and heat by both public and private healthcare institutions; and (v) relax the price control over the services provided by the private healthcare institutions.

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)

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 6 March 2015, which stipulates that private medical institutions are significant and integral parts of the medical and healthcare service system as well as an effective approach to fulfilling people's multi-level and diversified medical and healthcare service needs. The private medical institutions may provide basic medical services, orderly compete with public medical institutions, provide special services to fulfil extra needs which are beyond basic needs and provide services that are in demand 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 the setup of diagnosis and treatment subjects and the allocation of large medical equipment. Requirements for the qualifications of medical institution sponsors shall be reduced as well as the conditions of establishing 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 step by step. The requirements of service scope shall also be reduced and the social capitals shall be allowed to invest in areas not explicitly prohibited by 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. Other measures shall include: (i) perfect the supporting policies, including supporting the private medical institutions to be included into the scope of medical institutions designated for medical insurance; (ii) improve the planning and overall arrangement as well as the security of use of land; (iii) optimise the guiding policies for financing and investment; (iv) improve price policies on finance and taxation; (v) the private medical institutions shall apply to the implementation of market price adjustment; (vi) encourage governments to purchase service provided by private medical institutions; and (vii) strengthen the industry supervision and ensure the quality and safety of medical service.

On 11 June 2015, the General Office of the State Council promulgated Circular of the General Office of the State Council on Promulgation of Several Policies and Measures to Promote the Development of the Medical Institutions Run by Social Capital (國務院辦公廳印發關於促進社會辦醫加快發展若干政策措施的通知), 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

REGULATORY OVERVIEW

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; and (iv) 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.

Regulations on the administration and classification of healthcare institutions

The Administrative Measures on Healthcare Institutions and the Medical Institution Practising License

The Administrative Measures on Healthcare Institutions (醫療機構管理條例), which were promulgated on 26 February 1994 by the State Council and came into effect on 1 September 1994 and revised on 6 February 2016 and the Implementation Measures of the Administrative Measures on Healthcare Institutions (醫療機構管理條例實施細則), which were promulgated by the NHFPC on 29 August 1994 and came into effect on 1 September 1994 and revised on 1 November 2006 and 24 June 2008, respectively, stipulate that the establishment of healthcare institutions shall be reviewed and approved by healthcare administrative departments at or above the county level and obtain Approval Letter of Establishment of Medical Institution. Any entity or individual that intends to establish a healthcare institution must follow the application approval procedures and register with the relevant healthcare administrative authorities to obtain the Medical Institution Practising License (醫療機構執業許可證).

The Administrative Measures for the Examination of Healthcare Institutions (For Trial Implementation)

The Administrative Measures for the Examination of Healthcare Institutions (For Trial Implementation) (醫療機構校驗管理辦法(試行)), which were promulgated by the NHFPC and came into effect on 15 June 2009, stipulate a healthcare institution's Medical Institution Practising License is subject to periodic examinations and verifications by registration authorities, and will be cancelled if such healthcare institution fails to pass the examination.

The classification of healthcare institutions

The Basic Standards for Medical Institutions (For Trial Implementation) (醫療機構基本標準(試行)), Interim Measures for the Assessment of Hospitals (醫院評審暫行辦法) and the Measures for the Assessment of Healthcare Institutions (醫療機構評審辦法), which were promulgated by the NHFPC on 2 September 1994, 21 September 2011 and 21 July 1995 respectively, stipulate that healthcare institutions in the PRC are graded into three levels (Class I, II and III) and three sub-levels (A, B, C) based on the assessment of competent authorities. The assessment itself is not a requisite for a healthcare institution to carry out its business. The highest standard is Grade A Class III (三級甲等). Under the relevant regulations, each hospital will be assessed once every four years. The NHFPC and its Hospital Assessment Committee are responsible for conducting all hospital assessments in the PRC.

Health administrative departments at the provincial level shall set up Hospital Assessment Leading Groups, which are responsible for hospitals assessment at the provincial level.

REGULATORY OVERVIEW

The Accreditation Standard of General Hospitals of Class III (2011) (《三級綜合醫院評審標準 (2011年版)》) (“**the Accreditation Standard**”) promulgated and implemented by the Ministry of Health on 18 April 2011, and The Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class III (2011) (《三級綜合醫院評審標準實施細則 (2011年版)》) (“**the Implementing Rules**”) promulgated and implemented by the General Office of the Ministry of Health on 25 November 2011, provide detailed provisions for the accreditation standard for general hospitals of Class III, which can be used by other hospitals at any level and any type as reference. The Accreditation Standard contains seven chapters and 72 sections and sets 391 accreditation standards and monitoring indices. According to the Accreditation Standard, the indices listed from Chapter I to Chapter VI are used to conduct on-site appraisal for general hospitals of Class III and are also used by hospitals for self-evaluation and improvement. The indices listed in Chapter VII (Evaluation Index of Daily Statistics) are used for monitoring, tracing and evaluating the operation, the quality of medical treatment and safety index of general hospitals of Class III. The main contents of the assessment criteria set out in the Implementing Rules are as follows:

Name	Main content
Chapter I Adhering to the Non-profit Principle of Hospitals	<ul style="list-style-type: none"> • the establishment, functions and tasks of the hospital in line with the positioning and requirements of the local healthcare plan and medical institution layout plan • with scientific and standardised internal administration system • undertaking public mental health services and such other mandatory tasks prescribed by the government • emergency management • clinic education • scientific research and achievements
Chapter II Services of Hospitals.	<ul style="list-style-type: none"> • diagnosis and treatment reservation • management on outpatient process • management on emergency medical services • management on inpatient and referral procedures • management on basic medical security services • legal rights of patients • complaint management • medical environment management

REGULATORY OVERVIEW

Name	Main content
Chapter III Safety of Patients . . .	<ul style="list-style-type: none"> • establishing verification system to confirm the identification of patients • establishing procedures and measures for effective communication among medical staff under the extraordinary circumstances • establishing surgery safety verification system, preventing mistakes of surgical patient, surgical site and operation mode • implementation of the hand hygiene practices and the basic requirements for infection control in the hospital • management on special medicines to improve drug safety • reporting system of clinical “critical values” • prevention from and mitigation of incidents such as patient tumbling, falling down from the bed, choking on food, suffocating, committing suicide, conducting violent attack and leaving the hospital without permission • preventing patients from and reducing the chance of suffering pressure sores • coping with medical safety (adverse) incidents in a proper manner • participation of patients in medical safety
Chapter IV Medical Quality and Safety Management and Its Continuous Improvement	<ul style="list-style-type: none"> • medical quality and safety control organisation • medical quality control and its continuous improvement • medical technology management • clinical pathway and single disease quality management and its continuous improvement • hospitalisation diagnosis and treatment management and its continuous improvement • surgical treatment management and its continuous improvement • anaesthesia management and its continuous improvement • ICU management and its continuous improvement • psychiatric diseases management and its continuous improvement (selectable) • emergency treatment management and its continuous improvement • infectious diseases management and its continuous improvement • TCM management and its continuous improvement • rehabilitation treatment management and its continuous improvement

REGULATORY OVERVIEW

Name	Main content
	<ul style="list-style-type: none"> • pain treatment management and its continuous improvement • management and its continuous improvement for pharmaceutical affairs and drug use • clinic examination management and its continuous improvement • pathology management and its continuous improvement • blood transfusion management and its continuous improvement • interventional diagnosis and treatment management and its continuous improvement • blood purification management and its continuous improvement • medical oxygen-cabin management and its continuous improvement (selectable) • radiotherapy management and its continuous improvement (selectable) • medical imaging management and its continuous improvement • nosocomial infection management and its continuous improvement • clinical nutrition management and its continuous improvement • management and its continuous improvement for other special diagnosis and treatment • medical record (case) management and its continuous improvement
Chapter V Nursing Management and Continuous Quality Improvement	<ul style="list-style-type: none"> • establishment of organisational system for nursing management • human resources management on nursing personnel • clinical nursing quality control and its continuous improvement • nursing safety management • quality control of ICU and its surveillance
Chapter VI Hospital Management.	<ul style="list-style-type: none"> • compliance with laws • clarifying management responsibility and decision-making mechanism with management accountability system in place • setting the development target as well as the medium and long term development plans for the hospital based on its functions and tasks • human resources management • information and library management • finance and price management • medical ethics and practices management

REGULATORY OVERVIEW

Name	Main content
	<ul style="list-style-type: none"> • logistics support management • medical equipment management • management on disclosure of hospital information • social evaluation on the hospital
Chapter VII Assessment Criteria for Daily Statistics	<ul style="list-style-type: none"> • basic monitoring indices for hospital operation • monitoring indices for medical quality and safety of inpatients • monitoring indices for rational use of medicines • monitoring indices for ICU • monitoring indices for hospital infection quality control • monitoring indices for single disease quality

The Implementing Rules shall be divided into standard terms (applicable to all general hospitals of Class III), core terms (the most basic, most common standard terms which are the easiest to comply and are required to be complied) and optional terms (mainly referring to the projects that require examination and approval, which cannot be conducted at the discretion of the hospital, probably due to the restriction in the regional health planning and functional duties of hospitals, or due to government's control). A five-grade assessment is adopted to present the results of the accreditation, namely A (outstanding), B (good), C (pass), D (fail) and E (not applicable, referring to projects which are not approved or are agreed not to be provided at the discretion of health administrative departments after taking into consideration the functions and tasks of the hospital). The principle of the accreditation is that in order to attain grade B (good), the project must attain grade C (pass) at first and meet the requirements of grade B (good), and in order to attain grade A (outstanding), the project must attain grade B (good) at first and meet the requirements of grade A (outstanding). The Implementing Rules set out the key areas for accreditation in accordance with the assessment criteria for each of the terms while the key areas for attaining "A (outstanding)", "B (good)" and "C (pass)" in each assessment criteria are specified separately. Grade A Class III and Grade B Class III general hospitals shall attain the following results in the accreditation respectively (the standard terms set out in the table below refers to the basic terms):

Item Category	Standard terms			Core terms		
	C (pass)	B (good)	A (outstanding)	C (pass)	B (good)	A (outstanding)
Grade A Class III	≥90%	≥60%	≥20%	100%	≥70%	≥20%
Grade B Class III	≥80%	≥50%	≥10%	100%	≥60%	≥10%

According to the table above, attaining the Grade A (甲等) in the accreditation shall satisfy all the following conditions: (i) for the standard terms, terms of "C (pass)" or above shall account for over 90% of the total applicable terms, among which the terms of "B (good)" or above shall account for over 60% of the total applicable terms and the terms of "A (outstanding)" shall account for over 20% of the total applicable terms; (ii) for the core terms, all the applicable terms shall at least attain "C (pass)" while the terms of "B (good)" or above shall account for over 70% of the total applicable core terms, among which the terms of "A (outstanding)" shall account for over 20% of the total applicable core terms.

REGULATORY OVERVIEW

The Opinions on Implementing Classification Administration of Urban Medical Institution

The Opinions on Implementing Classification Administration of Urban Medical Institution (關於城鎮醫療機構分類管理的實施意見), which were jointly promulgated by the Department of Health, State Administration of Chinese Traditional Medicine, MOF and NDRC on 18 July 2000 and came into effect on 1 September 2000, provide that NMIs and PMIs shall be classified based on their business objectives, service purposes and implementation of various financial, taxation, pricing and accounting policies. Also, governments shall not operate PMIs. Healthcare institutions shall file with relevant authorities of health written statements of their NMI/PMI status when they go through application, registration and re-examination procedures in accordance with relevant laws, and the handling authority of health shall, jointly with other relevant authorities, decide the NMI/PMI status for such healthcare institution based on the source of its investment and the nature of its business.

Regulations on the supervision over pharmaceuticals in healthcare institutions

The Measures for the Supervision and Administration of Pharmaceuticals in Healthcare Institutions (For Trial Implementation)

The Measures for the Supervision and Administration of Pharmaceuticals in Healthcare Institutions (For Trial Implementation) (醫療機構藥品監督管理辦法(試行)), which were promulgated by the CFDA and came into effect on 11 October 2011, stipulate that healthcare institutions must purchase pharmaceuticals from enterprises qualified for the production or distribution of pharmaceuticals and comply with certain standards in respect of the storage, safekeeping, preparations and use of such pharmaceuticals. Pharmaceutical preparation produced by a healthcare institution must only be used by and for that healthcare institution. Healthcare institutions are prohibited from selling prescription pharmaceuticals to the public by such means as post, online transaction and open-shelf selection.

The Administrative Measures for the Control of Radioactive Pharmaceuticals

The Administrative Measures for the Control of Radioactive Pharmaceuticals (放射性藥品管理辦法), which were promulgated by the State Council and came into effect on 13 January 1989 and revised on 8 January 2011, require healthcare institutions to comply with relevant national regulations and rules concerning radioisotope health protection when using radioactive pharmaceuticals. Any healthcare institution that wishes to use radioactive pharmaceuticals must obtain a License for the Use of Radioactive Pharmaceuticals from the public security departments, the environmental protection departments and the public health departments at the provincial, regional or municipal levels, as applicable. The License for the Use of Radioactive Pharmaceuticals is valid for five years and is of varying grades based on the technical skill and professional level of the radiological personnel and the equipment of the healthcare institution. In addition, before a healthcare institution holding a License for the Use of Radioactive Pharmaceuticals commences the preparation of radioactive materials for clinical use, it must submit an application to the health administration department at the provincial, regional or municipal level for approval and complete filing procedures with the NHFPC.

The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances

The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances (麻醉藥品和精神藥品管理條例), which were promulgated by the State Council on 3 August 2005 and revised on 7 December 2013 and 6 February 2016, respectively, provide that, where a healthcare institution needs to use any narcotic pharmaceutical or Class I psychotropic substance, it shall, upon approval by the

REGULATORY OVERVIEW

competent public health department, obtain the Seal Card for the Purchase and Use of Narcotic Pharmaceuticals and Class I Psychotropic Substances. If a healthcare institution with a Pharmaceutical Preparation Certificate for Healthcare institutions (醫療機構製劑許可證) and a seal card needs to dispense for clinical use any narcotic pharmaceutical or psychotropic substance which is not available on the market, the preparation shall be subject to approval by the competent provincial, regional or municipal pharmaceutical regulatory department where the healthcare institution is located. The pharmaceutical preparations of a narcotic pharmaceutical or psychotropic substance dispensed by the healthcare institution may only be used in the institution itself and may not be marketed.

The Administrative Measures on Radiotherapy

The Administrative Measures on Radiotherapy (放射診療管理規定), which were promulgated by the NHFPC on 24 January 2006 and came into effect on 1 March 2006 and revised on 19 January 2016, set out the basic statutory framework for healthcare institutions engaged in the clinical diagnosis and treatment using radioisotopes and radiation-emitting devices. Depending on the specific radiotherapy treatment, healthcare institutions shall apply for and obtain the License for Radiotherapy issued by the competent public health administrative authorities. During the course of radiotherapy, healthcare institutions shall take protective measures in accordance with the relevant laws and regulations.

The Regulations on the Safety and Protection of Radioisotopes and Radiation-emitting Devices

The Regulations on the Safety and Protection of Radioisotopes and Radiation-emitting Devices (放射性同位素與射線裝置安全和防護條例), which were promulgated by the State Council on 14 September 2005 and came into effect on 1 December 2005, stipulate that any entity engaging in the production, sale or use of radioisotopes or radiation-emitting devices of different categories shall obtain a corresponding license. In addition, healthcare institutions using radioisotopes or radiation-emitting devices for diagnosis and treatment shall obtain a license for diagnostic and therapeutic technique with radioactive sources and medical radiation.

Laws and regulations on medical personnel of healthcare institutions

The Law on Medical Practitioners of the People's Republic of China

The Law on Medical Practitioners of the People's Republic of China (中華人民共和國執業醫師法), which was promulgated by the Standing Committee of the NPC on 26 June 1998 and came into effect on 1 May 1999 and revised on 27 August 2009, provides that doctors in the PRC must obtain qualification licenses for their medical profession. Qualified physicians and qualified assistant physicians must register with the relevant public health administrative authorities at or above the county level. After registration, doctors may work at healthcare institutions in their registered location in the types of jobs and within the scope of medical treatment, disease-prevention or healthcare business as provided in their registration.

The Notice on Issues concerning Multi-site Practice of Doctors

The Notice on Issues concerning Multi-site Practice of Doctors (衛生部關於醫師多點執業有關問題的通知), which was promulgated by the NHFPC on 11 September 2009 and came into effect on the same date, provides that a classification administration system shall be implemented for doctors' multi-site practice. Doctors may practise in cooperative healthcare institutions after performing relevant record-filing procedures with the authorities with which the doctors' Medical Institution Practising License are registered. The local NHFPC shall implement its multi-site practice policies after being approved by the

REGULATORY OVERVIEW

NHFPC. Key areas of such policies include: (i) doctors should obtain approval from the local NHFPC for multi-site practice; (ii) doctors should satisfy certain criteria before they become eligible to engage in multi-site practice; (iii) no multi-site doctor should have more than three practice sites in the same province; and (iv) doctors should enter into a written agreement with the hospitals that they intend to engage in multi-site practice with, which should clearly provide for legal liabilities in the event of disputes and other related matters prior to commencement of multi-site practice.

On 12 July 2011, the Notice of the Office of the NHFPC on Expanding the Pilot Scope of Multi-site Practice of Doctors (衛生部辦公廳關於擴大醫師多點執業試點範圍的通知) further relaxed the regulation on doctors' multi-site practice and expands its trial areas. Qualified doctors in the pilot areas can apply for at most three locations as their practising sites.

The Several Opinions on Accelerating the Development of Healthcare institutions with Social Capital (關於加快發展社會辦醫的若干意見), which were promulgated on 30 December 2013 by NHFPC and the State Administration of Traditional Chinese Medicine, specifically stipulate that multi-site practice of doctors shall be permitted and relevant authorities should provide favourable support for the orderly movements of the medical personnel.

The Rules on Multi-Site Practice of Doctors (關於醫師多點執業的管理辦法) promulgated by the Guangdong HFPC and the Guangdong Traditional Chinese Medicine Bureau and effective on 1 October 2016 further relaxed the procedures on multi-site practice of doctors. The rules stipulate that doctors should inform, and make the necessary filings with, their primary practice facility before engaging in multi-site practice with other healthcare facilities. The relevant healthcare facilities are responsible for filing the multi-site practice of the relevant doctors through a designated internet website.

The Regulations on Nurses

The Regulations on Nurses (護士條例), which were promulgated by the State Council on 31 January 2008 and came into effect on 12 May 2008, provide that a nurse must obtain a Nurse's Practising Certificate, which is valid for five years. The number of nurses on staff at a healthcare institution shall not be less than the standard number as prescribed by the competent public health administrative authorities.

Laws and regulations on medical disputes

The General Principles of the Civil Law of the People's Republic of China

The General Principles of the Civil Law of the People's Republic of China (中華人民共和國民法通則), which were promulgated by the National People's Congress on 12 April 1986, came into effect on 1 January 1987 and amended on 27 August 2009, provided that contracting parties shall perform their obligations in full as agreed.

The Contract Law of the People's Republic of China

The Contract Law of the People's Republic of China (中華人民共和國合同法), which was promulgated by the National People's Congress on 15 March 1999 and came into effect on 1 October 1999, provides that the contracting parties shall observe the principle of honesty and good faith in exercising their rights and performing their obligations. A lawfully established contract shall be legally binding on the contracting parties, each of whom shall perform its own obligations in accordance with the terms of the contract, and no party shall unilaterally modify or terminate the contract.

REGULATORY OVERVIEW

The Tort Liability Law of the People's Republic of China

The Tort Liability Law of the People's Republic of China (中華人民共和國侵權責任法), which was promulgated by the Standing Committee of the NPC on 26 December 2009 and came into effect on 1 July 2010, provides that, if a healthcare institution or its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the healthcare institution will be liable for compensation. The damage caused to the patient by the failure of the medical personnel to fulfil their statutory obligations in the course of diagnosis and treatment will be paid by the healthcare institution. Healthcare institutions and their medical personnel will 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 Malpractice

The Regulations on Handling Medical Malpractice (醫療事故處理條例), which were promulgated by the State Council on 4 April 2002 and came into effect on 1 September 2002, provide a legal framework and detailed provisions regarding the prevention, identification, disposition, compensation and penalties of or relating to cases involving personal injury to patients caused by healthcare institutions or medical personnel due to malpractice.

Regulations on medical advertising in the PRC

The Advertisement Law of the People's Republic of China

The Advertisement Law of the People's Republic of China (中華人民共和國廣告法), which was promulgated by the Standing Committee of the NPC on 27 October 1994 and came into effect on 1 February 1995, provides that advertisements shall not contain false statements and be deceitful or misleading to consumers. Advertisements legally required to receive censorship, including those that are relating to pharmaceuticals and medical devices, shall be reviewed by relevant authorities in accordance with relevant rules before being distributed by broadcasting, movies, television, newspapers, journals or otherwise. The Advertisement Law was amended by the Standing Committee of the NPC on 24 April 2015 and will take effect on 1 September 2015. The amended Advertisement Law further stipulates that any advertisement for medical treatment, pharmaceuticals or medical devices shall not contain: (i) any assertion or guarantee for efficacy and safety; (ii) any statement on cure rate or effective rate; (iii) any comparison with the efficacy and safety of other pharmaceuticals or medical devices or with other healthcare institutions; (iv) any use of endorsements or testimonials; or (v) other items as prohibited by laws and administrative regulations.

The Administrative Measures on Medical Advertisement

The Administrative Measures on Medical Advertisement (醫療廣告管理辦法), which were jointly promulgated by the State Administration of Industry and Commerce and the NHFPC on 10 November 2006 and came into effect on 1 January 2007, require that medical advertisements shall be reviewed by relevant health authorities and obtain a Medical Advertisement Review Certificate (醫療廣告審查證明) before they may be released by a healthcare institution. Medical Advertisement Review Certificate has an effective term of one year and may be renewed upon application.

Regulations on environmental protection related to healthcare institutions

The Regulations on the Management of Medical Waste and its implementation measures

The Regulations on the Management of Medical Waste (醫療廢物管理條例), which were promulgated by the State Council on 16 June 2003 and came into effect on the same day and revised on 8 January 2011,

REGULATORY OVERVIEW

and the Implementation Measures of the Management of Medical Waste (醫療衛生機構醫療廢物管理辦法), which were promulgated by the NHFPC on 15 October 2003 and came into effect on the same day, stipulate that healthcare institutions must timely deliver medical waste to a specifically designated location for centralised disposal of medical waste and categorise the medical waste in accordance with the Classified Catalog of Medical Waste. High-risk waste such as the culture medium or specimens of pathogens and the preserving liquid of bacteria strains or virus strains must be sterilised on the spot before disposal. Sewage generated by any healthcare institution and excretion of its patients or patients suspected of infectious diseases must be sterilised in accordance with the relevant laws, rules and regulations, and must not be discharged into sewage until the relevant standards are met.

The Regulations on Urban Drainage and Sewage Treatment

The Regulations on Urban Drainage and Sewage Treatment (城鎮排水與污水處理條例), which were promulgated by the State Council on 2 October 2013 and came into effect on 1 January 2014, require that urban entities and individuals shall dispose sewage through urban drainage facilities covering their geographical area in accordance with relevant rules. Companies or other entities engaging in medical activities shall apply for a Sewage Disposal Drainage License (污水排入排水管網許可證) before disposing sewage into urban drainage facilities. Sewage-disposing entities and individuals shall pay sewage treatment fee in accordance with relevant rules.

Laws and regulations on prices of medical services and medicine

The Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Healthcare institutions

According to the Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Healthcare Institutions (關於非公立醫療機構醫療服務實行市場調節價有關問題的通知) promulgated and implemented on 25 March 2014 by the NDRC, the NHFPC and the Ministry of Human Resources and Social Security, private for-profit healthcare institutions may set their own pricing 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. Healthcare institutions shall take the initiative to accept social supervision. The private healthcare 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 in the same way as the public hospitals.

Guiding price for medical services

On 4 May 2012, the NDRC, the NHFPC and the State Administration of Traditional Chinese Medicine promulgated the Notice Concerning the Standardisation of Price Management for Medical Services and Related Issues (國家發展改革委、衛生部、國家中醫藥管理局關於規範醫療服務價格管理及有關問題的通知) and announced the National Medical Services Price Project Standardisation (2012 Version). The price projects of medical services announced by the project standardisation shall be the basis of the costs

REGULATORY OVERVIEW

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.

According to the Implementation Opinions on Promotion of Reform in Medical Services and Medicine Prices of Guangdong Province (廣東省物價局、省衛生廳、省人力資源和社會保障廳關於推進我省醫療服務和藥品價格改革的實施意見) promulgated and implemented on 23 July 2010, by the NDRC of Guangdong Province, the Guangdong HFPC and the Ministry of Human Resources and Social Security of Guangdong Province, the prices for medical services in Guangdong Province are set based on the combination of government guidance prices and market-oriented prices. NMIs apply government guidance prices for the medical services they provide, while PMIs, and NMIs (for special medical services) apply market-oriented prices subject to filing with competent authorities. The Implementation Opinions also refer to reform on medicine prices in several pilot cities of Guangdong Province, with the purpose of establishing negotiation mechanism among supervisory agency of medical insurance, healthcare institutions (or hospital associations) and medicine suppliers, involving industrial agencies, social organisations and scientific research bodies in the formulation of medicine pricing policies, and improving the medicine pricing mechanism.

Medicine catalogue for medical insurance and payment requirements

The Medicine Catalogue for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance for Guangdong Province (2010 Edition) launched by Guangdong Provincial Bureau of Human Resources and Social Security on 26 September 2010 provides that the medicine catalogue for medical insurance shall be the basis and standard used for the payment of medicine fees of the insured by the funds of the basic medical insurance, work-related injury insurance and maternity insurance funds in Guangdong Province. The medicines in the catalogues are categorised into Type A and Type B and it is stipulated that out-of-pocket payments for Type A medicines are not required in the regions of coordination, while the proportion of such payments required for Type B medicines in the regions of coordination are determined with the actual circumstances being taken into consideration and the remaining portion shall be covered and paid by the medical insurance funds.

The Notice on Printing and Distributing The Medicine Catalogue for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance for Dongguan City (2011 Edition) (“**Catalogue**”) launched by Guangdong Provincial Bureau of Human Resources and Social Security on 29 December 2010 and effective on 1 January 2011 provides that the Catalogue is applicable to the social security issues of Dongguan City, and also the basis and standard of policies for payment of social security fund and enhancement of administration over medical services. Those fees charged by hospitals beyond the scope and standard of the Catalogue, and those medical items free of charge as stipulated by the government shall not be covered by the social security fund.

Pursuant to the Opinions on Further Regulating the Price of Pharmaceuticals and Healthcare Services (關於進一步整頓藥品和醫療服務市場價格秩序的意見), which were jointly promulgated by the NDRC and other departments on 19 May 2006, the profit margin of the pharmaceuticals subject to government pricing sold by healthcare institutions shall not exceed 15% of the actual procurement cost of such pharmaceuticals, and the profit margin of ready-for-use Chinese herbs shall not exceed 25%.

REGULATORY OVERVIEW

The Opinions on Promoting Drug Pricing Reform (推進藥品價格改革的意見), which were promulgated by the NDRC, NHFPC, CFDA, MOFCOM and other three departments on 4 May 2015, and came into effect on the same day, set forth that from 1 June 2015, except for narcotic drugs and Class I psychotropic drugs, the restrictions on the prices of the drugs that were subject to government pricing will be cancelled. Specifically, the prices of narcotic drugs and Class I psychotropic drugs are still subject to maximum factory prices and maximum retail prices set by the NDRC for the time being. The medical insurance regulatory authority shall, along with other competent departments, draw up provisions in relation to the standards, procedures, basis and methods of the payment of drugs paid by medical insurance funds. With regard to patent drugs and exclusively produced drugs, the prices thereof are set through transparent and public negotiation among multiple parties. The prices for blood products not listed in the Medical Insurance Drugs List, immunity and prevention drugs that are purchased by the State in a centralised manner, and AIDS antiviral drugs and contraceptives provided by the State for free, shall be set through tendering purchase or negotiation. Except as otherwise mentioned as above, the prices for other drugs may be determined by the manufacturers and the operators on their own on the basis of production or operation costs and market supply and demand.

The Regulations on the Supervision and Administration of Medical Devices

The Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例), which were promulgated by the State Council on 4 January 2000, amended on 7 March 2014 and came into effect on 1 June 2014, regulate the management of medical device manufactures and the supervision, distribution and use of medical devices as well as relevant legal obligations. Pursuant to these regulations, the government shall implement a product registration system for medical devices production. Enterprises to be established for marketing Class I medical devices are not required to file a record or obtain approval. Enterprises to be established for marketing Class II medical devices shall file a record with the competent pharmaceutical regulatory department.

Policy regarding anti-corruption and anti-commercial bribery

The governmental departments of the PRC have formulated the relevant laws and regulations for standardising the anti-corruption and anti-commercial bribery in medical treatment and health industry. In accordance with the Code of Conduct for Practitioners in Healthcare Institutions (《醫療機構從業人員行為規範》), the practitioners in healthcare institutions should perform their duties honestly, be self-disciplined and abide by medical ethics. They develop and expand medical ethics. They are strictly self-disciplined and do not ask for or illegally receive any property from patients. They do not make improper benefits by utilising the convenience of their positions. They do not receive such rebates or commissions, in various form or titles, offered by personnel in production or operating an enterprise in respect of medical equipment and machinery, pharmaceuticals, chemical agents and others. They do not participate in such operational entertainment arranged, organised or paid by such personnel. They do not gain or acquire the basic medical protection fund by cheating, or they do not provide others with convenience for cheating or acquiring. They do not violate the laws by participating in advertisement for medical treatment and marketing and promotion of pharmaceuticals and machinery for medical treatment. They do not resell the registration number for treatment at a profit.

In accordance with the Notice on Printing and Distributing of the “Nine Prohibitions” for Strengthening Ethical Conduct in the Healthcare Industry (《關於印發加強醫療衛生行風建設“九不准”的通知》) promulgated and implemented by the NHFPC and the State Administration of Traditional Chinese

REGULATORY OVERVIEW

Medicine on 26 December 2013, medical institutions are required to implement the policy of the “Nine Prohibitions” (“九不准”), including that it is prohibited to link the personal income of medical health personnel with the income of medical examination; it is prohibited to issue a bill by deducting a commission; it is prohibited to receive charges by violating laws; it is prohibited to receive donations and subsidies from the society by violating laws; it is prohibited to participate in marketing activities and illegally release advertisements for medical treatment; it is prohibited to be the party system with commercial aims; it is prohibited to privately purchase and use pharmaceutical products in violation of laws; it is prohibited to receive rebates; it is prohibited to receive “red packets” from patients. As for those medical and health institutions which are in violation of the “Nine Prohibitions”, the health and family planning administrative departments shall handle the case by issuing criticisms to, requesting rectification within a time frame, lowering the level or degrading such institution, pursuant to the seriousness of the case. Should administrative punishment be inflicted to such institutions, warnings, orders to suspend the business should be granted to such institutions and even the revocation of the business licenses of such institutions would be made. As for those healthcare staff who are in violation of the “Nine Prohibitions”, such staff shall receive criticisms and education from all units or shall have their good results of medical performance appraisal for the current year to be cancelled, or have their salary cut, or have their employment being suspended, or shall be dismissed and wait to be hired, or shall be dismissed. In serious cases, the health and family planning administrative departments shall order such institutions to suspend their business operations or revoke their business licenses or give other punishment. In the event of a suspected criminal case, such case shall be referred to a judicial organ for legal processing.

In accordance with the Implementing Opinions of the Ministry of Health and the State Administration of Traditional Chinese Medicine on the Launching of Specialised Compliance Project Regarding Commercial Bribery in Respect of the Procurement of Medicines (《衛生部、國家中醫藥管理局關於開展治理醫藥購銷領域商業賄賂專項工作的實施意見》) promulgated and implemented by the NHFPC and the State Administration of Traditional Chinese Medicine on April 21 2006 and the Notice of the Ministry of Health on Issuing the Provisions on the Establishment of Commercial Bribery Records in the Purchase and Sale of Medicines (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) promulgated and implemented by the NHFPC on 25 December 2013, the key points of launching specialised compliance projects regarding commercial bribery in respect of the procurement of medicines are: (i) the act of the leaders and the relevant personnel of medical institutions of receiving such property or rebate granted by the manufacturing and business enterprises and their marketing and sales personnel in various names during the procurement of medicines, medical equipment, and medical consumables; (ii) the act of the leaders and the relevant personnel of healthcare institutions of receiving such property or commission granted by the manufacturing and business enterprises and their marketing and sales personnel in various names during the clinical, diagnosis and treatment; (iii) the act of medical institutions of receiving such property granted by the manufacturing and business enterprises and their marketing and sales personnel in various names. Personnel in violation of the relevant provisions shall be punished by having their possession granted illegally being confiscated and by revoking their business licenses. Should a crime be constituted, criminal liability on the relevant parties shall be pursued according to laws.

REGULATORY OVERVIEW

RULES ON FOREIGN INVESTMENTS

The 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) (the “**Industry Catalog**”), which was jointly promulgated by the NDRC and MOFCOM on 10 March 2015 and came into effect on 10 April 2015, and the Interim Provisions Guiding Foreign Investment Direction, which were promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, all foreign investment projects are classified into four categories: (i) encouraged projects, (ii) permitted projects, (iii) restricted projects, and (iv) 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 are restricted and limited to Sino-foreign equity/cooperative joint venture operations.

The 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 (the “**Interim Measures**”), which were promulgated by the Ministry of Foreign Trade and Economic Cooperation (currently known as “Ministry of Commerce”) on 15 May 2000 and came into effect on 1 July 2000, foreign investors are allowed to partner with Chinese medical institutions, companies, enterprises and other entities to establish a medical institution in the PRC 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.

The Supplementary Provisions of Interim Measures for the Administration of Sino-Foreign Equity/Cooperative Joint Venture Medical Institutions, which were jointly promulgated by the MOFCOM and the NHFPC on 30 December 2007 and came into effect on 1 January 2008 stipulate that the total investment by a Hong Kong or Macau service provider in establishing an equity or cooperative medical institution in the PRC 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.

Impact of rules on foreign investments on our Group

As advised by our PRC legal advisers, the Industry Catalog and the Interim Measures are not expected to have a material impact on our Group. According to the related regulations, medical institutions are listed under the “restricted projects” category for foreign investment, meaning that foreign investment in medical institutions is restricted to Sino-foreign equity joint venture or cooperative joint venture, though the Industry Catalog is silent on the maximum percentage ownership permitted to foreign investors. In this regard, the Interim Measures provide that the equity ownership in a Sino-foreign joint venture held by the foreign partner shall not exceed 70%. As at the date of this prospectus, (i) our Company and each of our

REGULATORY OVERVIEW

PRC subsidiaries is incorporated under the laws of the PRC, and (ii) each shareholder of our Company and of each of our PRC subsidiaries is a PRC individual or an entity incorporated under the laws of the PRC, we are currently in compliance with the Industry Catalog and the Interim Measures. In consideration of (i) the above facts and (ii) that the Global Offering will comprise (x) without taking into account the Over-allotment Option, 84,000,000 H Shares representing approximately 25.15% of our enlarged share capital or (y) taking into account the Over-allotment Option, 96,600,000 H Shares representing approximately 27.87% of our enlarged share capital, in any case resulting in a significantly lower percentage of maximum potential foreign ownership than the 70% threshold as set forth by the Interim Measures, we will remain in compliance with the Industry Catalog and the Interim Measures following the Listing. Moreover, while the Industry Catalog and the Interim Measures impose limitations on our ability to issue equity to foreign investors at our Company or subsidiary levels in the future, we do not expect such potential issuances to result in foreign ownership of any our healthcare facilities exceeding 70%. In order to ensure ongoing compliance with the Industry Catalog and the Interim Measures, our Directors and management will diligently review the proposed ownership structure of any equity transactions involving our future subsidiaries and/or healthcare facilities, as well as any proposed future equity offerings at our Company or subsidiary level.

LAWS AND REGULATIONS RELATED TO LABOUR PROTECTION IN THE PRC

The Labour Law of the People's Republic of China

The Labour Law of the People's Republic of China (中華人民共和國勞動法), which was promulgated by the Standing Committee of the NPC on 5 July 1994, came into effect on 1 January 1995, and was amended on 27 August 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 labour safety and health systems, stringently implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection equipment that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer must develop a vocational training system. Vocational training funds must be set aside and used in accordance with national regulations and vocational training for workers must be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of the People's Republic of China and its implementation regulations

The Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法), which was promulgated by the Standing Committee of the NPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012 and came into effect on 1 July 2013, and the Implementation Regulations on Labour Contract Law (勞動合同法實施條例) which were promulgated on 18 September 2008 and came into effect on the same day, regulate employer and the employee relations and contain specific provisions involving the terms of the labour contract. Labour 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 labour contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

REGULATORY OVERVIEW

Laws and regulations on the supervision over the social insurance and housing funds

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費征繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in the PRC must provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and must pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and came into effect on 1 July 2011, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which were promulgated and came into effective on 3 April 1999, and were amended on 24 March 2002, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee.

LAWS AND REGULATIONS RELATED TO TAXATION IN THE PRC

Enterprise income tax

According to the Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the “**EIT Law**”), which was promulgated by the NPC on 16 March 2007 and came into effect on 1 January 2008, and the Implementation Regulations on the EIT Law (企業所得稅法實施條例), which were promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in the PRC. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not established institutions in the PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, enterprise income tax is set at the rate of 10%.

Withholding tax and international tax treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities. The determination of beneficial ownership is clarified under the Notice on Understanding and

REGULATORY OVERVIEW

Determining Beneficial Owners (國家稅務總局關於如何理解和認定稅收協議中“受益所有人”的通知) issued by the SAT on 27 October 2009, which expressly excludes from the definition of a beneficial owner any company not engaged in actual operations such as manufacturing, sales or management but that is established for the purpose of avoiding or reducing tax obligations or transferring or accumulating profits.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (國家稅務總局關於執行稅收協議股息條款有關問題的通知), which was promulgated by the SAT and came into effect on 20 February 2009, the non-resident taxpayer or the withholding agent is required to obtain and to keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

Business tax

The Temporary Regulations on Business Tax (營業稅暫行條例), which were promulgated by the State Council on 13 December 1993, became effective on 1 January 1994, and amended on 10 November 2008 and came into effect on 1 January 2009, provide that entities and individuals must pay business tax if they are engaged in the provision of services with respect to the industries of transportation, construction, finance and insurance, post and telecommunication, culture and sports, entertainments and service prescribed in Temporary Regulations on Business Tax, or transfer of intangible assets or sale of real estate within the PRC. Healthcare services provided by hospitals, clinics and other healthcare institutions are exempt from business tax.

Value-added tax

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which were promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and amended on 5 November 2008, amended and effective on 6 February 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which were promulgated by the MOF and became effective on 25 December 1993, and were amended on 15 December 2008 and 28 October 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in the PRC 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.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (營業稅改征增值稅試點方案), which was promulgated by the MOF and the SAT, the government launched gradual taxation reforms starting from 1 January 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 industries.

REGULATORY OVERVIEW

The Trial Implementing Measures of the Conversion of Business Tax to Value-added Tax (營業稅改徵增值稅試點實施辦法), which were promulgated on 24 March 2016, came into effect on 1 May 2016, set out that it collected value-added tax in lieu of business tax in all regions and industries.

The Notice on Relevant Tax Policies on Medical and Health Institutions (關於醫療衛生機構有關稅收政策的通知) which was promulgated by the Ministry of Finance and the State Administration of Tax on 10 July 2000 and came into effect on the same date, provides that incomes of PMIs are taxable in accordance with relevant rules. Nevertheless, PMIs are granted a three years' tax holiday commencing from the issuance of practising license if the profit is directly used for improving the medical and health conditions, during which: (i) self-produced preparations for self-use by PMIs are exempted from value-added tax and (ii) properties, land and vehicles for self-use by PMIs are exempted for property tax, urban land use tax and vehicle use tax. Pharmaceutical retail enterprises spun-off from drug stores of PMIs shall be subject to applicable taxations.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR HISTORY

Our history can be traced back to 2003, when the construction of our flagship hospital, Kanghua Hospital, commenced. The construction of Renkang Hospital commenced one year later in 2004. Subsequently, Kanghua Hospital and Renkang Hospital were established as limited liability companies in the PRC in 2005. The source of funding used to finance the establishment of Kanghua Hospital and Renkang Hospital was from Kanghua Group and Tongli Enterprise, respectively. At that time, Kanghua Group and Tongli Enterprise were controlled by the Wang Family under the leadership of the late Mr. Wang Jincheng (王金城), an entrepreneur in Dongguan. We regard the late Mr. Wang Jincheng (王金城) as the founder of our Group. Mr. Wang Jincheng (王金城) is also the father of our chairman, Mr. Wang Junyang. Kanghua Hospital and Renkang Hospital commenced operations in 2006 and 2008, respectively. Since then, we have rapidly become a leading private general hospital operator in the PRC. We offer comprehensive multi-disciplinary general hospital services including advanced diagnostics, complex and high risk surgical and interventional procedures, special services and long-term preventive healthcare to a wide range of patients.

In preparation for the Listing, and upon completion of the Reorganisation as described below, Kanghua Hospital became our wholly-owned subsidiary and Renkang Hospital became our 57%-owned subsidiary. Since their respective establishment, both Kanghua Hospital and Renkang Hospital have been controlled and managed by certain members of the Wang Family. In December 2015, our Company was converted into a joint stock limited company under the PRC Company Law.

OUR MILESTONES

The following sets forth the key milestones of our Group:

Year	Milestone
2003.	• Construction of Kanghua Hospital commenced
2004.	• Construction of Renkang Hospital commenced
2005.	• Each of Kanghua Hospital and Renkang Hospital was established as a limited liability company in the PRC
2006.	• Kanghua Hospital commenced operation
2008.	• Renkang Hospital commenced operation
2010.	• The Department of Plastic Surgery of Kanghua Hospital was recognised as a “National Key Clinical Discipline” (國家級臨床重點專科) by the NHFPC
2011.	• Kanghua Hospital was recognised as a Grade A Class III general hospital by the Guangdong HFPC
	• Kanghua Hospital’s Department of Cardiology was recognised as a “Guangdong Province Key Clinical Discipline” (廣東省臨床重點專科) by the Guangdong HFPC
2012.	• Kanghua Hospital’s diagnostic and therapeutic endoscopy gynaecology attained level 4 (the highest level attainable) (四級婦科內鏡診療技術) from the Guangdong HFPC

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Milestone
	<ul style="list-style-type: none"> • Kanghua Hospital attained the “Teaching Hospital” (教學醫院) accreditation from the Guangdong HFPC • Kanghua Hospital’s Department of General Surgery was recognised as a “Guangdong Province Key Clinical Discipline” (廣東省臨床重點專科) by the Guangdong HFPC
2013.	<ul style="list-style-type: none"> • Kanghua Hospital’s Department of Medical Imaging was recognised as a “Guangdong Province Key Clinical Discipline” (廣東省臨床重點專科) by the Guangdong HFPC
2014.	<ul style="list-style-type: none"> • Kanghua Hospital attained the ISO15189 accreditation — “Medical laboratories — Requirements for quality and competence” (醫學實驗室質量和能力的專用要求) from the CNAS • Kanghua Hospital’s diagnostic and therapeutic endoscopy in general surgery attained level 4 (the highest level attainable) (四級普通外科內鏡診療技術) from the Guangdong HFPC
2015.	<ul style="list-style-type: none"> • Our Company was converted into a joint stock limited company • The name of our Company was changed from Dongguan Kanghua Enterprise Co., Ltd. (東莞市康華實業有限公司) to Guangdong Kanghua Healthcare Co., Ltd. (廣東康華醫療股份有限公司)

OUR CORPORATE DEVELOPMENT

Corporate developments prior to the Reorganisation

(1) *Kanghua Hospital*

On 15 September 2005, Kanghua Hospital was established as a limited liability company with a registered capital of RMB100 million in the PRC. Kanghua Hospital is our flagship hospital principally engaged in the provision of multi-disciplinary general hospital services. Kanghua Hospital was established primarily with the financial resources from Kanghua Group. At that time, Kanghua Group was controlled by the Wang Family under the leadership of the late Mr. Wang Jincheng (王金城), the founder of our Group. Since its establishment, Kanghua Hospital has been managed and controlled by certain members of the Wang Family. Subsequent to a series of transfers and registered capital increases pursuant to family arrangements of the Wang Family, in June 2013, the registered capital of Kanghua Hospital of RMB250 million became held as to 55% by Kanghua Group (which was at that time held as to 50% by Mr. Wang Junyang and as to 50% by Ms. Wang Aici), as to 20% by Xingye Group (which was at that time held as to 55% by Mr. Wang Junyang and as to 45% by Ms. Wang Aici), as to 15% by our Company (which was at that time held as to 100% by Kanghua Group) and as to 10% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin). Pursuant to a nominee arrangement, Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 47.46% of her equity interest in Kanghua Group and 25% of her equity interest in Xingye Group on behalf of Mr. Wang Junyang. Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin are members of the Wang Family. Please refer to the chart in the sub-section headed “— *The Reorganisation*” for details of their family relationship.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Please refer to the sub-section headed “— *The Reorganisation*” for the changes in the shareholding of Kanghua Hospital in preparation for the Listing.

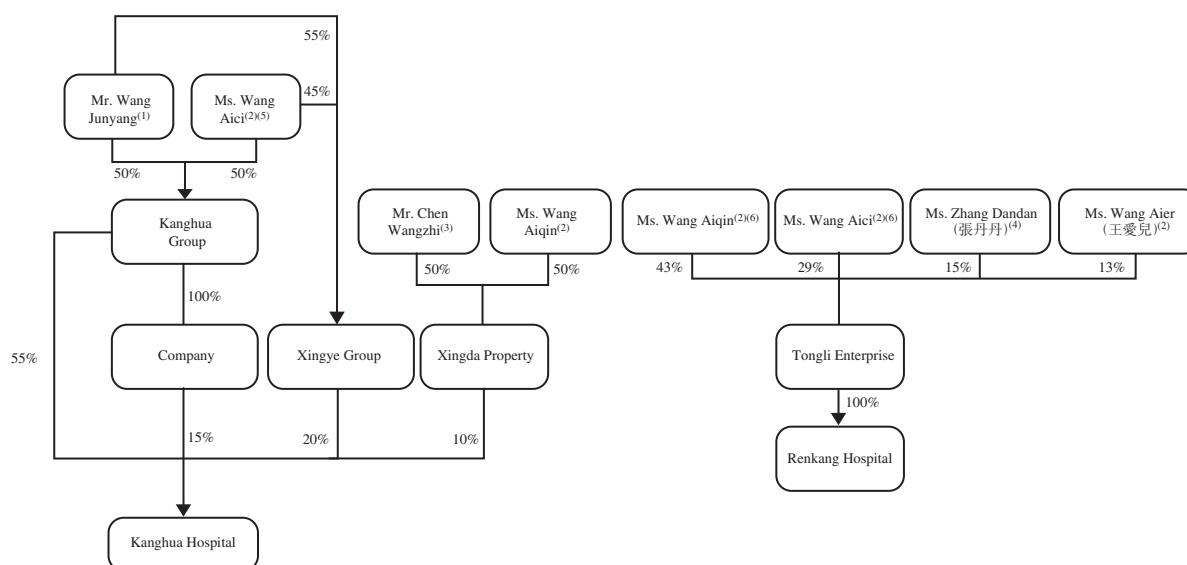
(2) Renkang Hospital

On 23 August 2005, Renkang Hospital was established as a limited liability company with a registered capital of RMB16.67 million in the PRC. Similar to Kanghua Hospital, Renkang Hospital is a full service multi-disciplinary general hospital. Renkang Hospital was established primarily with the financial resources from Tongli Enterprise. At that time, Tongli Enterprise was controlled by the Wang Family under the leadership of the late Mr. Wang Jincheng (王金城), the founder of our Group. Since its establishment, Renkang Hospital has been managed and controlled by certain members of the Wang Family. Subsequent to a series of transfers and registered capital increases pursuant to family arrangements of the Wang Family, in July 2011, the registered capital of Renkang Hospital of RMB60 million became held as to 100% by Tongli Enterprise (which was at that time, and remains, held as to 43% by Ms. Wang Aiqin, as to 29% by Ms. Wang Aici, as to 15% by Ms. Zhang Dandan (張丹丹) and as to 13% by Ms. Wang Aier (王愛兒)). Ms. Wang Aiqin, Ms. Wang Aici, Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) are members of the Wang Family. Please refer to the chart in the sub-section headed “— *The Reorganisation*” for details of their family relationship. Pursuant to a nominee arrangement, (i) Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 16% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang; (ii) Ms. Wang Aiqin (an aunt of Mr. Wang Junyang and the spouse of Mr. Chen Wangzhi) agreed to hold 15% and 6.5% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang and Mr. Chen Wangzhi, respectively; and (iii) Ms. Wang Aiqin (a sister of Mr. Wang Wencheng (王文成)) agreed to hold 15% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Wencheng (王文成).

Please refer to the sub-section headed “— *The Reorganisation*” for the changes in the shareholding of Renkang Hospital in preparation for the Listing.

The Reorganisation

In preparation for the Listing, we implemented the Reorganisation with respect to (i) our Company; (ii) Kanghua Hospital; and (iii) Renkang Hospital. The following chart sets forth our corporate structure immediately before the Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Mr. Wang Junyang is a member of the Wang Family, being the son of the founder of our Group, the late Mr. Wang Jincheng (王金城).
- (2) Ms. Wang Aici, Ms. Wang Aiqin, and Ms. Wang Aier (王愛兒) are members of the Wang Family, being sisters of the founder of our Group, the late Mr. Wang Jincheng (王金城).
- (3) Mr. Chen Wangzhi is a member of the Wang Family, being the spouse of Ms. Wang Aiqin.
- (4) Ms. Zhang Dandan (張丹丹) is a member of the Wang Family, being the spouse of Mr. Wang Guocheng (王國城). Mr. Wang Guocheng (王國城) is a younger brother of the founder of our Group, the late Mr. Wang Jincheng (王金城).
- (5) Pursuant to a nominee arrangement, Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 47.46% of her equity interest in Kanghua Group and 25% of her equity interest in Xingye Group on behalf of Mr. Wang Junyang.
- (6) Pursuant to a nominee arrangement, (i) Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 16% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang; (ii) Ms. Wang Aiqin (an aunt of Mr. Wang Junyang and the spouse of Mr. Chen Wangzhi) agreed to hold 15% and 6.5% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang and Mr. Chen Wangzhi, respectively; and (iii) Ms. Wang Aiqin (a sister of Mr. Wang Wencheng (王文成)) agreed to hold 15% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Wencheng (王文成).

(1) *Reorganisation with respect to our Company*

In January 2002, our Company was established as a limited liability company with a registered capital of RMB10 million primarily for investment holding purposes. It was subsequently decided that our Company would be an appropriate vehicle for acting as the holding company of Kanghua Hospital and Renkang Hospital for the purpose of the Listing. Immediately before the Reorganisation, our Company did not engage in any business operations and had a registered capital of RMB60 million, which was held as to 100% by Kanghua Group (which was at that time held as to 50% by Mr. Wang Junyang and as to 50% by Ms. Wang Aici). Pursuant to a nominee arrangement, Ms. Wang Aici (an aunt of Mr. Wang Junyang) held 47.46% of her equity interest in Kanghua Group on behalf of Mr. Wang Junyang.

In September 2015, as part of a family arrangement to better reflect the interests of the individual members of the Wang Family in our Company for the purpose of the Listing, the following changes in shareholdings were made:

- our then sole Shareholder, Kanghua Group, together with Xingye Group and Xingda Property, contributed RMB80 million, RMB40 million and RMB20 million, respectively, to the registered share capital of our Company. As a result, our Company increased its registered share capital from RMB60 million to RMB200 million, which was held as to 70% by Kanghua Group (which was at that time held as to 50% by Mr. Wang Junyang and as to 50% by Ms. Wang Aici), as to 20% by Xingye Group (which was at that time held as to 55% by Mr. Wang Junyang and as to 45% by Ms. Wang Aici) and as to 10% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin). Pursuant to a nominee arrangement, Ms. Wang Aici (an aunt of Mr. Wang Junyang) held 47.46% of her equity interest in Kanghua Group and 25% of her equity interest in Xingye Group on behalf of Mr. Wang Junyang;
- Ms. Wang Aici transferred 47.46% of her equity interest in Kanghua Group to Mr. Wang Junyang at no consideration as Ms. Wang Aici was holding such equity interest on trust in favour of Mr. Wang Junyang. After the transfer, Kanghua Group was held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici;

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- Ms. Wang Aici transferred 25% of her equity interest in Xingye Group to Mr. Wang Junyang at no consideration as Ms. Wang Aici was holding such equity interest on trust in favour of Mr. Wang Junyang. After the transfer, Xingye Group was held as to 80% by Mr. Wang Junyang and 20% by Ms. Wang Aici; and
- subsequently, (i) Xingye Group transferred 9% of its equity interest in our Company to Kanghua Group at a consideration of RMB27.603 million; and (ii) Xingye Group transferred 1% of its equity interest in our Company to Xingda Property at a consideration of RMB3.067 million. The consideration of each of the transfers was determined with reference to the then registered capital and capital accumulation fund of our Company. As a result of the transfers, our Company was held as to 79% by Kanghua Group (which was at that time, and remains, held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici), as to 11% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin) and as to 10% by Xingye Group (which was at that time held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici).

Following the above changes, our Company was held as to 79% by Kanghua Group (which was at that time, and remains, held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici), as to 11% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin) and as to 10% by Xingye Group (which was at that time, and remains, held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici).

Upon completion of the Reorganisation steps as set out in the sub-section headed “— *Our Corporate Development — The Reorganisation — (2) Reorganisation with respect to Kanghua Hospital*” and “— (3) *Reorganisation with respect to Renkang Hospital*”, Kanghua Hospital became our wholly-owned subsidiary and Renkang Hospital became our 57%-owned subsidiary.

On 30 December 2015, our Company was converted into a joint stock limited company under the PRC Company Law, with a registered share capital of RMB250 million, divided into 250,000,000 Domestic Shares of nominal value of RMB1.00 each, all of which were fully paid up. Upon completion of the conversion, Kanghua Group, Xingda Property and Xingye Group held 197,500,000, 27,500,000 and 25,000,000 Domestic Shares, representing approximately 79%, 11% and 10% of the then equity interest in our Company, respectively. The Promoters of our Company are Kanghua Group, Xingda Property and Xingye Group.

In December 2015, the name of our Company was changed from Dongguan Kanghua Enterprise Co., Ltd. (東莞市康華實業有限公司) to Guangdong Kanghua Healthcare Co., Ltd. (廣東康華醫療股份有限公司).

(2) *Reorganisation with respect to Kanghua Hospital*

As set out in the sub-section headed “— *Our Corporate Development — Corporate developments prior to the Reorganisation — (1) Kanghua Hospital*” above, immediately before the Reorganisation, Kanghua Hospital was held as to 55% by Kanghua Group (which was at that time held as to 50% by Mr. Wang Junyang and as to 50% by Ms. Wang Aici), as to 20% by Xingye Group (which was at that time held as to 55% by Mr. Wang Junyang and as to 45% by Ms. Wang Aici), as to 15% by our Company (which was at that time held as to 100% by Kanghua Group) and as to 10% by Xingda Property (which was at that time,

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin). Pursuant to a nominee arrangement, Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 47.46% of her equity interest in Kanghua Group and 25% of her equity interest in Xingye Group on behalf of Mr. Wang Junyang.

In September 2015, as part of a family arrangement to better reflect the interests of the individual members of the Wang Family in our Company for the purpose of the Listing, the following changes in shareholdings were made:

- (i) Kanghua Group transferred 55% of its equity interest in Kanghua Hospital to our Company at a consideration of RMB137.5 million which was settled on 22 September 2015; (ii) Xingye Group transferred 20% of its equity interest in Kanghua Hospital to our Company at a consideration of RMB50 million which was settled on 23 September 2015; and (iii) Xingda Property transferred 10% equity interest in Kanghua Hospital to our Company at a consideration of RMB25 million which was settled on 23 September 2015. The consideration of each of the transfers was determined with reference to the then registered capital of Kanghua Hospital; and
- as set out in the sub-section headed “— *Our Corporate Development — The Reorganisation — (1) Reorganisation with respect to our Company*” above, (i) Kanghua Group became held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici; (ii) Xingye Group became held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici; and (iii) our Company became held as to 79% by Kanghua Group (which was at that time, and remains, held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aiqin), as to 11% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin) and as to 10% by Xingye Group (which was at that time, and remains, held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici).

Following the changes above, Kanghua Hospital became a wholly-owned subsidiary of our Company and our Company became held as to 79% by Kanghua Group (which was at that time, and remains, held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici), as to 11% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin), and as to 10% by Xingye Group (which was at that time, and remains, held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici).

(3) *Reorganisation with respect to Renkang Hospital*

As set out in the sub-section headed “— *Our Corporate Development — Corporate developments prior to the Reorganisation — (2) Renkang Hospital*” above, immediately before the Reorganisation, Renkang Hospital was held as to 100% by Tongli Enterprise (which was at that time, and remains, held as to 43% by Ms. Wang Aiqin, as to 29% by Ms. Wang Aici, as to 15% by Ms. Zhang Dandan (張丹丹) and as to 13% by Ms. Wang Aier (王愛兒)). Pursuant to a nominee arrangement among the Wang Family, (i) Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 16% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang; (ii) Ms. Wang Aiqin (an aunt of Mr. Wang Junyang and the spouse of Mr. Chen Wangzhi) agreed to hold 15% and 6.5% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang and Mr. Chen Wangzhi, respectively; and (iii) Ms. Wang Aiqin (a sister of Mr. Wang Wencheng (王文成)) agreed to hold 15% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Wencheng (王文成).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In September 2015, as part of a family arrangement to better reflect the interests of the individual members of the Wang Family in our Company and Renkang Hospital for the purpose of the Listing, the following changes in shareholdings were made:

- as set out in the sub-section headed “— *Our Corporate Development — The Reorganisation — (1) Reorganisation with respect to our Company*” above, our Company became held as to 79% by Kanghua Group (which was at that time, and remains, held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici), as to 11% by Xingda Property (which was at that time, and remains, held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin) and as to 10% by Xingye Group (which was at that time, and remains, held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici);
- Tongli Enterprise transferred 57% of its equity interest in Renkang Hospital to our Company at a consideration of RMB34.2 million which was settled on 28 September 2015; and
- as certain members of the Wang Family do not wish to participate in the Listing with respect to their interest in Renkang Hospital primarily due to PRC tax reasons, the remaining 43% equity interest in Renkang Hospital will be held by such members of the Wang Family and will not be held by our Group upon the Listing. Accordingly, as part of a family arrangement of the Wang Family, (i) Tongli Enterprise transferred 15% of its equity interest in Renkang Hospital to Ms. Zhang Dandan (張丹丹) at a consideration of RMB9 million; (ii) Tongli Enterprise transferred 15% of its equity interest in Renkang Hospital to Kangdi Enterprise (which was at that time held as to 25% by Mr. Wang Yiren (王毅仁), as to 25% by Mr. Wang Zhengren (王政仁), as to 25% by Mr. Wang Zeren (王澤仁) and as to 25% by Ms. Wang Keying (王可瑩)) at a consideration of RMB9 million; and (iii) Tongli Enterprise transferred 13% of its equity interest in Renkang Hospital to Ms. Wang Aier (王愛兒) at a consideration of RMB7.8 million. Mr. Wang Yiren (王毅仁), Mr. Wang Zhengren (王政仁), Mr. Wang Zeren (王澤仁) and Ms. Wang Keying (王可瑩) are members of the Wang Family, being the children of Mr. Wang Wencheng (王文成) and cousins of Mr. Wang Junyang.

The consideration of each of the above transfers was determined with reference to the then registered capital of Renkang Hospital. Following the changes above, Renkang Hospital was held as to 57% by our Company, as to 15% by Ms. Zhang Dandan (張丹丹), as to 15% by Kangdi Enterprise (which was at that time held as to 25% by Mr. Wang Yiren (王毅仁), as to 25% by Mr. Wang Zhengren (王政仁), as to 25% by Mr. Wang Zeren (王澤仁) and as to 25% by Ms. Wang Keying (王可瑩)) and as to 13% by Ms. Wang Aier (王愛兒). In December 2015, Kangdi Enterprise became held as to 50% by Mr. Wang Zhengren (王政仁) and as to 50% by Ms. Wang Keying (王可瑩).

Establishment of Kanghua Healthcare Management and Kanghua Healthcare Management (HK)

In February 2016, Kanghua Healthcare Management was established by our Company as a limited liability company with a registered capital of RMB11 million in the PRC. The registered capital of Kanghua Healthcare Management was fully contributed by our Company in cash in June 2016. Kanghua Healthcare Management is principally engaged in the hospital management business of our Group. In June 2016, Kanghua Healthcare Management entered into a management agreement with respect to Zhonglian Cardiovascular Hospital in Chongqing. See also “*Business — Our Hospitals — Our management arrangement with Zhonglian Cardiovascular Hospital*” for further details.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In May 2016, Kanghua Healthcare Management (HK) was established as a limited liability company with a share capital of HK\$10,000 in Hong Kong. The share capital of Kanghua Healthcare (HK) was fully subscribed by our Company in cash. Kanghua Healthcare Management (HK) is expected to be our offshore platform for, among other things, promoting our “Kanghua” brand overseas, procuring overseas healthcare supplies, equipment and technology, attracting overseas healthcare professionals and facilitating knowledge exchange with international healthcare experts.

Please refer to the sub-section headed “— *Our Corporate Structure — Prior to the Global Offering*” for our corporate structure immediately after the Reorganisation and the establishment of Kanghua Healthcare Management and Kanghua Healthcare Management (HK).

The Renkang Entrusted Management Agreement

In order to consolidate full control over Renkang Hospital and to increase management efficiency, on 8 September 2015, we entered into the Renkang Entrusted Management Agreement with the holders of the 43% equity interest in Renkang Hospital not held by us (the “**Renkang 43% Shareholders**”), namely Kangdi Enterprise (which holds a 15% equity interest in Renkang Hospital), Ms. Zhang Dandan (張丹丹) (who holds a 15% equity interest in Renkang Hospital) and Ms. Wang Aier (王愛兒) (who holds a 13% equity interest in Renkang Hospital), pursuant to which each of the Renkang 43% Shareholders irrevocably vested their entire voting power at any general meeting of Renkang Hospital to our Company such that our Company may exercise such voting power in its absolute discretion for a renewable term of five years. Furthermore, in the event that any of the Renkang 43% Shareholders proposes to dispose of their equity interest in Renkang Hospital to a third party, our Company has a right of first refusal to acquire such equity interest on the same conditions offered to such third party. As advised by our PRC Legal Advisers, the Renkang Entrusted Management Agreement is legal, valid and enforceable under all applicable laws and regulations of the PRC.

According to Rule 14A.16 of the Listing Rules, a “connected subsidiary” is defined as, among other things, a non wholly-owned subsidiary of the listed issuer where any connected person(s) at the issuer level, individually or together, can exercise or control the exercise of 10% or more of the voting power at the subsidiary’s general meeting. Ms. Wang Aier (王愛兒) is interested in a 13% equity interest in Renkang Hospital and is a connected person at our Company level as she is a sister of Ms. Wang Aiqin, one of our Controlling Shareholders. By virtue of the Renkang Entrusted Management Agreement, as each of the Renkang 43% Shareholders (including Ms. Wang Aier (王愛兒)) irrevocably vested their entire voting power at any general meeting of Renkang Hospital to our Company, our Company can exercise or control the exercise of all the voting power of Renkang Hospital in its absolute discretion. Accordingly, Renkang Hospital will not fall within the definition of “connected subsidiary” of our Company under Rule 14A.16 of the Listing Rules upon the Listing.

Compliance

As advised by our PRC Legal Advisers, each of the corporate changes and establishments and nominee arrangements as set out in the section headed “— *Our Corporate Development*” 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, authorisations and consents from the relevant PRC governmental authorities with respect to such changes and such approvals, permits, licenses, authorisations and consents are valid, current, subsisting and irrevocable.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Major acquisitions, disposals or mergers during the Track Record Period

During the Track Record Period, save for the purpose of the Reorganisation, our Company did not have any major acquisitions, disposals or mergers.

The Concert Party Agreement

As at the Latest Practicable Date, our Company was held as to 79% by Kanghua Group (which is held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici), as to 11% by Xingda Property (which is held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin) and as to 10% by Xingye Group (which is held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici). Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin entered into the Concert Party Agreement to align their shareholding interests in our Company.

Pursuant to the Concert Party Agreement, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin agreed to vote in concert with Mr. Wang Junyang for all operational and other matters at board meetings or shareholders' meetings of our Company (through himself/herself, Kanghua Group, Xingye Group or Xingda Property, as the case may be) and confirmed the existence of the aforementioned acting in concert arrangement in the past over the course of our business history with respect to Kanghua Hospital and Renkang Hospital. Accordingly, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders.

OUR CORPORATE STRUCTURE

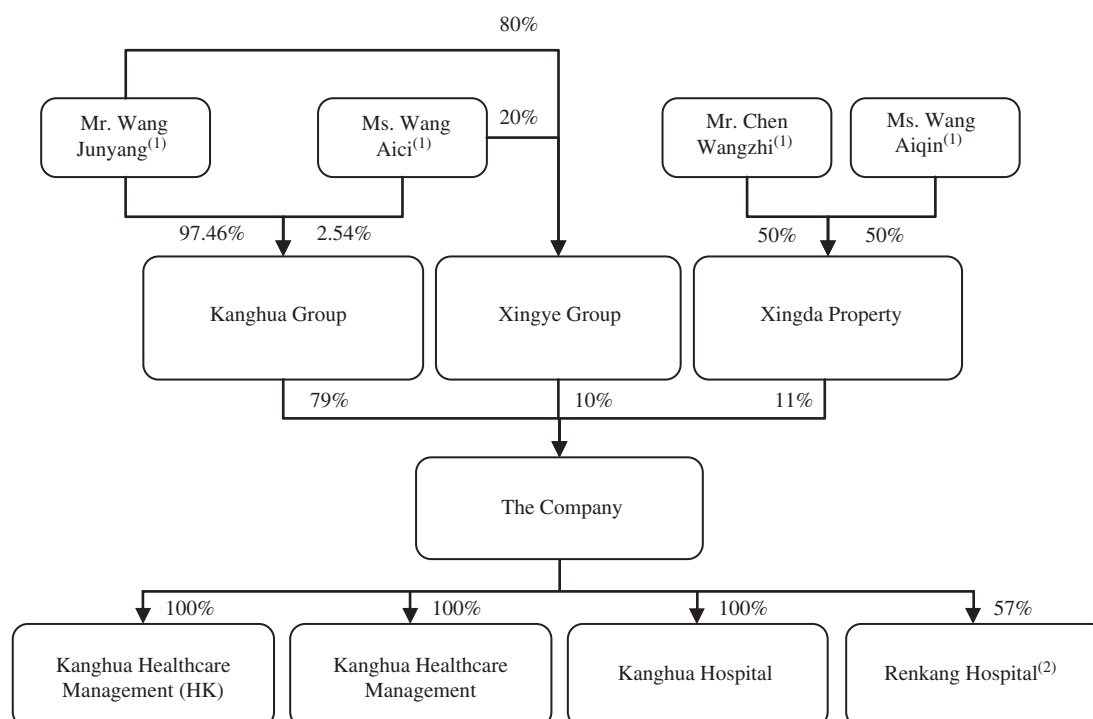
Prior to the Global Offering

As at the Latest Practicable Date, our Company had issued 250,000,000 Domestic Shares and had a registered share capital of RMB250 million.

Immediately after the Reorganisation and prior to completion of the Global Offering, our Company was held as to 79% by Kanghua Group, as to 11% by Xingda Property and as to 10% by Xingye Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth our corporate structure as at the Latest Practicable Date, immediately prior to the completion of the Global Offering:



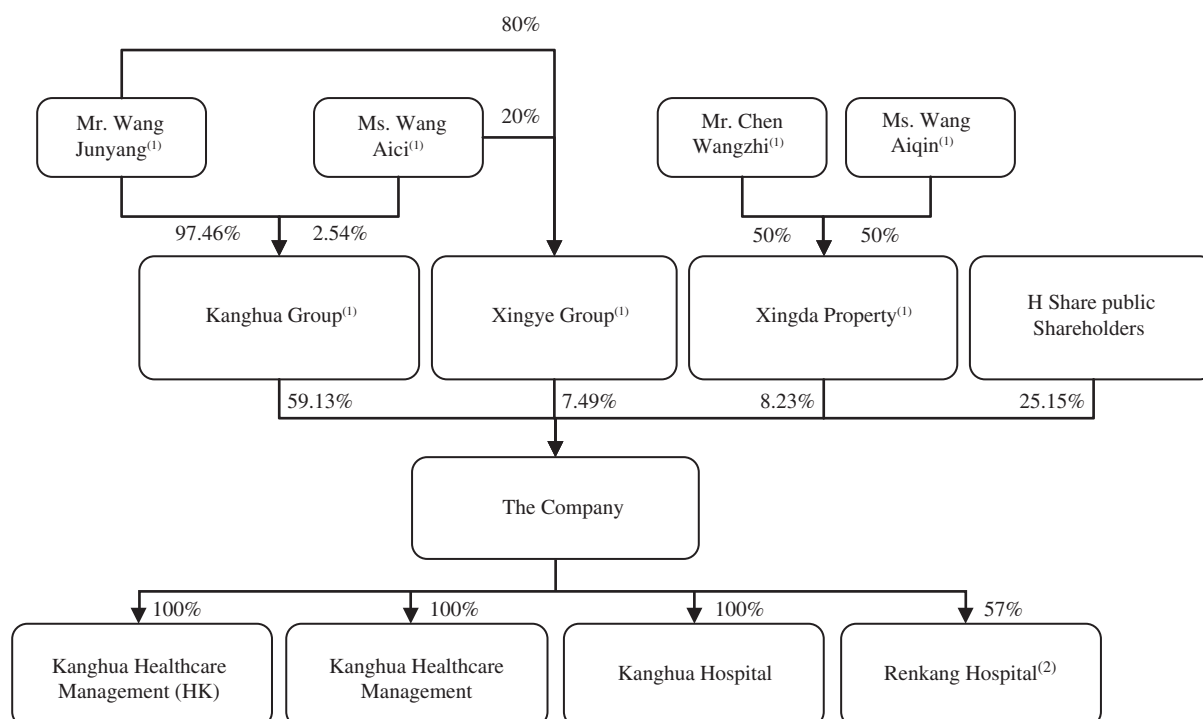
Notes:

- (1) Pursuant to the Concert Party Agreement, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin agreed to vote in concert with Mr. Wang Junyang for all operational and other matters at board meetings or shareholders' meetings of our Company (through himself/herself, Kanghua Group, Xingye Group or Xingda Property, as the case may be). Accordingly, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders.
- (2) 43% of the equity interest in Renkang Hospital is held as to 15% by Kangdi Enterprise (which is in turn held as to 50% by Mr. Wang Zhengren (王政仁) and as to 50% by Ms. Wang Keying (王可莹)), as to 15% by Ms. Zhang Dandan (張丹丹) and as to 13% by Ms. Wang Aier (王愛兒). All of Mr. Wang Zhengren (王政仁), Ms. Wang Keying (王可莹), Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) are members of the Wang Family. Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) are respectively the aunt-in-law and the aunt of Mr. Wang Junyang (our Chairman), respectively, Mr. Wang Zhengren (王政仁) and Ms. Wang Keying (王可莹) are cousins of Mr. Wang Junyang (our Chairman). Pursuant to the Renkang Entrusted Management Agreement, each of Kangdi Enterprise, Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) irrevocably vested their entire voting power at any general meeting of Renkang Hospital to our Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Immediately following the completion of the Global Offering

The following chart sets forth our corporate structure immediately following completion of the Global Offering, assuming no exercise of the Over-allotment Option and no change in shareholding by each of our Shareholders listed below subsequent to the Latest Practicable Date:



Notes:

- (1) Pursuant to the Concert Party Agreement, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin agreed to vote in concert with Mr. Wang Junyang for all operational and other matters at board meetings or shareholders' meetings of our Company (through himself/herself, Kanghua Group, Xingye Group or Xingda Property, as the case may be). Accordingly, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property are acting together as a group of Controlling Shareholders.
- (2) 43% of the equity interest in Renkang Hospital is held as to 15% by Kangdi Enterprise (which is in turn held as to 50% by Mr. Wang Zhengren (王政仁) and as to 50% by Ms. Wang Keying (王可莹)), as to 15% by Ms. Zhang Dandan (張丹丹) and as to 13% by Ms. Wang Aier (王愛兒). All of Mr. Wang Zhengren (王政仁), Ms. Wang Keying (王可莹), Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) are members of the Wang Family. Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) are the aunt-in-law and the aunt of Mr. Wang Junyang (our Chairman), respectively. Mr. Wang Zhengren (王政仁) and Ms. Wang Keying (王可莹) are cousins of Mr. Wang Junyang (our Chairman). Pursuant to the Renkang Entrusted Management Agreement, each of Kangdi Enterprise, Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) irrevocably vested their entire voting power at any general meeting of Renkang Hospital to our Company.

BUSINESS

OVERVIEW

We operate the largest private for-profit general hospital in the PRC, Kanghua Hospital, in terms of the number of registered beds as at 31 December 2015, according to the Frost & Sullivan Report. Kanghua Hospital was also the first private for-profit general hospital in the PRC to attain a Grade A Class III rating, the highest rating attainable by hospitals in the PRC, according to the same source. Kanghua Hospital offers a continuum of healthcare services to a diverse range of patients, particularly those with critical, complex or rare medical conditions. Located in Dongguan, at the heart of the Pearl River Delta Region and in close proximity to the Guangshen Expressway, Kanghua Hospital is strategically positioned to service a wide geographic region. During the Track Record Period, more than 70% of Kanghua's inpatients were from patients residing outside of Dongguan. In addition to Kanghua Hospital, we also operate Renkang Hospital in Dongguan, a private for-profit general hospital servicing the local communities in the surrounding area. Both hospitals complement each other through patient referrals, technical assistance, multi-site practices and research and teaching collaboration. As at 30 April 2016, Kanghua Hospital and Renkang Hospital had 2,006 and 480 registered beds, respectively.

We excel in many healthcare disciplines. Kanghua Hospital has (i) one National Key Clinical Discipline (國家臨床重點專科) in plastic surgery accredited by the NHFPC; (ii) three Guangdong Provincial Key Clinical Disciplines (廣東省臨床重點專科) in cardiology, general surgery and medical imaging, accredited by the Guangdong HFPC; and (iii) two Dongguan Special Disciplines (東莞市特色專科) in spine and joint surgery and thoracic surgery, accredited by the Dongguan HFPB. In terms of revenue in 2015, Kanghua Hospital had, among private general hospitals in southern China, (i) the largest cardiology discipline; (ii) the largest O&G discipline; and (iii) the second largest orthopaedics discipline, according to Frost & Sullivan. In addition to clinical practice, Kanghua Hospital, as a large scale regional medical institution with Grade A Class III rating, is substantially involved in research and teaching initiatives. Research projects conducted at Kanghua Hospital have led to scientific breakthroughs and received numerous awards. In January 2012, Kanghua Hospital was accredited as a "Teaching Hospital" (教學醫院) by the Guangdong HFPC. We attribute much of our success to the skills and experience of our management and multi-disciplinary teams of healthcare professionals.

The general hospital market represents the fastest growing segment in hospital number among private hospitals, which is in turn the fastest growing segment in the overall hospital market in the PRC, according to Frost & Sullivan. This presents us, as a leading private general hospital operator, with ample growth opportunities. We believe our successful track record in operating our flagship hospital, Kanghua Hospital, the first private for-profit general hospital in the PRC to attain a Grade A Class III rating, gives us a distinctive early-mover advantage to capitalise on the opportunities in the healthcare market.

The growing affluent population in the PRC has in recent years resulted in a general trend of heightened health awareness and increasing need for quality and diversified healthcare services. In particular, with our foothold in Guangdong Province, the province with the highest GDP in the PRC since 1989 and per capita healthcare spending increasing at a higher rate than the national average, according to Frost & Sullivan, we are in a market where demand for high-end healthcare services is strong. In view of this, we began to offer special services primarily targeted towards high-end patients in recent years. Such services typically extend beyond basic medical needs and have a higher profitability. Our special services currently include a suite of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. Our special services had achieved consistent growth during the Track Record Period. For the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, our revenue

BUSINESS

generated from special services amounted to approximately RMB46.9 million, RMB68.8 million, RMB81.8 million, RMB22.3 million and RMB33.1 million, respectively, representing a CAGR of approximately 32.2% from 2013 to 2015 and an increase of approximately 48.5% from the four months ended 30 April 2015 to the four months ended 30 April 2016. We believe our special services offerings differentiate us from other competitors, in particular public hospitals where such offerings are generally limited by the PRC government for policy reasons, according to the NHFPC. We will continue to ramp up and expand the scope of our special services as a differentiation strategy.

Leveraging our experience in constructing and managing Kanghua Hospital, we intend to expand our business operations by (i) selective mergers with and acquisitions of appropriate hospitals, in particular those located in regions where healthcare resources are scarce and demand for quality healthcare services is unmet; and (ii) managing third party hospitals primarily in economically developed regions. In June 2016, we entered into a management agreement with respect to Zhonglian Cardiovascular Hospital in Chongqing. The hospital is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. We will seek further expansion opportunities to expand the footprint of our “Kanghua” brand in the PRC. With our highly developed, standardised, and robust hospital management and clinical governance structure, we believe we will be able to replicate our success in Kanghua Hospital to other hospitals.

During the Track Record Period, our revenue increased by 14.7% from RMB858.9 million in 2013 to RMB985.1 million in 2014 and increased by 8.0% to RMB1,063.7 million in 2015. Our revenue increased by 22.4% from RMB310.6 million for the four months ended 30 April 2015 to RMB380.1 million for the four months ended 30 April 2016.

OUR STRENGTHS

We believe that the following competitive strengths have enabled us to differentiate us from our competitors:

We operate the largest private for-profit general hospital in the PRC

Our flagship hospital, Kanghua Hospital, commenced operation in 2006 and has rapidly evolved into a large scale Grade A Class III general hospital in the PRC. Kanghua Hospital had 1,980 registered beds as at 31 December 2015, rendering it the largest private for-profit general hospital in the PRC in terms of the number of registered beds as at 31 December 2015, according to Frost & Sullivan. In terms of revenue, Kanghua Hospital was the third largest private for-profit general hospital in the PRC for the year ended 31 December 2015, according to Frost & Sullivan. Kanghua Hospital was also the first private for-profit general hospital in the PRC to be rated as a Grade A Class III general hospital, the highest classification for hospitals in the PRC under the NHFPC classification system, having fulfilled a stringent set of criteria through its advanced medical capabilities, comprehensive service offerings, depth of specialisations, high standard of clinical governance, modern facilities and equipment and research and teaching capabilities.

BUSINESS

The medical capabilities of Kanghua Hospital are highly regarded in the healthcare industry as evidenced by, among other things, the following:

- Kanghua Hospital’s multi-disciplinary teams of doctors have pioneered the advanced treatments of many complex and rare diseases. In particular, Kanghua Hospital completed the world’s first complete taTME surgery using NOTES as an advanced and experimental treatment of rectal cancer;
- as at the Latest Practicable Date, Kanghua Hospital had (i) one National Key Clinical Discipline (國家臨床重點專科) in plastic surgery accredited by the NHFPC; (ii) three Guangdong Province Key Clinical Disciplines (廣東省臨床重點專科) in cardiology, general surgery and medical imaging, accredited by the Guangdong HFPC; and (iii) two Dongguan Special Disciplines (東莞市特色專科) in spine and joint surgery and thoracic surgery, accredited by the Dongguan HFPC;
- Kanghua Hospital excels in many healthcare disciplines. In terms of revenue in 2015, Kanghua had, among private general hospitals in Southern China, (i) the largest cardiology discipline; (ii) the largest O&G discipline; and (iii) the second largest orthopaedics discipline, respectively, according to Frost & Sullivan;
- Kanghua Hospital attained ISO15189 accreditation from the CNAS in recognition of its high quality and competence in medical laboratory diagnostics, allowing its test results to be recognised by international healthcare institutions. Kanghua Hospital is the only hospital in Dongguan with this accreditation;
- the diagnostic and therapeutic endoscopy of Kanghua Hospital in gynaecology and general surgery have respectively attained a level 4 ranking (the highest level attainable) from the Guangdong HFPC, allowing Kanghua Hospital to perform the most complicated endoscopic procedures in the respective disciplines;
- Kanghua Hospital fulfilled a stringent set of criteria set out in The Eligibility Criteria for Teaching Hospitals of General Tertiary Medical Academic Institutions in Guangdong Province (廣東省普通高等醫學院校教學醫院評審合格標準) and was accredited as a “Teaching Hospital” (教學醫院) by the Guangdong HFPC; and
- the Chest Pain Centre of Kanghua Hospital providing emergency care to patients with acute and life-threatening cardiac conditions is the only national-grade chest pain centre in Dongguan recognised by the China Chest Pain Centre (中國胸痛中心).

Capability to deliver continuum of healthcare services through multi-disciplinary teams of experienced healthcare professionals and advanced medical facilities

As a general hospital operator providing high quality continuum of healthcare services, our fully-equipped hospitals have the medical capability of treating a wide range of disorders, including any complicated medical conditions that usually require multi-disciplinary collaboration among various clinical and medical technology disciplines and the use of advanced medical facilities. Since the inception of our healthcare business in 2006, we have been committed to continuously improving our medical capabilities and facilities to deliver healthcare services of the highest standard. Our multi-disciplinary teams of healthcare professionals are highly skilled and experienced in treating a wide range of medical conditions. Our “Kanghua” brand is well recognised by both patients and the general healthcare industry as a quality

BUSINESS

healthcare service brand. We have also received numerous prestigious awards and recognitions for, among other categories, medical capability, service quality, reputation, trustworthiness and social and corporate responsibility.

We have adopted the highest standards in equipping our hospitals with advanced medical facilities. An internationally renowned German contractor, HWP Planungsgesellschaft mbH, was engaged to design the infrastructure and facility layout of Kanghua Hospital to maximise patient comfort and clinical safety and efficiency. In recognition of its ingenuity in design, engineering and construction, Kanghua Hospital was awarded a silver prize for the “National Construction and Engineering Award of Excellence” (國家工程建設質量獎). We believe our hospitals are equipped with the most advanced medical technology in the PRC. Kanghua Hospital was the first hospital in Southern China to be equipped with a Toshiba Aquilion ONE 640-slice CT scanner, one of the most advanced CT scanners in the world for cardiac imaging. Other advanced medical equipment include Philips ACHIEVA 1.5T MRI scanner, Philips ALLURA cardiovascular x-ray systems for digital subtraction angiography, Siemens YSIO digital radiography systems for general purpose diagnostics, Philips Forte Gamma Cameras for nuclear imaging and GE Healthcare Voluson E8, one of the most advanced O&G ultrasound systems in the world. Kanghua Hospital has also implemented advanced medical streamlined laboratory automation systems and sample transmission systems to deliver efficient and high quality clinical services.

According to Frost & Sullivan, the healthcare market in the PRC benefits from a number of long-term structural growth drivers, such as a concentrated, increasingly affluent and rapidly ageing population. In addition, increasing consumer expectations for high quality healthcare services and the availability of more advanced and complex treatments, procedures and medical devices that lead to improved patient outcomes are expected to continue to drive the demand for healthcare services in the PRC. As a leading private general hospital operator in the PRC offering high quality continuum of healthcare services to a diverse range of patients, we believe we are well positioned to access the expected long-term structural growth in the healthcare market in the PRC, in particular the Pearl River Delta Region.

Proven track record in operating a Grade A Class III general hospital positions us to capture growth opportunities in the PRC’s fast growing private hospital market

Grade A Class III is the highest rating attainable by hospitals in the PRC. A Grade A Class III general hospital is typically a sophisticated healthcare institution with more than 500 beds that delivers general and specialised healthcare services to patients from multiple geographical regions and is substantially engaged in research and higher education. A Grade A Class III general hospital commands the most sophisticated and the highest standard of clinical governance. It must maintain a systematic clinical governance structure that (i) continuously tracks a large number of clinical performance indicators, such as diagnosis accuracy, inpatient re-admission rate, inpatient fatality rate, post-treatment complications, antibiotics usage and nosocomial infection rate; (ii) ensures that the required standards are consistently maintained; and (iii) continuous improvements on clinical processes are made. A Grade A Class III rating carries significant competitive advantages. According to the Frost & Sullivan Report, only approximately 4.5% of all hospitals in the PRC were Grade A Class III hospitals as at the end of 2014.

BUSINESS

Kanghua Hospital was the first private for-profit general hospital in the PRC to attain the Grade A Class III rating in 2011. With our proven track record in operating Kanghua Hospital, the largest private for-profit general hospital in terms of the number of registered beds as at 31 December 2015 in the PRC according to Frost & Sullivan, we believe we have developed more robust capabilities and know-how in operating general hospitals than many of our competitors. We believe this gives us a distinctive early-mover advantage in the healthcare industry. According to Frost & Sullivan, against the backdrop of the PRC healthcare reform plan, the proportion of beds in private hospitals out of all hospitals in the PRC is expected to increase from approximately 16.8% in 2014 to approximately 28.2% in 2020, providing experienced private general hospital operators like us with an opportunity to achieve consistent and long-term growth. In June 2016, we entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases currently under development in Chongqing. Zhonglian Cardiovascular Hospital is intended to be positioned as a private for-profit hospital with inpatient and outpatient capability and specialisation in cardiovascular diseases. With our highly developed, standardised, and robust hospital management and clinical governance structure, we believe we will be able to replicate our success in Kanghua Hospital with other hospitals within a short time frame to realise rapid growth.

Differentiated offerings of special services

In addition to basic medical services, we strive to differentiate ourselves from our competitors by offering a broad range of special services to meet the diverse needs of the increasingly affluent and sophisticated population. Our offerings of special services include a suite of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. In particular, (i) our VIP healthcare services offer patients with a high degree of personalised and private care with luxurious accommodation, access to consultation with their specialist doctor of choice, the most advanced multi-disciplinary treatments available and premium grade medical facilities, pharmaceuticals and medical consumables; and (ii) our reproductive medicine offerings include a comprehensive range of assisted reproductive services for couples with infertility disorders. Adopting a patient-centric approach in formulating our special services offerings and service delivery models, we have been able to position ourselves as a personalised high-end service provider.

Our special services, in particular our VIP healthcare services and reproductive medicine, had achieved consistent growth during the Track Record Period. For the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, our revenue generated from special services amounted to approximately RMB46.9 million, RMB68.8 million, RMB81.8 million, RMB22.3 million and RMB33.1 million, respectively, representing a CAGR of approximately 32.2% from 2013 to 2015 and an increase of approximately 48.5% from the four months ended 30 April 2015 to the four months ended 30 April 2016. Our revenue from VIP healthcare services grew at a CAGR of approximately 17.7% from approximately RMB25.9 million in 2013 to approximately RMB35.9 million in 2015, while our revenue from reproductive medicine grew at a CAGR of approximately 59.0% from approximately RMB14.0 million in 2013 to approximately RMB35.4 million in 2015. We expect this trend to continue as we ramp up our special services offerings to capitalise on the ample opportunities driven by the ageing and increasingly affluent population and the two-child policy. In particular, Guangdong Province is one of the most affluent and developed provinces in the PRC, with its GDP ranking first in the PRC for 27 consecutive years since 1989, according to the Frost & Sullivan Report. Furthermore, according to the NHFPC, the offerings of high-end services in public hospitals, such as our special services, must not exceed 10% of the total service

BUSINESS

volume for public policy reasons. Due to such limitation, public hospitals can no longer meet the increasing demand for high-end services. As a leading private hospital operator with the strong brand recognition, we believe we are well positioned to compete effectively for high-end patients in the PRC, in particular the Pearl River Delta Region.

Experienced, dedicated and stable senior management team and high-calibre team of healthcare professionals

We believe excelling in the complex and rapidly evolving healthcare industry requires a stable and dedicated management team with in-depth industry experience, diversity and execution capability. Our senior management team is led by our chief executive officer, Mr. Chen Wangzhi, who has steered us since the inception of our hospital business. Our clinical operations are a critical component of our business. Our senior management team includes four clinical vice general managers who are highly renowned healthcare experts with an average of more than 32 years' experience in the healthcare industry. They are responsible for overseeing the overall clinical quality and nursing works of our hospitals. Three of our clinical vice general managers hold the chief doctor qualification, the highest qualification for doctors in the PRC, and one holds the chief nurse qualification, the highest qualification for nurses in the PRC. They possess first-hand and in-depth knowledge of the intricacies of hospital operations and experience in working with medical professionals. We believe our senior management team has been instrumental to our industry-leading reputation for quality healthcare in the PRC. Under the leadership of our senior management team, we believe we will be able to continuously improve our clinical standard and achieve progressive expansion of our Group by executing expansion plans of our existing hospitals, entering into management agreements to manage third-party hospitals and selective mergers with and acquisitions of other hospitals. Additionally, our senior management team has sought to attract, retain and maintain strong relationships with our staff, particularly renowned doctors in the industry, to lead our clinical practices. We believe our senior management team will continue to be pivotal to the long term success of our Group.

We believe our high-calibre team of healthcare professionals is conducive to our operations and maintaining our leading market position. As at 30 April 2016, we had a total of 160 chief and associate chief doctors, 437 attending doctors and resident doctors and 1,047 other healthcare professionals. Our healthcare professionals are able to leverage our multi-disciplinary capabilities, depth of specialisation, large patient base and research affiliations with renowned domestic and international institutions to provide high-quality team-based care to our patients, which is critical to our success in attracting and retaining patients.

We have also established long-term research and teaching collaborations with renowned medical institutions in the PRC, such as the 301 Military Hospital (中國人民解放軍總醫院), the Beijing Jishuitan Hospital (北京積水潭醫院), and the First Affiliated Hospital of Sun Yat-sen University (中山大學附屬第一醫院). Kanghai Hospital is also partnered with Guangzhou University of Chinese Medicine (廣州中醫藥大學) to provide internship and graduate teaching for its students. Our hospital collaboration has an international reach. Kanghai Hospital entered into a "Sister Hospitals in the Private Healthcare Sector in China and France" cooperation agreements (中法民營姐妹醫院合作協議) with each of Clinique du Valois (法國法羅斯醫院) and Polyclinique de l'Atlantique (法國大西洋醫院). We believe such collaborations enhance our profile in the healthcare industry and help us attract top quality healthcare professionals.

BUSINESS

OUR STRATEGIES

We aim to strengthen our foothold as a leading private general hospital operator in Guangdong Province, to extend the range of our service offerings, to develop our network of hospitals, to continue to invest to maintain clinical excellence and to leverage our expertise to build our value and increase patient satisfaction. We aspire to become a centennial corporation (百年企業) with more than 30 hospitals and 15,000 beds and an influential presence throughout the PRC and South East Asia. The key components of our strategy are as follows:

Continue to expand our existing operational capacity and service capabilities, in particular offerings of special services to high-end patients

We expect to accommodate anticipated growing demand through maximising our existing capacity and expanding our service capabilities. Kanghua Hospital has plentiful physical space available to expand its operational capacity and service capabilities. We plan to deploy additional beds particularly to our special services. When completed, the second phase of the Huaxin Building is expected to deploy 100 additional beds for VIP healthcare services. We may lease additional GFA for the future expansion of Kanghua Hospital.

We intend to continue to enhance our existing healthcare services such as O&G, cardiovascular, oncology and neurology offerings to solidify our industry leading position as a private general hospital operator. We also plan to further expand our offerings of special services to differentiate ourselves from our competitors. In view of the two-child policy, which is expected to give rise to the number of patients requiring fertility consultation and assisted reproductive technologies, we will considerably expand our capacity and range of service offerings in reproductive medicine. Advanced multi-disciplinary oncology offerings, high-end geriatrics care and high-end preventive medicine and palliative care will also be the key special services that we intend to focus on in view of the demographic trends. We will establish new clinical disciplines, expand our number of beds in operation, train and hire additional healthcare professionals, in particular renowned experts in the relevant industry and invest in the necessary medical equipment in line with our expansion of services.

Continue to improve our clinical service quality and efficiency

A critical aspect of our hospital operations is the continuous improvement in our clinical service quality and efficiency. With a view to improving our diagnostic, clinical and research standard, we plan to strengthen our collaborations with renowned healthcare experts from Hong Kong, the U.S. and Europe. Through regular knowledge exchange, we will be able to keep abreast of the latest technological advancements in the international healthcare landscape and selectively introduce new and advanced treatment methods and clinical practices to our hospital operations for the benefit of our patients. We intend to invest in the latest medical technologies and undertake clinical research initiatives with a view to continuously upgrading our medical capability and providing our patients with the best medical solutions available. Where possible, we plan to obtain other significant accreditations for our hospitals to further bolster our profile as a quality healthcare group, such as the accreditation from the Joint Commission International, which we believe is conducive to attracting high-end patients.

BUSINESS

We are also focusing on improving our clinical efficiency. We intend to continuously track our performance indicators across all aspects of our operations and dynamically identify areas of improvements, including staffing optimisation, centralisation of ancillary functions, reducing patient waiting time, optimising appointment scheduling, reducing turn-around time and improving utilisation rate of our beds in operation and resource-intensive facilities such as operating theatres and catheterisation laboratories. We will continuously review and refine our clinical processes and workflow to improve our service efficiency, which will be benchmarked against internal and international best practice targets.

Continue to attract, retain and develop quality healthcare professionals

Our ability to attract, retain and develop quality healthcare professionals to support our expansion plan is crucial to our expansion strategy and we will continue to implement our recruitment drives. We believe we offer an attractive working environment with a quality brand name, healthcare professionals working in multi-disciplinary teams, research and teaching affiliations with renowned institutions, a wide patient base and sustained patient flow, advanced medical equipment and facilities, on-going training initiatives, high levels of research autonomy as well as opportunities for career development. We will continue to expand our talent reserve to prepare for our continuous expansion. In particular, in line with the government's continued efforts to encourage multi-site practice as part of its healthcare reform, we intend to attract more quality multi-site doctors to practise at our hospitals. A diversified mix of multi-site doctors is conducive to expanding the range of our service offerings and enhancing our clinical platform for meeting the needs of high-end patients. In addition, we plan to strengthen our cooperative relationships with tertiary education providers and through providing teaching, training and internship opportunities to their students, identify potential talent and recruit them early on. We will also increase our capital commitment to improve our research and development capabilities, which is one of the key factors in attracting renowned and industry leading experts to work for us.

With a view to maintaining a stable team of healthcare professionals in the long term, we may consider providing equity-based incentives, such as share options, to our key healthcare professionals.

Leverage our expertise and experience in constructing and operating general hospitals to provide hospital management services to other hospitals

We intend to leverage our experience in constructing and operating a Grade A Class III hospital and pursue management opportunities with other hospitals primarily in economically developed regions. We will initially focus on the more developed cities in the PRC. Pursuant to these arrangements, we expect to receive remuneration for providing management services relating to hospital design planning, development, recruitment, procurement and installation of medical equipment, construction and commission, clinical governance and day-to-day hospital operations. Where possible, we will also negotiate an option to acquire the hospital exercisable at our sole discretion. We believe this strategy gives us maximum flexibility to manage our expansion and allows us to grow our presence, network and brand without major capital expenditure. As at the Latest Practicable Date, we had entered into a management agreement with respect to Zhonglian Cardiovascular Hospital in Chongqing as our first step in executing this strategy.

BUSINESS

Expand through selective mergers and acquisitions

We intend to accelerate our expansion through selective mergers with and acquisitions of appropriate hospitals, in particular those located in regions where healthcare resources are scarce and the demand for quality healthcare services is unmet. With our foothold in Dongguan, we will initially focus on neighbouring cities in Guangdong Province such as Guangzhou and Shenzhen, and also expand our scope to Southern China including Hangzhou and Kunming and further to other regions in the PRC with low healthcare services penetration. We intend to target small and medium sized hospitals with 300 to 500 beds with a view to developing them into general hospitals with deep specialisations in specific disciplines (大專科小綜合醫院). When identifying acquisition targets, we will take into account a comprehensive range of factors, including geographical location, demographic trends, financial and operation performance, maturity of operation, acquisition price, licensing status, past compliance, experience of healthcare professionals, post-acquisition growth potential and prospects, synergy potential with our existing hospitals and integration feasibility. We believe with our experienced management team, and its proven track record in operating a Grade A Class III hospital and our highly standardised operating protocols, we will be able to integrate acquired hospitals into our Group in a cost-efficient manner. As at the Latest Practicable Date, we had not yet identified any specific acquisition target or entered into any definitive agreement for the acquisition of any hospitals.

OUR BUSINESS OPERATIONS

Our business focuses on providing a continuum of healthcare services to our patients through our multi-disciplinary private for-profit general hospitals. In terms of treatment process, we generate revenue primarily from (i) inpatient healthcare services; (ii) outpatient healthcare services; and (iii) physical examination services.

We operate (i) Kanghua Hospital, a Grade A class III general hospital and the largest private for-profit general hospital in the PRC in terms of the number of registered beds as at 31 December 2015, according to Frost & Sullivan; and (ii) Renkang Hospital, both of which are located in Dongguan. Our hospitals provide a continuum of healthcare services to a wide range of inpatients and outpatients. We are committed to delivering high-quality and standard-setting healthcare services to our patients through multi-disciplinary teams of highly qualified and experienced healthcare professionals and advanced medical facilities. The following table sets forth certain operating statistics of our hospitals as at or for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Inpatient healthcare services				
Number of registered beds ⁽¹⁾	1,860	1,860	2,460	2,486
Number of beds in operation ⁽²⁾	1,383	1,484	1,493	1,500
Inpatient visits ⁽³⁾	49,556	51,608	51,299	16,859
Inpatient bed-days ⁽⁴⁾	443,719	454,879	426,814	134,148
ALOS (days) ⁽⁵⁾	9.0	8.8	8.3	8.0
Average spending per visit (RMB) ⁽⁶⁾ .	10,482	11,341	12,243	13,766

BUSINESS

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Outpatient healthcare services				
Outpatient visits ⁽⁷⁾	1,208,389	1,297,647	1,319,184	437,035
Average spending per visit (RMB) ⁽⁸⁾	234	261	283	307
Surgical operations				
Number of surgeries ⁽⁹⁾	25,647	28,355	27,838	8,958
Physical examination services				
Physical examination visits ⁽¹⁰⁾	352,386	400,375	455,575	124,883
Average spending per visit (RMB) ⁽¹¹⁾	161	154	137	110
Staff				
Doctors ⁽¹²⁾	614	632	642	597
Other medical staff ⁽¹³⁾	863	981	1,016	1,047
Management, administrative, finance staff and other support staff ⁽¹⁴⁾	887	852	870	765
Total⁽¹⁵⁾	<u>2,364</u>	<u>2,465</u>	<u>2,528</u>	<u>2,409</u>

Notes:

- (1) Represents the number of beds that were registered in our hospitals' practising licenses as at the end of the relevant period.
- (2) Represents the average number of beds deployed for operation during the given period. We adjust the number of beds in operation from time to time depending on the clinical requirements and patient demand.
- (3) Represents the total number of inpatients (with hospital stay) of our hospitals.
- (4) Represents the total number of bed-days of our hospitals.
- (5) Represents the average number of days an inpatient stays at our hospitals.
- (6) Represents the average spending per inpatient visit calculated by dividing our total revenue from inpatient healthcare services by total inpatient visits.
- (7) Represents the total number of outpatients (without hospital stay) of our hospitals.
- (8) Represents the average spending per outpatient visit calculated by dividing our total revenue from outpatient healthcare services by total outpatient visits.
- (9) Represents the total number of surgeries performed at our hospitals.
- (10) Represents the total number of patient visits for physical examination services of our hospitals.
- (11) Represents the average spending per physical examination visit calculated by dividing our total revenue from physical examination services by total physical examination visits.
- (12) Represents the total number of doctors, including resident doctors, attending doctors, associate chief doctors and chief doctors, employed by our hospitals as at the end of the relevant period. This number does not include the number of part time doctors (i.e. doctors from other healthcare facilities who were engaged in multi-site practice with us and Hong Kong doctors).
- (13) Represents the total number of medical staff (other than doctors), including nurses, pharmacists and technicians in medical technology disciplines, employed by our hospitals as at the end of the relevant period.
- (14) Represents the total number of non-healthcare staff, including management, finance, administration, customer service, marketing and other ancillary functions, employed by our hospitals as at the end of the relevant period.
- (15) Represents the total number of staff employed by our hospitals as at the end of the relevant period.

BUSINESS

We have established our reputation in the healthcare sector in the PRC under the “Kanghua (康華)” brand as a modern and integrated full-service hospital operator with multiple key healthcare disciplines. Our hospitals offer comprehensive and sophisticated diagnosis and therapeutic care in specialised and sub-specialised clinical and medical technology disciplines including O&G, cardiology and cardiovascular surgery, orthopaedics, physical examination, general surgery, neurology, oncology, paediatrics, medical aesthetics, medical imaging and laboratory medicine. Our full-service offerings enable us to handle a vast range of medical conditions through multi-disciplinary collaborations and provide optimal medical solutions to our patients. We practise a team-based care provided by our doctors and other medical professionals who are able to leverage our hospitals’ multi-disciplinary capabilities, depth of specialisation, large patient base and research affiliations with renowned domestic and international institutions.

As part of our growth strategy, we intend to expand our business operations to include the provision of hospital management services in other regions of the PRC. Our operation vice general manager, Mr. Wang Baizhi (王柏枝), who has been closely involved with the construction, development and management of Renkang Hospital, is highly acquainted with our “Kanghua” ideals and management philosophy and is primarily responsible for overseeing our hospital management business. As at the Latest Practicable Date, we had a management agreement with Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases currently under development in Chongqing. Pursuant to such agreement, we are entitled to receive remuneration for providing management services relating to hospital development, clinical governance and day-to-day hospital operations. For more information, please see “— *Our Hospitals — Our management arrangement with Zhonglian Cardiovascular Hospital*”.

OUR HOSPITALS

As at the Latest Practicable Date, we operated two private for-profit general hospitals, namely Kanghua Hospital, our flagship and wholly-owned hospital, and Renkang Hospital, in which we own a 57% equity interest. Both Kanghua Hospital and Renkang Hospital are located in Dongguan.

The table below sets forth certain key information of our hospitals as at 30 April 2016:

	Hospital type (General/ Specialty)	Number of registered beds ⁽¹⁾	Number of beds in operation ⁽¹⁾	Number of doctors ⁽²⁾	Number of other healthcare professionals ⁽³⁾	Date of commencement of operation
Kanghua Hospital	General	2,006	1,076	463	831	November 2006
Renkang Hospital	General	480	424	134	216	March 2008
Total		<u>2,486</u>	<u>1,500</u>	<u>597</u>	<u>1,047</u>	

Notes:

- (1) The number of registered beds refers to the number of beds that were registered in the hospital’s practising license. The number of beds in operation refers to the number of beds deployed for the hospital’s operation.
- (2) Does not include part time doctors (i.e. doctors from other healthcare facilities who were engaged in multi-site practice with the hospital and Hong Kong doctors).
- (3) Includes nurses, pharmacists and other medical technicians.

BUSINESS

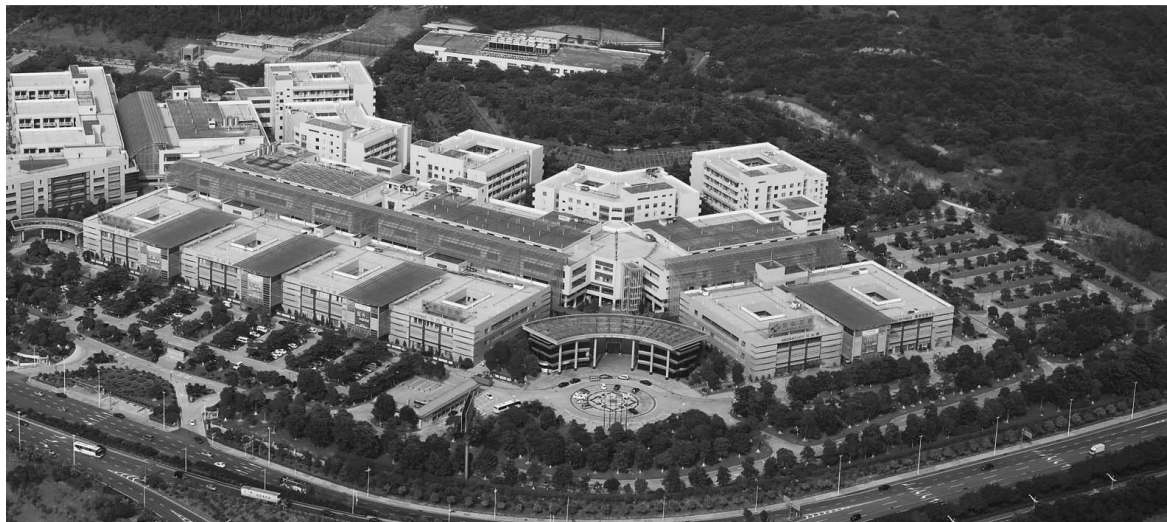
As at the Latest Practicable Date, we also had a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases currently under development in Chongqing, for a term from 1 July 2016 to 30 June 2026.

We had experienced significant revenue growth during the Track Record Period, generating revenue of approximately RMB858.9 million, RMB985.1 million, RMB1,063.7 million and RMB380.1 million for each of the three years ended 31 December 2015 and the four months ended 30 April 2016, respectively. The table below sets forth a breakdown of our revenue by hospital for the periods indicated:

Revenue	Year ended 31 December						Four months ended 30 April	
	2013		2014		2015		2016	
	Amount (RMB'000)	% of our total revenue	Amount (RMB'000)	% of our total revenue	Amount (RMB'000)	% of our total revenue	Amount (RMB'000)	% of our total revenue
Kanghua Hospital . . .	705,093	82.1	802,666	81.5	874,801	82.2	319,481	84.0
Renkang Hospital . . .	153,781	17.9	182,442	18.5	188,901	17.8	60,640	16.0
Total	858,874	100.0	985,108	100.0	1,063,702	100.0	380,121	100.0

A description of our existing hospitals is as follows:

Kanghua Hospital



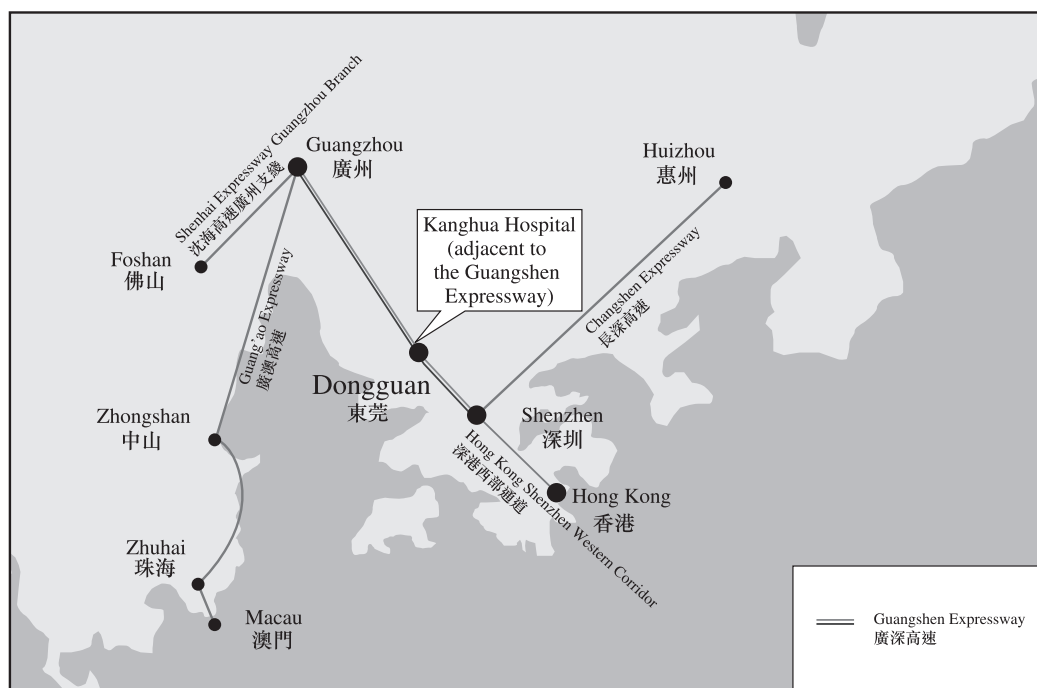
Having commenced operations in November 2006, Kanghua Hospital is our flagship hospital and was the first private for-profit general hospital in the PRC rated as a Grade A Class III hospital, the highest attainable rating for hospitals in the PRC. It was also the largest private for-profit general hospital in the PRC in terms of the number of registered beds as at 31 December 2015, according to Frost & Sullivan. In terms of revenue, Kanghua Hospital was the third largest private for-profit general hospital in the PRC for the year ended 31 December 2015, according to Frost & Sullivan. It is a large scale purpose-built

BUSINESS

healthcare institution integrating multi-disciplinary clinical care, full range of diagnostic testing and a platform for medical training and research. It particularly focuses on mid- and high-end patients and critically ill patients requiring complex treatment and care. As at 30 April 2016, it had over 400 doctors, over 50 multi-site doctors and more than 30 Hong Kong doctors working in large multi-disciplinary teams to deliver continuum of healthcare services to its patients. Kanghua Hospital plays a leading role in the development of new and improved medical and surgical interventions for its patients.

Geographic location

Kanghua Hospital is strategically located in the heart of the Pearl River Delta Region in close proximity to the Guangshen Expressway and services a wide geographic area, including Dongguan, Shenzhen, Guangzhou and other cities in the Pearl River Delta Region. Patients from Guangzhou or Shenzhen may reach Kanghua Hospital in approximately one hour by car. As at 30 April 2016, to facilitate commuters, there were more than 1,800 car park spaces and a bus stop within the premises of Kanghua Hospital. The bus stop serves six bus routes connecting to the major districts and towns in Dongguan and key transportation hubs, such as the Dongguan South Bus Terminal (東莞南城汽車總站) and the Airport Dongguan Check-in (東莞城市候機室) (a remote passenger terminal of the Guangzhou Airport). We believe the quality healthcare services provided by Kanghua Hospital attracts the increasingly health conscious and affluent population in the Pearl River Delta Region. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, approximately 70.7%, 70.7%, 72.4% and 73.1% of Kanghua Hospital's inpatients, respectively, were from patients residing outside of Dongguan. The map below illustrates the strategic location of Kanghua Hospital:



BUSINESS

Operational capacity

As at 30 April 2016, Kanghua Hospital had 1,076 beds in operation, 1,752 full-time staff (1,294 of which are healthcare professionals) and a leased GFA of approximately 254,000 sq.m. The outpatient area of Kanghua Hospital occupies a leased GFA of approximately 50,000 sq.m. and has an estimated design capacity to treat up to approximately 10,000 outpatients a day. The inpatient area of Kanghua Hospital occupies a leased GFA of approximately 100,000 sq.m. and Kanghua Hospital is licensed to deploy up to 2,006 beds for operation.

High quality healthcare services with strong focus on ethical medical practice has led to a consistent growth in patient volume at Kanghua Hospital. The table below sets forth certain key information of Kanghua Hospital for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Inpatient healthcare services				
Number of registered beds ⁽¹⁾	1,380	1,380	1,980	2,006
Number of beds in operation ⁽²⁾	1,008	1,060	1,069	1,076
Effective service capacity ⁽³⁾	367,920	386,900	390,185	130,196
Inpatient visits ⁽⁴⁾	34,988	36,538	37,393	12,861
Inpatient bed-days ⁽⁵⁾	330,751	337,983	320,578	103,949
ALOS (days) ⁽⁶⁾	9.5	9.3	8.6	8.1
Utilisation rate (%) ⁽⁷⁾	89.9	87.4	82.2	79.8
Average spending per visit (RMB) ⁽⁸⁾	12,314.9	13,087.9	13,856.7	15,305.2
Outpatient healthcare services				
Outpatient visits ⁽⁹⁾	832,639	900,102	952,125	326,449
Average spending per visit (RMB) ⁽¹⁰⁾	266.3	297.1	314.1	337.6
Surgical operations				
Number of surgeries performed ⁽¹¹⁾	19,373	20,504	20,655	7,063
Physical examination services				
Physical examination visits ⁽¹²⁾	91,652	101,191	113,951	24,479
Average spending per visit (RMB) ⁽¹³⁾	572.7	564.1	505.5	507.6

Notes:

- (1) Represents the number of beds that were registered in the hospital's practising license as at the end of the relevant period.
- (2) Represents the average number of beds deployed for operation during the given period. We adjust the number of beds in operation from time to time depending on the clinical requirements and patient demand.
- (3) Represents the estimated inpatient service capacity during the given period, calculated as the average number of beds deployed for operation during such period multiplied by the number of days in such period.
- (4) Represents the total number of inpatients (with hospital stay) in the hospital.
- (5) Represents the total number of bed-days of the hospital.

BUSINESS

- (6) Represents the average number of days an inpatient stays in the hospital.
- (7) Represents the percentage of beds in operation occupied by inpatients during the given period, as an indicator of the utilisation of beds in operation, calculated as the inpatient bed-days during such period divided by the effective service capacity during such period, multiplied by 100%.
- (8) Represents the average spending per inpatient visit calculated by dividing the revenue from inpatient healthcare services of the hospital by the number of inpatient visits of the hospital.
- (9) Represents the total number of outpatients (without hospital stay) in the hospital.
- (10) Represents the average spending per outpatient visit calculated by dividing the revenue from outpatient healthcare services of the hospital by the number of outpatient visits of the hospital.
- (11) Represents the number of surgeries performed at the hospital.
- (12) Represents the total number of patient visits for physical examination services.
- (13) Represents the average spending per physical examination visit calculated by dividing the revenue from physical examination services of the hospital by the number of physical examination visits of the hospital.

Kanghua Hospital has plentiful physical space available to expand its operational capacity. Kanghua Hospital may lease a further of approximately 29,000 sq.m. GFA in the medical technology zone for the installation and operation of medical facilities and equipment for advanced diagnostics, approximately 7,500 sq.m. GFA in Huaxin Building for further expansion of our VIP healthcare services, approximately 5,700 sq.m. GFA in the special outpatient zone for the development of special services for outpatients and approximately 10,000 sq.m. GFA in the office building for accommodating additional hospital administrative and management staff.

Key recognitions

Since its commencement of operation in 2006, Kanghua Hospital has evolved into a leading private general hospital in the PRC as evidenced by the following:

- Kanghua Hospital was the first private for-profit general hospital in the PRC rated as a Grade A Class III hospital, the highest classification for all hospitals in the PRC, having fulfilled a stringent set of criteria through its advanced medical capabilities, comprehensive service offerings, depth of specialisations, high standard of clinical governance, modern facilities and equipment and research and teaching capabilities;
- Kanghua Hospital has pioneered the advanced treatments of many complex and rare diseases in Dongguan, particularly in the fields of cardiology, cardiovascular surgery, O&G, general surgery, oncology, orthopaedics and plastic surgery. In particular, Kanghua Hospital completed the world's first complete taTME surgery using NOTES as an advanced and experimental treatment of rectal cancer;
- as at the Latest Practicable Date, Kanghua Hospital had (i) one National Key Clinical Discipline (國家臨床重點專科) in plastic surgery accredited by the NHFPC; (ii) three Guangdong Province Key Clinical Disciplines (廣東省臨床重點專科) in cardiology, general surgery and medical imaging, accredited by the Guangdong HFPC; and (iii) two Dongguan Special Disciplines (東莞市特色專科) in spine and joint surgery and thoracic surgery, accredited by the Dongguan HFPB;
- Kanghua Hospital attained ISO15189 - "Medical laboratories — Requirements for quality and competence" (醫學實驗室品質和能力的專用要求) accreditation from the CNAS in 2014 in recognition for its high quality and competence in medical laboratory diagnostics, allowing its test results to be recognised by international healthcare institution. Kanghua Hospital is the only hospital in Dongguan with such accreditation;

BUSINESS

- Kanghua Hospital excels in many healthcare disciplines. In terms of revenue in 2015, Kanghua had (i) the largest cardiology discipline; (ii) the largest O&G discipline; and (iii) the second largest orthopaedics discipline, respectively, all among private general hospitals in Southern China, according to Frost & Sullivan;
- the diagnostic and therapeutic endoscopy of Kanghua Hospital in gynaecology and general surgery have respectively attained a level 4 ranking (the highest level attainable) from the Guangdong HFPC in 2012 and 2014, allowing Kanghua Hospital to perform the most complicated endoscopic procedures in the respective specialties;
- Kanghua Hospital fulfilled a stringent set of criteria set out in The Eligibility Criteria for Teaching Hospitals of General Tertiary Medical Academic Institutions in Guangdong Province (廣東省普通高等醫學院校教學醫院評審合格標準) and was accredited as a “Teaching Hospital” (教學醫院) by the Guangdong HFPC in January 2012;
- Kanghua Hospital was awarded the first prize for hospital management (醫院管理一等獎) by the Dongguan HFPB in 2007;
- the Chest Pain Centre of Kanghua Hospital provides emergency care to patients with acute and life-threatening cardiac conditions and is the only national-grade chest pain centre in Dongguan recognised by the China Chest Pain Centre (中國胸痛中心); and
- Kanghua Hospital is recognised by the PRC medical authorities as a “designated” hospital (定點醫院) under the following healthcare programmes and services:
 - social insurance in Dongguan (東莞市社保定點醫院);
 - social insurance in Shenzhen (深圳社保定點醫院);
 - health assessment services to civil servants (公務員定點體檢單位);
 - health assessment services to drivers (駕駛員定點體檢醫院);
 - health assessment services to students taking part in college entrance examination in Dongguan (高考生體檢醫院);
 - treatment of cataracts in Dongguan (東莞白內障定點救治醫院);
 - treatment of leukaemia and congenital heart diseases for children in rural areas in Guangdong Province (廣東省農村兒童白血病和先心病定點救治醫院);
 - treatment of leukaemia and congenital heart diseases for insured children in Dongguan (東莞市參保兒童先心病、白血病定點救治醫院); and
 - prevention of cervical cancer in the PRC (中國宮頸癌防治工程定點醫院).

Infrastructure, facilities and equipment

Equipped with advanced medical facilities, we believe Kanghua Hospital is one of the most advanced general hospitals in the PRC, with the capability to diagnose and treat the most complex and critical medical emergencies and conditions. Kanghua Hospital was the first hospital in Southern China equipped with a Toshiba Aquilion ONE 640-slice CT scanner, one of the most advanced CT scanners in the world for cardiac imaging. Other advanced medical equipment include Philips ACHIEVA 1.5T MRI scanner,

BUSINESS

Philips ALLURA cardiovascular x-ray systems for digital subtraction angiography, Siemens YSIO digital radiography systems for general purpose diagnostics, Philips Forte Gamma Cameras for nuclear imaging and GE Healthcare Voluson E8, one of the most advanced O&G ultrasound systems in the world. The Department of Medical Imaging of Kanghua Hospital is recognised as a Guangdong Province Key Clinical Discipline (廣東省臨床重點專科). Committed to delivering the highest standard of clinical service and efficiency, we have implemented advanced streamlined laboratory automation systems and sample transmission systems at Kanghua Hospital. Such systems facilitate our doctors in making accurate diagnosis efficiently and reduce the risk of human error. The CCU, ICU and NICU at Kanghua Hospital have the capability to provide emergency and intensive care to a wide range of patients through multi-disciplinary teams of healthcare professionals and specialised equipment.

An internationally renowned architectural and engineering consultant HWP Planungsgesellschaft mbH from Germany was engaged to design the infrastructure and facility layout of Kanghua Hospital, including the location of its wards and medical departments and installation of medical and laboratory equipment, with a view to maximising specialisation, patients' comfort and rehabilitation, operational efficiencies, and health and safety for our patients and staff. For example, with the extensive use of atriums, skylights and glass corridors, our buildings and facilities in Kanghua Hospital were purposely constructed and positioned in a manner to maximise air ventilation and exposure to natural sunlight, thereby minimising the risk of cross-infection within the hospital. The highly dispersed layout of Kanghua Hospital with clear zoning and adequate isolation was designed to prevent over-concentration of patients and staff and minimise their unnecessary exposure to high risk clinical processes, such as biological waste management and radioactive procedures. In recognition of its ingenuity in design, engineering and construction, Kanghua Hospital was awarded a silver prize for the "National Construction and Engineering Award of Excellence (國家工程建設質量獎) by the National Construction and Engineering Quality Award Committee (國家工程建設質量獎審定委員會) in 2007. We engage landscape contractors to maintain the pleasant environment in the premises of Kanghua Hospital conducive to patients' recuperation. Furthermore, Kanghua Hospital has dedicated high-end facilities, such as the purpose-built Huaxin Building, to serve the needs of its VIP patients with luxurious hotel standard accommodation, and we believe it offers truly unique experience to patients unmatched in other public or mid-end private hospitals. See "*— Our Healthcare Services — Our special services — Our VIP healthcare services*".



BUSINESS

As part of our initiative in maximising clinical efficiency and patient convenience, in December 2015, Kanghua Hospital implemented an intelligent medical platform (智能醫療平台) that enables patients to perform online booking and registration, provide feedback on our services and doctors, make payments with their WeChat accounts and view medical reports with the use of only a mobile phone. Such platform provides added flexibility to our patients in managing their appointments, significantly reduces their waiting time involved, eliminates their unnecessary visitations to the hospital for medical reports that can be viewed online and, at the same time, allows us to allocate human resources to more critical clinical areas. For the four months ended 30 April 2016, we had received close to 40,000 payments, amounting to approximately RMB10 million, from our patients through such platform. We believe the use of such platform will continue to increase going forward and we intend to develop more functionalities with a view to improving our patients' experience.

Renkang Hospital



Having commenced operations in March 2008, Renkang Hospital is a full service general hospital that offers multi-disciplinary diagnosis and treatments to inpatients and outpatients similar to our Kanghua Hospital. It particularly focuses on geriatric patients in the community. It has a notably strong reputation in O&G, hand and foot microsurgery, digestive system and liver diseases, traumatology and geriatrics. It has not applied to be rated under the NHFPC classification system. In May 2012, Renkang Hospital was recognised as a top 30 hospital with sustainable development potential in Guangdong Province (廣東省可持續發展力三十強醫院) for 2010 to 2011 by the Provincial Affairs Investigation Centre of Guangdong Province (廣東省情調查研究中心) and Guangdong Province Hospital Association (廣東省醫院協會).

Renkang Hospital is recognised as a “designated” hospital (定點醫院) under the following healthcare programmes and services:

- social insurance in Dongguan (東莞市社保定點醫院);
- emergency centre in the national emergency hotline “120” network (120急救中心); and
- prevention of cervical cancer in the PRC (中國宮頸癌防治工程定點醫院).

BUSINESS

Geographic location

Renkang Hospital is located at Houjie Town (厚街鎮), a major industrial town of Dongguan. According to the People's Government of Houjie Town, Dongguan, as at 31 December 2014, Houjie Town had a household population of approximately 100,000 and a foreign resident population of approximately 338,000. Renkang Hospital has a service radius of approximately six kilometres and receives a substantial amount of patients from surrounding towns, such as Humen Town (虎門鎮) and Shatian Town (沙田鎮). It is conveniently situated along major bus routes connecting transportation hubs in Dongguan. The Houjie Station connecting to the Guangzhou—Dongguan—Shenzhen Intercity Railway will be situated in close proximity to Renkang Hospital. Such transportation hub will offer added convenience to patients commuting to Renkang Hospital. Renkang Hospital primarily services the local communities in the Dongguan region. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, approximately 84.3%, 83.5%, 83.4% and 83.5% of Renkang Hospital's inpatients, respectively, were from patients residing in Dongguan.

Operational capacity

As at 30 April 2016, Renkang Hospital had 424 beds in operation, 657 full-time staff (350 of which are healthcare professionals) and a leased GFA of approximately 73,000 sq.m. The outpatient area of Renkang Hospital occupies a leased GFA of approximately 10,000 sq.m. and has an estimated capacity to treat up to 4,000 outpatients a day. The inpatient area of Renkang Hospital occupies a leased GFA of approximately 29,800 sq.m. and is licensed to deploy up to 480 beds.

BUSINESS

The table below sets forth certain key information of Renkang Hospital for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
	Inpatient healthcare services			
Number of registered beds ⁽¹⁾	480	480	480	480
Number of beds in operation ⁽²⁾	375	424	424	424
Effective service capacity ⁽³⁾	136,875	154,760	154,760	51,304
Inpatient visits ⁽⁴⁾	14,568	15,070	13,906	3,998
Inpatient bed-days ⁽⁵⁾	112,968	116,896	106,236	30,199
ALOS (days) ⁽⁶⁾	7.8	7.8	7.6	7.6
Utilisation rate (%) ⁽⁷⁾	82.5	75.5	68.6	58.9
Average spending per visit (RMB) ⁽⁸⁾	6,080.6	7,105.2	7,903.3	8,815.2
Outpatient healthcare services				
Outpatient visits ⁽⁹⁾	375,750	397,545	367,059	110,586
Average spending per visit (RMB) ⁽¹⁰⁾	162.3	178.4	202.2	218.3
Surgical operations				
Number of surgeries performed ⁽¹¹⁾	6,274	7,851	7,183	1,895
Physical examination services				
Physical examination visits ⁽¹²⁾	260,734	299,184	341,624	100,404
Average spending per visit (RMB) ⁽¹³⁾	16.2	14.9	14.0	12.5

Notes:

- (1) Represents the number of beds that were registered in the hospital's practising license as at the end of the relevant period.
- (2) Represents the average number of beds deployed for operation during the given period. We adjusted the number of beds in operation from time to time depending on the clinical requirements and patient demand.
- (3) Represents the estimated inpatient service capacity during the given period, calculated as the average number of beds deployed for operation during such period multiplied by the number of days in such period.
- (4) Represents the total number of inpatients (with hospital stay) in the hospital.
- (5) Represents the total number of bed-days of the hospital.
- (6) Represents the average number of days an inpatient stays in the hospital.
- (7) Represents the percentage of beds in operation occupied by inpatients during the given period, as an indicator of the utilisation of beds in operation, calculated as the inpatient bed-days during such period divided by the effective service capacity during such period, multiplied by 100%.
- (8) Represents the average spending per inpatient visit calculated by dividing the revenue from inpatient healthcare services of the hospital by the number of inpatient visits of the hospital.
- (9) Represents the total number of outpatients (without hospital stay) in the hospital.
- (10) Represents the average spending per outpatient visit calculated by dividing the revenue from outpatient healthcare services of the hospital by the number of outpatient visits of the hospital.
- (11) Represents the number of surgeries performed at the hospital.
- (12) Represents the total number of patient visits for physical examination services.
- (13) Represents the average spending per physical examination visit calculated by dividing the revenue from physical examination services of the hospital by the number of physical examination visits of the hospital.

BUSINESS

Infrastructure, facilities and equipment

Similar to Kanghua Hospital, Renkang Hospital is equipped with advanced equipment to offer a wide range of medical diagnosis and procedures commonly required by the general public, such as MRI, ultrasound, CT scans, digital subtraction angiography, radiology, biochemistry analysis, genetic sequencing analysis, and multi-disciplinary endoscopic procedures. It features centralised air conditioning systems and intelligent infrastructure to improve clinical efficiency and maximise patient comfort. Being an emergency centre of the national emergency hotline “120” network (120 急救中心), the ICU and CCU at Renkang Hospital are fully equipped to respond to a wide range of emergency conditions requiring intensive care around the clock.

Synergies between Kanghua Hospital and Renkang Hospital

Kanghua Hospital and Renkang Hospital have separate senior management teams, healthcare teams, clinical governance structures, healthcare equipment and inventories. Their day-to-day management and clinical operations are largely independent of each other. However, since they are located only within a 15-minute drive of each other, we can leverage their combined expertise and resources where possible. For example:

- Renkang Hospital and Kanghua Hospital jointly established an outpatient service to provide the latest facial plastic procedures and comprehensive care for ENT;
- with the support from the Plastic Surgery Medical Centre at Kanghua Hospital, advanced plastic surgery offerings are made available at Renkang Hospital; the healthcare teams at Kanghua Hospital also provide regular professional training in plastic surgery to the healthcare teams at Renkang Hospital;
- we consolidate the procurement requirements of both our hospitals and collectively negotiate with their common suppliers for volume discounts, where practicable;
- with a view to facilitating knowledge exchange and promoting our brand, our hospitals regularly organise and participate in joint academic conferences and seminars, clinical research projects, training programmes and charity events. For example, an annual conference is held for young medical professionals of both hospitals for information exchange, training and development purposes;
- depending on the respective business and/or technical needs of Kanghua Hospital and Renkang Hospital, a dynamic allocation of workforce is implemented; doctors at Kanghua Hospital often consult at Renkang Hospital and provide guidance to their medical teams on rare and difficult medical conditions, surgeries and treatment of critically ill patients; and
- Renkang Hospital regularly refers patients who require more specialised and advanced diagnosis and/or medical care to Kanghua Hospital, for example, to use the 640-slice CT scanner or to undergo complex surgeries and procedures not available at Renkang Hospital.

Renkang Hospital has not applied to be rated under the NHFPC classification system. We intend to position Renkang Hospital as a more affordable community hospital targeted towards the local mass market in the immediate vicinity, while providing competitive pricing, better facilities, environment, service capabilities and quality than those of local public hospitals and other mid-end private hospitals. On account of the

BUSINESS

difference in target segment, Kanghua Hospital offers a wider scope of services with more sub-disciplines and more high-end medical services than Renkang Hospital. For the year ended 31 December 2015, the average spending per inpatient and outpatient at Kanghua Hospital was approximately 75% and 55% higher than that at Renkang Hospital, respectively.

Our management arrangement with Zhonglian Cardiovascular Hospital

Our management arrangement with Zhonglian Cardiovascular Hospital represents our cooperation with Mr. Chen Yangyong (陳楊永) (“**Mr. Chen YY**”) and Mr. Chen Jianping (陳見平) (“**Mr. Chen JP**”), who are private investors seeking investment opportunities in the healthcare industry. In around 2013, Mr. Chen YY and Mr. Chen JP approached our management to explore possibilities of cooperation leveraging the “Kanghua” brand and the management capabilities of the Kanghua healthcare team together with financial resources primarily from Mr. Chen YY and Mr. Chen JP (the “**Potential Cooperation**”). Dongguan Kanghua Healthcare Investment Co., Ltd. (東莞康華醫療投資管理有限公司) (“**DG Healthcare**”) was established as a vehicle for the purpose of the Potential Cooperation. As it was contemplated that, where applicable, any healthcare business opportunities identified through the Potential Cooperation would be under the “Kanghua” brand and managed by us, DG Healthcare adopted a corporate name bearing the word “Kanghua”. Furthermore, as Mr. Chen YY and Mr. Chen JP did not have any prior experience or reputation in the healthcare industry and primarily intended to play a passive investor role, with any preliminary activities expected to be driven by our senior staff, namely, Mr. Wang Baizhi (王柏枝) (“**Mr. Wang BZ**”) and Mr. Yue Chunyang (岳春陽) (“**Mr. Yue**”). Industry reputation and branding are important in the healthcare industry in the PRC and it was contemplated that holding DG Healthcare out as a “Kanghua” affiliated/supported entity would be of great strategic value for the purpose of seeking investment opportunities and conducting negotiations with relevant parties in the healthcare industry. In particular, we believe our “Kanghua” credibility and personnel inspire confidence in the healthcare industry and are conducive in facilitating preliminary activities such as discussions with local health authorities, recruitment of high quality healthcare professionals, marketing, penetration into communities and negotiation with suppliers and insurance providers. Thus, pursuant to a written nominee agreement, it was agreed at the time of establishment of DG Healthcare that Mr. Wang BZ and Mr. Yue would assist in the management of DG Healthcare and hold the equity interests in DG Healthcare on behalf of Mr. Chen YY and Mr. Chen JP. We believed that such arrangement would maximise the synergy and success of the Potential Cooperation and stakeholders would be more receptive in cooperating with DG Healthcare. In addition, such arrangement would strategically enhance the impression that DG Healthcare operates a healthcare business, as distinct from the multiple businesses Mr. Chen YY and Chen JP are engaged in, which are entirely unrelated to healthcare. The registered capital of DG Healthcare was entirely contributed by Mr. Chen YY and Mr. Chen JP.

In June 2016, given that the preliminary activities with respect to the commencement of operation of Zhonglian Cardiovascular Hospital had been substantially completed and with a view to clarifying the ownership structure of Zhonglian Cardiovascular Hospital for the purpose of the Listing, Mr. Yue and Mr. Wang BZ transferred their equity interests in DG Healthcare back to Mr. Chen YY and Mr. Chen JP. Save for the similarities in corporate names with our hospital management subsidiary, Kanghua Healthcare Management, DG Healthcare and its beneficial owners, Mr. Chen YY and Chen JP, are otherwise unrelated to our Group and are Independent Third Parties. To the best of the Directors’ knowledge, DG Healthcare is not interested in any business other than Zhonglian Cardiovascular Hospital.

BUSINESS

In June 2016, we, through our wholly-owned subsidiary, Kanghua Healthcare Management, entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases currently under development in Chongqing. The following table sets forth the salient terms of the management agreement:

Date:	24 June 2016
Parties:	<ol style="list-style-type: none">(1) Hospital manager: Kanghua Healthcare Management, our wholly-owned subsidiary;(2) Hospital owner: Dongguan Kanghua Healthcare Investment Co., Ltd. (東莞康華醫療投資管理有限公司) (“DG Healthcare”). DG Healthcare is ultimately owned as to (i) 80% by Mr. Chen Yangyong (陳楊永), an Independent Third Party and an entrepreneur with multiple business interests, primarily in real estate and metal hardware; and (ii) 20% by Mr. Chen Jianping (陳見平), an Independent Third Party and an entrepreneur primarily engaged in the furniture business. They are private investors seeking opportunities in, among other things, the healthcare industry; and(3) Managed hospital: Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases currently under development in Chongqing and wholly-owned by DG Healthcare.
Term:	1 July 2016 to 30 June 2026. Upon expiry of the management agreement, we shall have the preemptive right to renew the agreement under the same conditions for a term of 10 years.
Hospital management services:	<p>We were granted exclusive management rights over Zhonglian Cardiovascular Hospital. We may determine the extent and scope of our management services taking into account the development status and operating needs of Zhonglian Cardiovascular Hospital. Such management services may include:</p> <ul style="list-style-type: none">• <i>Assistance in preparation and construction.</i> Providing assistance to the preparation and construction of the hospital before it becomes operational, including clinical and overall hospital design, layout and planning.• <i>Management support.</i> Deploying the necessary management personnel (including clinical experts, hospital operators and business, financial and information technology managers) with a view to continuously improving the operational capacity, clinical quality and efficiency, human resources strategy, marketing, organisational structure, clinical governance, performance and training programmes of the hospital.

BUSINESS

- *Healthcare resources sharing.* Allocating certain of our surplus healthcare resources to the hospital, including our healthcare professionals and medical equipment, where practicable.
- *Information technology support.* Providing the hospital with access to information technology systems and the relevant technical support necessary for it to establish its own infrastructure and operations.
- *Marketing.* Permitting the hospital to use our brand “Kanghua” for better marketing purposes and assisting the hospital in fostering cooperative relationships with the communities and other healthcare facilities in the region.
- *Capital support.* If the hospital requires large scale refitting and equipment upgrades, subject to further negotiations and applicable laws and regulations, providing capital support to the hospital in the form of loan or by other means.
- *Equipment procurement and leasing.* Purchasing and leasing medical equipment to the hospital in return for a rental fee, and also providing the relevant installation services and training support.

Management fees:

In return for our management services, for the term of the management agreement, we are entitled to a monthly management fee of RMB200,000 plus 5% of the hospital’s monthly revenue to be settled within 20 days from the end of each quarter. We estimate that the fixed monthly management fee of RMB200,000 will be sufficient to cover our basic costs for providing management services to the hospital during its initial phase of operation. Such basic costs primarily include the salaries of management personnel and senior healthcare professionals we deploy to manage and oversee the operations of the hospital and the relevant administrative costs. Our management personnel and senior healthcare professionals will, among other things, assist Zhonglian Cardiovascular Hospital in building up its own team of healthcare professionals and other staff functions, and provide training to its staff. We are not responsible for the salaries of the staff employed by Zhonglian Cardiovascular Hospital.

Minimum performance target:

The agreement does not contemplate any such target.

Cost sharing arrangement:

The agreement does not contemplate any such arrangement. Any such arrangement shall be subject to further agreement among the parties from time to time.

Loss compensation arrangement:

The agreement does not contemplate any such arrangement. The Company will not compensate Zhonglian Cardiovascular Hospital for any losses incurred by it after commencement of operation.

BUSINESS

Insurance arrangement:	The agreement does not contemplate any such arrangement. It is expected any insurance expenses shall be on account of Zhonglian Cardiovascular Hospital.
Legal liabilities arising from medical accidents or disputes:	The agreement does not contemplate any arrangement with respect to such liabilities. As advised by our PRC Legal Advisers, Zhonglian Cardiovascular Hospital, as the holder of the relevant medical institution practising certificate, shall be primarily responsible for such liabilities; however if such liabilities were as a result of our wilful misconduct or gross negligence, Zhonglian Cardiovascular Hospital may have a claim against us as the hospital manager.
Option to purchase:	We have an option, exercisable at our absolute discretion at any time during the term of the agreement, to acquire the entire equity interest in Zhonglian Cardiovascular Hospital at a fair value to be determined by a professional valuer at the relevant time. We will closely monitor the performance and prospects of Zhonglian Cardiovascular Hospital and the conditions of our Group on an on-going basis to evaluate when and whether it would be in the interests of our Company and our Shareholders to exercise such option. As at the Latest Practicable Date, we had no intention to exercise such option to acquire Zhonglian Cardiovascular Hospital in the reasonably foreseeable future.
No disposal:	Unless otherwise agreed by the parties, DG Healthcare shall not dispose of, pledge or otherwise deal with, its interest in Zhonglian Cardiovascular Hospital.
Termination :	Neither party is entitled to early termination unless the other party commits a material breach of the agreement.

In June 2016, following arm's length negotiations with Zhonglian Cardiovascular Hospital, we provided a loan in the amount of RMB50.0 million to Zhonglian Cardiovascular Hospital with a view to supporting its launch preparations and operating cash flow during its ramp-up period. The principal amount of the loan is repayable at the expiry of one year and carries a monthly interest rate of 0.42% to be settled monthly in arrears. The interest rate is in line with the prevailing lending rate of major commercial banks in the PRC as it was determined with reference to the benchmark lending rate (貸款基準利率) of the PBOC. As advised by our PRC Legal Advisers, the provision of such loan does not violate mandatory laws and regulations, and the terms of such loan are binding upon both parties. However, our PRC Legal Advisers are of the view that the provision of such loan contravenes the General Lending Provisions (貸款通則), which are not mandatory laws and regulations but guidelines promulgated by the PBOC on 28 June 1996. As advised by our PRC Legal Advisers, the General Lending Provisions provide that enterprises engaged in lending activities without authorisation shall be fined by the PBOC one to five times of the gain involved; however the risk that PBOC will impose any fine on us because of the loan advanced to Zhonglian Cardiovascular Hospital for business purposes (or similar lending activities in the future) is negligible because: (i) according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) promulgated by the Supreme People's Court on 6 August 2015 (the

BUSINESS

“Provisions”), private lending contracts concluded between legal persons or other organisations for production and operation purposes are valid, legally binding and enforceable, except for circumstances stipulated in the Contract Law and the Provisions resulting in a void contract; (ii) as the interest rate of the loan is not more than 24% p.a., the people’s courts will rule in favour of the lender in receiving such interest income; and (iii) as at the Latest Practicable Date, we had not received any notice from the regulatory authorities (including the PBOC) against our lending activity and no disputes had arisen from our lending activity.

We intend to apply approximately HK\$49.2 million from, or approximately 4.9% of, the net proceeds from the Global Offering (assuming an Offer Price of HK\$13.05, being the mid-point of the Offer Price Range and assuming the Over-allotment Option is not exercised) to our management arrangement with respect to Zhonglian Cardiovascular Hospital, out of which (i) approximately 50% will be used for the purchase of medical equipment that will be leased to Zhonglian Cardiovascular Hospital; (ii) approximately 25% will be used to provide further capital support; and (iii) approximately 25% will be used to hire additional management staff in view of the anticipated expansion of Zhonglian Cardiovascular Hospital to 500 beds by its third year of operation and other related costs, such as the provision of training to the expanding hospital staff. See also “Use of Proceeds”. With respect to the leasing of medical equipment mentioned in (i) above, we expect that a monthly rental to be determined on a cost plus basis with reference to the estimated life expectancy, depreciation cost and on-going maintenance cost of the relevant equipment will be charged to Zhonglian Cardiovascular Hospital. With respect to the further capital support mentioned in (ii) above, we expect that such further capital support will be provided in the form of a short term loan of not more than one year from the date such loan is advanced with an interest rate to be determined with reference to the benchmark lending rate (貸款基準利率) of the PBOC. We expect the principal amount of such loan to be repayable at the expiry of its term with interest payable monthly in arrears. Subject to the operating needs of Zhonglian Cardiovascular Hospital, other than disclosed above, we do not presently have any intention to provide further capital support to Zhonglian Cardiovascular Hospital because we expect Zhonglian Cardiovascular Hospital will be able to secure its banking facilities independently as its operations mature in the future.

Zhonglian Cardiovascular Hospital is located in Jiangbei District (江北區), Chongqing. The land and building underlying Zhonglian Cardiovascular Hospital were previously occupied by a public hospital, Chongqing Red Cross Hospital (重慶市紅十字會醫院). Zhonglian Cardiovascular Hospital acquired the land and building from the Chongqing government in January 2016 and obtained the relevant title certificates in May and June 2016. The hospital building has a GFA of approximately 17,000 sq.m. and is currently being refurbished into a medical complex with inpatient and outpatient capability and specialisation in cardiovascular diseases. The hospital is expected to be a private for-profit specialty hospital in cardiovascular diseases. It is currently in the process of obtaining the requisite licenses for its operations and hiring a team of hospital operators, medical professionals and support staff to establish its clinical governance structure, management and administrative and ancillary functions. The major construction works of the hospital building are substantially complete. It is expected that the major fitting out works of the hospital will be substantially complete in around October 2016. The hospital is in the process of performing off-site testing and configuration of medical equipment and clinical systems. As advised by our PRC Legal Advisers, the Medical Institution Practicing License (醫療機構執業許可證) is the fundamental license required for a hospital to commence operations in the PRC, and such license will only be issued to a healthcare institution when its clinical infrastructure and systems are substantially installed. As at the Latest Practicable Date, the hospital had yet to reach the stage for applying such license.

BUSINESS

Based on the development status of Zhonglian Cardiovascular Hospital, we currently expect that it will be able to obtain the Medical Institution Practicing License in December 2016. As the operations of Zhonglian Cardiovascular Hospital mature, its scope of service is expected to expand, requiring various other licenses, which may include the License for Deployment of Large Medical Equipment (大型醫用設備配置許可證), the License for Radiotherapy (放射診療許可證) and/or the Radiation Safety License (輻射安全許可證). We will assist Zhonglian Cardiovascular Hospital to apply for such licenses as and when appropriate.

Zhonglian Cardiovascular Hospital is expected to become operational by the end of 2016 with an initial operational capacity of 100 beds and 300 staff (approximately 200 of which are expected to be healthcare personnel). The hospital is expected to open up approximately 15 healthcare disciplines upon commencement, including outpatient (門診部), emergency medicine (急診醫學部), health management centre (健康管理中心), respiratory medicine (呼吸內科), cardiovascular medicine (心血管內科), paediatric cardiac surgery (小兒心臟外科), adult cardiac surgery (成人心臟外科), thoracic surgery (胸外科), anaesthesiology (麻醉科), laboratory medicine (醫學檢驗科), medical imaging (醫學影像科), special clinic (特診科), blood transfusion (輸血科), nutrition (營養科) and rehabilitation medicine (康復醫學科). The operational capacity of the hospital is expected to be gradually increased to more than 500 beds by its third year of operation when it is fully completed. The design maximum outpatient capacity of the hospital is estimated at 540,000 patients a year. The hospital is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions.

According to Frost & Sullivan, Chongqing was one of the first cities in the PRC to have entered into an ageing society (高齡化社會) with the proportion of population aged above 65 growing from approximately 11.6% to 12.0% from 2010 to 2014, which was higher than the national average of the respective year. According to Frost & Sullivan, a larger ageing population indicates a wider prevalence of cardiovascular diseases such as hypertension and heart diseases. Frost & Sullivan estimated that, based on data published by the NHFPC, there were approximately 4,500,000 and 770,000 people in Chongqing suffering from hypertension and heart diseases, respectively, in 2014. We expect that the increasing patient pool in Chongqing will drive the demand for cardiovascular healthcare services.

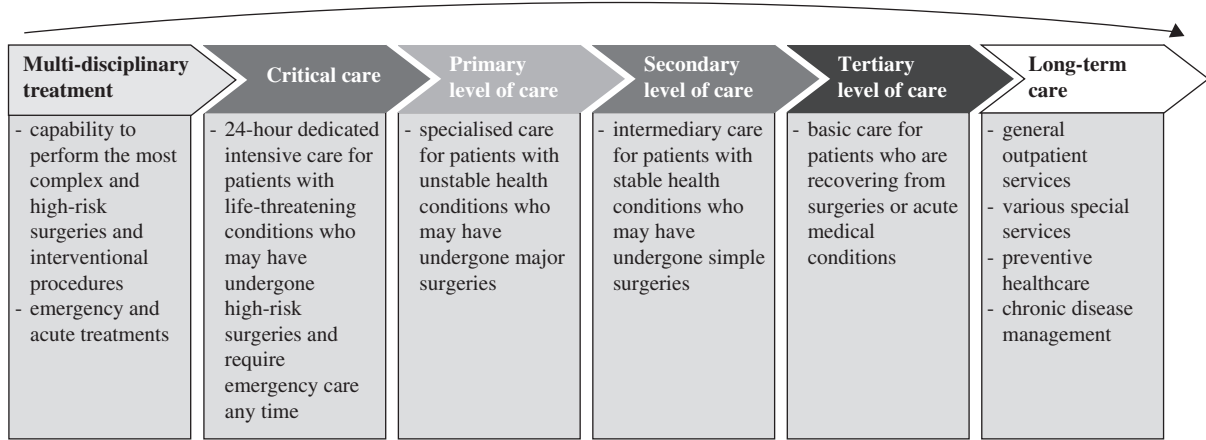
Zhonglian Cardiovascular Hospital is our first managed hospital and our first presence out of Guangdong Province. Although we do not have prior experience in managing third party hospitals, and our hospital operations have historically been limited to Guangdong Province, we are confident that we are able to leverage our successful track record in operating Kanghua Hospital, clinical and human resources and brand recognition to replicate our success with Zhonglian Cardiovascular Hospital and other managed hospitals in the future.

OUR HEALTHCARE SERVICES

Continuum of healthcare services

As a leading private general hospital operator in the PRC, we are dedicated to delivering a continuum of healthcare services to support our patients at every stage of their lives. The continuum of healthcare services involves an integrated system and a comprehensive array of healthcare services covering advanced clinical diagnostics, and all levels of care delivered through our multi-disciplinary teams of healthcare professionals. The following graph illustrates the continuum of healthcare services provided by us:

Rehabilitation and recuperation services with high-end VIP settings available



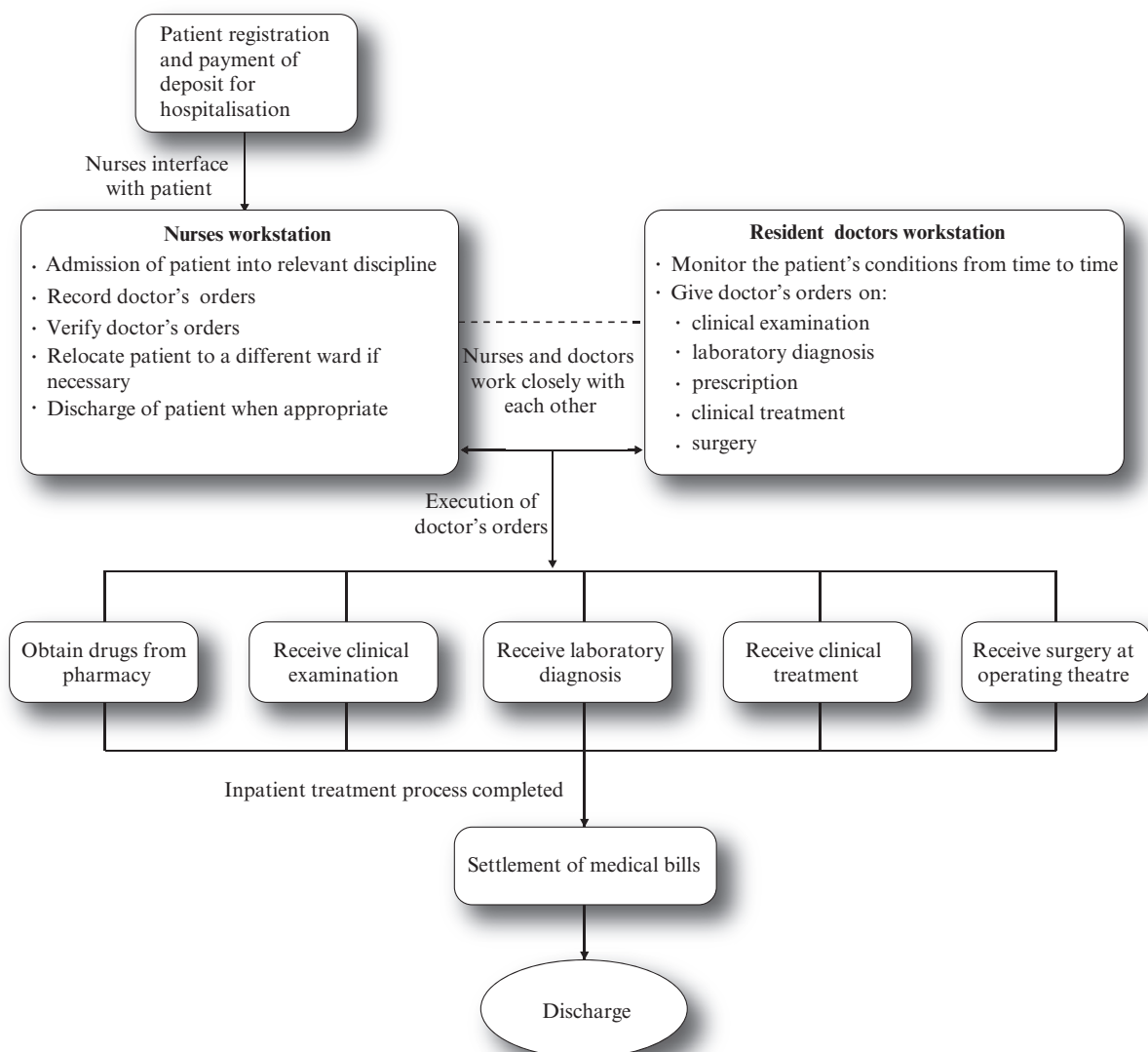
Integrated care pathway supported by full-range diagnostics and multi-disciplinary teams of healthcare professionals treating patients of all age groups

Overview of our healthcare services

Our treatment processes

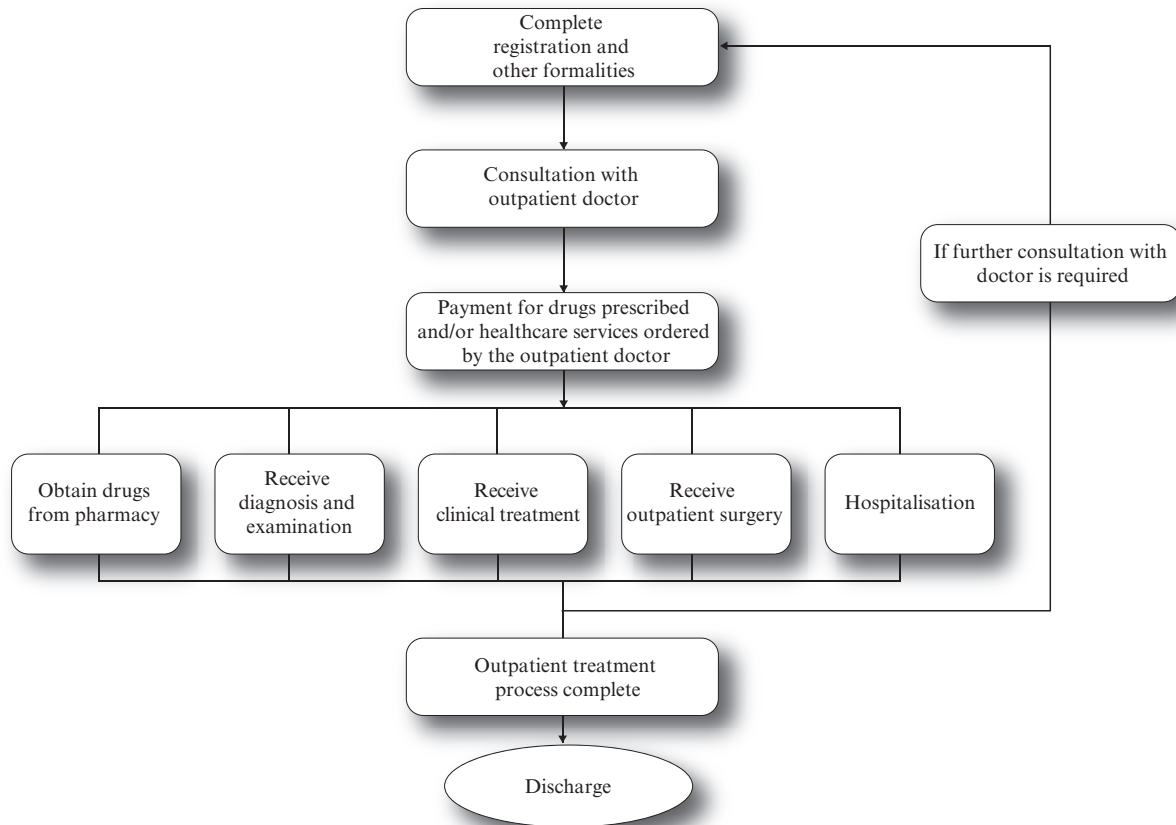
The treatment processes of our healthcare services can be generally divided into three categories: (i) inpatient healthcare services; (ii) outpatient healthcare services; and (iii) physical examination services.

Inpatient healthcare services refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time, usually several days or weeks, subject to the patients' conditions and recovery. The following diagram sets forth an overview of the treatment process of our inpatient healthcare services:

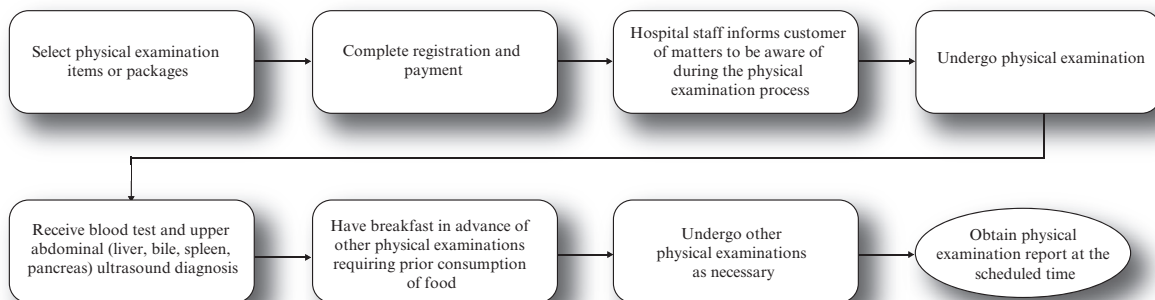


BUSINESS

Outpatient healthcare services refer to the treatment of patients who are hospitalised for less than 24 hours. Outpatient surgeries (門診手術) involving minor or intermediate procedures that are less invasive are sometimes performed without the need for overnight hospitalisation. The following diagram sets forth an overview of the treatment process of our outpatient healthcare services:



Physical examination services refer to the clinical examination of individuals for signs of diseases and health advisory services. Individuals may seek such services for a number of reasons, including routine check-ups, pre-employment health check, driver's check-ups, school admission and travels. Corporations and government administrations may also purchase our physical examination packages for their employees. The following diagram sets forth an overview of the treatment process of our physical examination services:



BUSINESS

Our healthcare disciplines

Our healthcare disciplines can be divided into two main categories: (i) clinical disciplines (臨床科室) that are directly involved in the treatment and care of patients; and (ii) medical technology disciplines (醫技科室) that provide technical support to all our clinical disciplines through a wide array of diagnosis and treatments according to clinical requirements often using highly specialised techniques and medical equipment. The following table sets forth an overview of our healthcare disciplines by hospital as at the Latest Practicable Date:

Healthcare disciplines		Kanghua Hospital	Renkang Hospital
Clinical disciplines (臨床科室)			
1 O&G related disciplines (婦產科科室)	Obstetrics (產科)	✓	✓
	VIP Obstetrics (VIP產科)*	✓	—
	Gynaecology (婦科)	✓	✓
	VIP Gynaecology (VIP婦科)*	✓	—
	Neonatology (新生兒科)	✓	✓
	Reproductive medicine (生殖醫學科)*	✓	—
2 Cardiovascular related disciplines (心血管科室)	Cardiology (心內科)	✓	✓
	Cardiovascular surgery (心外科)	✓	—
	CCU	✓	—
3 Orthopaedics related disciplines (骨科科室)	Orthopaedics (骨科)	✓	✓
	Traumatology (創傷骨科)	✓	—
	Hand and foot microsurgery (手足顯微外科)	✓	✓
	Spine and joint surgery (脊柱關節外科)	✓	—
4 Physical examination (體檢科)		✓	✓
5 General surgery related disciplines (普通外科科室)	Gastrointestinal thyroid hernia surgery (胃腸甲狀腺疝外科)	✓	—
	Hepatobiliary surgery (肝膽胰外科)	✓	—
	Anorectal surgery and haemorrhoids (肛腸外科及痔瘡)	—	✓
	Breast surgery (乳腺外科)	✓	✓
	Urology (泌尿外科)	✓	✓
	Thoracic surgery (胸外科)	✓	✓
6 Neurology related disciplines (神經醫學科)	Neurology (神經內科)	✓	✓
	Neurosurgery (神經外科)	✓	✓
7 Oncology related disciplines (腫瘤科)	Oncology (腫瘤科)	✓	✓
	Minimally invasive treatment (微創治療科)	✓	—
8 Paediatrics related disciplines (兒童醫學科)	Paediatrics (兒科)	✓	✓
	Child healthcare (兒童保健科)	✓	—
	NICU	✓	—
9 Medical aesthetic related disciplines (醫學美容科)	Plastic and aesthetic surgery (整形美容外科)*	✓	✓
	Laser treatment (激光科)*	✓	—
	Burn care (燒傷專科)	✓	—
	Burn and plastic surgery (燒傷整形外科)	✓	—

BUSINESS

Healthcare disciplines		Kanghua Hospital	Renkang Hospital
10 Internal medicine related disciplines (內科科室)	Endocrinology (內分泌科)	✓	✓
	Rheumatology (風濕科)	✓	—
	Immunology (免疫科)	✓	—
	Haematology (血液科)	✓	✓
	Gastroenterology (消化內科)	✓	✓
	Respiratory medicine (呼吸內科)	✓	✓
11 Nephrology related disciplines (腎臟科科室)	Nephrology (腎內科)	✓	✓
	Haemodialysis (血液透析)	✓	✓
12 Emergency medicine related disciplines (急診科室)	Emergency internal medicine (急診內科)	✓	✓
	Emergency surgery (急診外科)	✓	✓
	Emergency paediatrics (急診兒科)	✓	✓
	ICU	✓	—
13 Other clinical disciplines (其他臨床科室)	General outpatient (簡易門診)	✓	—
	VIP outpatient (VIP門診)*	✓	✓
	Endoscopy (內鏡科)	✓	✓
	Stomatology (口腔科)	✓	✓
	Psychology, psychiatry and sleep medicine (心理科、精神科及睡眠醫學科)	✓	✓
	Dermatology (皮膚科)	✓	✓
	Ophthalmology (眼科)	✓	✓
	ENT (耳鼻喉科)	✓	✓
	Anaesthesiology (麻醉科)	✓	✓
	Chinese medicine (中醫科)	✓	✓
	Infectious disease (感染科)	✓	—
	Pain medicine (疼痛科)	✓	—
	Rehabilitation (康復科)	✓	✓
	Preventive healthcare (預防保健科)	✓	—
	Geriatrics (老年醫學科)	—	✓
	Dietetics and nutrition (臨床營養科)	✓	—
Medical technology disciplines (醫技科室)			
14 Medical imaging (醫學影像)	Ultrasonography (超聲科)	✓	✓
	Nuclear medicine (核醫學科)	✓	—
	Radiology (放射科)	✓	✓
15 Laboratory medicine (檢驗醫學)	Clinical laboratory (檢驗科)	✓	✓
	Pathology (病理科)	✓	✓
16 Other medical technology disciplines (其他醫技科室)	Neuroelectrophysiology room (神經電生理室)	✓	—
	Electrocardiogram (心電圖)	✓	✓
	Cardiac function room (心功能室)	✓	—
	Hyperbaric medicine (高壓氧科)	✓	—

Note:

Services considered our “special services” are denoted by *, namely, VIP obstetrics (VIP產科), VIP gynaecology (VIP婦科), VIP outpatient (VIP門診), reproductive medicine (生殖醫學科), plastic and aesthetic surgery (整形美容外科) and laser treatment (激光科). For more information, please see “— Our special services”.

BUSINESS

Revenue contribution from our healthcare services

In terms of our treatment processes

The following table sets forth the revenue contribution from (i) inpatient healthcare services; (ii) outpatient healthcare services; and (iii) physical examination services:

Treatment processes	Year ended 31 December						Four months ended 30 April	
	2013		2014		2015		2016	
	Revenue (RMB'000)	% of our total revenue (RMB'000)	Revenue (RMB'000)	% of our total revenue (RMB'000)	Revenue (RMB'000)	% of our total revenue (RMB'000)	Revenue (RMB'000)	% of our total revenue
Inpatient healthcare services	519,456	60.5	585,281	59.4	628,045	59.0	232,083	61.1
Outpatient healthcare services	282,696	32.9	338,282	34.3	373,265	35.1	134,361	35.3
Physical examination services	56,722	6.6	61,545	6.3	62,392	5.9	13,677	3.6
Total	858,874	100.0	985,108	100.0	1,063,702	100.0	380,121	100.0

BUSINESS

In terms of our healthcare disciplines

Our medical technology disciplines provide diagnostic and treatment support according to the requirements of our clinical disciplines from time to time. Revenue derived from services delivered through our medical technology disciplines is generally recognised in the relevant clinical disciplines that utilised such services. The following table sets forth the revenue contribution from our healthcare disciplines for the periods indicated:

Healthcare disciplines	Year ended 31 December						Four months ended 30 April	
	2013		2014		2015		2016	
	Revenue (RMB'000)	% of our total revenue	Revenue (RMB'000)	% of our total revenue	Revenue (RMB'000)	% of our total revenue	Revenue (RMB'000)	% of our total revenue
1 O&G related disciplines (婦產科科室)	139,349	16.2	175,672	17.8	185,008	17.4	66,448	17.5
2 Cardiovascular related disciplines (心血管科室) . . .	84,218	9.8	93,300	9.5	106,558	10.0	46,419	12.2
3 Internal medicine related disciplines (內科科室)	90,589	10.5	99,945	10.1	106,745	10.0	39,700	10.4
4 General surgery related disciplines (普通外科科室) .	86,907	10.1	91,252	9.3	100,023	9.4	33,845	8.9
5 Emergency medicine related disciplines (急診科室)	45,664	5.3	52,031	5.3	59,827	5.6	26,032	6.8
6 Neurology related disciplines (神經醫學科室) .	53,767	6.3	58,568	5.9	67,556	6.4	25,110	6.6
7 Orthopaedics related disciplines (骨科科室)	69,664	8.1	76,249	7.7	79,231	7.4	24,130	6.4
8 Paediatrics related disciplines (兒童醫學科室) .	38,788	4.5	39,987	4.1	38,314	3.6	15,302	4.0
9 Physical examination (體檢科)	56,722	6.6	61,545	6.3	62,392	5.9	13,677	3.6
10 Oncology related disciplines (腫瘤科室)	36,884	4.3	45,720	4.7	39,708	3.7	11,193	2.9
11 Medical aesthetic related disciplines (醫學美容科室) .	21,594	2.5	24,954	2.5	25,089	2.4	8,996	2.4
12 Nephrology related disciplines (腎臟科科室) . . .	13,457	1.6	21,015	2.1	24,657	2.3	8,606	2.3
13 Other disciplines (其他科室)	121,271	14.2	144,870	14.7	168,594	15.9	60,663	16.0
Total	<u>858,874</u>	<u>100.0</u>	<u>985,108</u>	<u>100.0</u>	<u>1,063,702</u>	<u>100.0</u>	<u>380,121</u>	<u>100.0</u>

BUSINESS

Highlights of our healthcare services

Since our inception, we have established multiple key healthcare services that are highly regarded in the industry. The following table sets forth details of our key healthcare services and their highlights:

Key healthcare service	Description	Service highlights
<i>Clinical disciplines</i>		
Cardiovascular related disciplines (心血管科室)	We provide a full range of preventive care, diagnostics, minimally invasive treatment, interventional therapies, open heart surgeries, pacemaker implantation, and transplants for infants, children and adults and cardiac rehabilitation services. Kanghua Hospital has fully equipped catheterisation laboratories staffed by multi-disciplinary healthcare professionals to provide advanced diagnostic imaging of the cardiovascular system. The CCU and ICU of Kanghua Hospital have the capability to provide 24-hour intensive and emergency care to patients with critical heart conditions requiring continuous monitoring and intensive treatments. The Chest Pain Centre (胸痛中心) of Kanghua Hospital is a unit dedicated to delivering emergency care to patients with acute chest conditions that may be life-threatening.	<ul style="list-style-type: none"> The Department of Cardiology of Kanghua Hospital is accredited as a Guangdong Province Key Clinical Discipline (廣東省臨床重點專科) by the Guangdong HFPC. According to Frost & Sullivan, Kanghua Hospital had the largest cardiology discipline by revenue among private general hospitals in Southern China in 2015. The Chest Pain Centre (胸痛中心) of Kanghua Hospital is the only national chest pain centre (國家級胸痛中心) in Dongguan recognised by the China Chest Pain Centre (中國胸痛中心). Kanghua Hospital is a designated hospital for the treatment of congenital heart diseases for children in rural areas in Guangdong Province and insured children in Dongguan, respectively. Kanghua Hospital has industry leading capability in coronary intervention and radiofrequency ablation procedures.
O&G related disciplines (婦產科科室)	<p>We offer a wide range of obstetrical and gynaecological procedures and services such as ultrasound, laparoscopy, hysteroscopy, minimally invasive treatment, treatment of gynaecologic cancer, antenatal care, normal deliveries, caesarean section deliveries, painless labour and management of high-risk pregnancies; and neonatology procedures and services for pre-mature or ill infants, including preventive care, diagnosis, and treatment. The ICU and NICU at Kanghua Hospital work closely together to provide intensive care to mothers and critically ill infants.</p> <p>We also offer advanced assisted reproductive technology including artificial insemination, IVF, embryo transfer, enhancement of sperm mobility, cryo-preservation, assisted embryo hatching and various male and female infertility treatments. We have recently made available fertility assessment and consultation services for outpatients in view of increased demand due to the recent official announcement of the two-child policy.</p>	<ul style="list-style-type: none"> According to Frost & Sullivan, Kanghua Hospital had the largest O&G discipline by revenue among private general hospitals in Southern China in 2015. The diagnostic and therapeutic endoscopy of Kanghua Hospital in gynaecology attained level 4 (the highest level attainable) from the Guangdong HFPC, allowing Kanghua Hospital to perform the most complicated gynaecologic procedures using endoscopic techniques. Kanghua Hospital and Renkang Hospital delivered more than 4,000 and 1,900 babies, respectively, in 2015. Our doctors at Kanghua Hospital had, in the past, safely delivered many high risk and complicated pregnancies, including monozygotic triplets (單卵三胎), an extremely rare type of pregnancy which comes with an increased risk of complications. Our Kanghua Hospital and Renkang Hospital are designated hospitals for the prevention of cervical cancer in the PRC (中國宮頸癌防治工程定點醫院). We offer VIP O&G services involving personalised and private care and treatment of mothers before and during their pregnancy, at childbirth and during the period of recuperation following childbirth. We cooperate with BGI (華大基因), a multinational genomics company, to offer prenatal non-invasive high-end genetic testing services for various hereditary diseases and chromosomal abnormalities in the foetus.
Medical aesthetic related disciplines (醫學美容科室)	We offer advanced and specialised burn care, aesthetic plastic surgeries, congenital malformations correction procedures, reconstructive and maxillofacial surgeries, body shaping, integrated scar treatments and prevention, wound treatments, laser treatments and cell transplants. We provide a holistic care environment to burn patients, including functional and psychological rehabilitation services with a view to improving their re-integration into society.	<ul style="list-style-type: none"> The Department of Plastic Surgery of Kanghua Hospital is accredited as a National Key Clinical Discipline (國家臨床重點專科) by the NHFPC. Kanghua Hospital was the first batch of hospitals in the PRC to receive this accreditation. The Department of Plastic Surgery of Kanghua Hospital has received numerous research funding from the National Natural Science Foundation of China (國家自然科學基金), the Guangdong Province Young Science and Technology Fund (廣東省青年科技基金) and the Dongguan Science and Technology Bureau (東莞市科技局). The advanced burn care offered by Kanghua Hospital has successfully treated numerous patients with burns covering more than 90% of the body.

BUSINESS

Key healthcare service	Description	Service highlights
<p>General surgery related disciplines (普通外科科室)</p>	<p>We encompass many areas of general surgery concerned with the care of complex and acute abdominal conditions relating to the oesophagus, stomach, bowel, colon, liver, pancreas, gallbladder, bile duct, among other organs, and conditions involving the breast and peripheral blood vessels. We have the capability to perform emergency general surgery, radiofrequency ablation, particle implantation therapy, advanced laparoscopic surgery, endoscopic treatment, open surgery and interventional procedures to treat a variety of conditions including lump, tumour, cancer, blocked duct, internal haemorrhage, haemorrhoid, hernia and calculus.</p>	<ul style="list-style-type: none"> • The Department of General Surgery of Kanghua Hospital is accredited as a Guangdong Province Key Clinical Discipline (廣東省臨床重點專科) by the Guangdong HFPC. • The diagnostic and therapeutic endoscopy of Kanghua Hospital in general surgery attained level 4 (普通外科四級) (the highest level attainable), allowing Kanghua Hospital to perform the most complicated general surgeries using endoscopic techniques. Kanghua Hospital was the first batch of hospitals in Guangdong Province to have achieved this accreditation. • Kanghua Hospital also completed the world's first complete taTME surgery using NOTES for an advanced and experimental treatment of cancer found in the rectum. Such technique was recognised as a monumental milestone in the minimally invasive treatment of cancer found in the rectum.
<p>Orthopaedics related disciplines (骨科科室)</p>	<p>We offer a wide range of treatments for injuries and non-traumatic diseases of bones, joints and other supportive tissues. Typical surgical operations include arthroscopic joint surgeries, joint replacement surgeries, reconstructive surgeries of tissues, bones and joints due to injuries or diseases, and surgical treatments of spinal diseases and injuries. By applying advanced 3D-printing technology, we are able to replicate models of defective joints, allowing us to identify matching prosthesis and develop precise surgical plans for complex orthopaedic procedures. Such technology considerably shortens surgical operation time and increases success rate. Non-surgical treatments typically involve the use of splints and other supportive devices.</p> <p>We offer recuperation and rehabilitation services to patients who have undergone orthopaedic surgeries. Emergency orthopaedic care is also available.</p>	<ul style="list-style-type: none"> • The Department of Spine and Joint Surgery at Kanghua Hospital is accredited as a Dongguan Special Discipline (東莞市特色專科) by the Dongguan HFPB. • According to Frost & Sullivan, Kanghua Hospital had the second largest orthopaedics discipline by revenue among private general hospitals in Southern China in 2015. • Kanghua Hospital pioneered many complex orthopaedic surgical procedures. For example, it was the first hospital in the PRC to have successfully performed an endoscopic lumbar inter-body fusion procedure and the treatment of multiple cervical disc herniation using a combination of disc replacement techniques and radiofrequency ablation, respectively. • The invention of a transformable discectomy tool kit (一種可調型椎間盤切除刀套件) by a team of leading orthopaedic surgeons at Kanghua Hospital was successfully registered as a national patent. This invention has significant applications in minimally invasive surgeries on the human spinal cord, which we believe fills the medical capability gap in this respect in the PRC.
<p>Haematology (血液科)</p>	<p>We provide both clinical and laboratory services for the diagnosis and treatment of all blood and blood related disorders, such as various forms of anaemia, lymphoma, immune deficiency, bone marrow cancer, myelodysplastic syndromes, thalassemia and leukaemia. These services include bone marrow transplant, MICM classification of leukaemia, molecular targeted therapy, combination chemotherapy and cell-based immunotherapy.</p>	<ul style="list-style-type: none"> • The haematology unit at Kanghua Hospital has more than 60 beds, including laminar flow beds (beds in a sterile environment that help control infections in patients after treatments such as chemotherapy and bone marrow transplants) and beds dedicated to blood-loss anaemia (貧血出血病), leukaemia and lymphoma. We believe Kanghua Hospital has one of the largest haematology units offering the widest range of haematology treatment programmes in Dongguan. • Kanghua Hospital is a designated hospital for the treatment of leukaemia for children from rural areas in Guangdong Province and insured children in Dongguan, respectively.

BUSINESS

Key healthcare service	Description	Service highlights
<i>Medical technology disciplines</i>		
Medical imaging (醫學影像)	Equipped with advanced medical facilities, we provide some of the highest quality diagnostic imaging and image-guided therapies available in Southern China, including interventional radiology, three- and four-dimensional ultrasound imaging, colour ultrasound, diagnostic X-rays, mammography, MRI, cardiac imaging, CT and nuclear medicine. These procedures support patients of all clinical disciplines.	<ul style="list-style-type: none"> • The Department of Medical Imaging of Kanghua Hospital is accredited as a Guangdong Province Key Clinical Discipline (廣東省臨床重點專科) by the Guangdong HFPC and the only hospital in Dongguan with such accreditation. • Kanghua Hospital was the first private Grade A Class III general hospital in Guangdong Province to be qualified to perform radioactive seed implantation (放射性粒子植入技術), an advanced radiation therapy for the treatment of cancer, particularly prostate cancer. It is also the only private Grade A Class III general hospital in Dongguan with such qualification. Radioactive seed implantation therapy results in fewer side effects than traditional external-beam radiation, and is particularly appropriate for late-stage cancer patients. • Kanghua Hospital has industry leading capability in ultrasound cardiovascular diagnosis and complex fetal deformities detection. • Kanghua Hospital also offers advanced high-intensity focused ultrasound, a non-invasive alternative to conventional invasive surgeries in the treatment of cancers, particularly for the treatment of gynaecologic tumours. • Kanghua Hospital was the first hospital in Southern China to be equipped with a 640-slice CT scanner, one of the most advanced CT scanners in the world for cardiac imaging.
Laboratory medicine (檢驗醫學)	<p>We operate a large modern laboratory (1,500 sq.m.) at Kanghua Hospital fully equipped with a complete line of advanced and automatic diagnostic laboratory instruments. The laboratory operates 24 hours a day and 365 days a year, with rapid turnaround capability to respond to medical emergencies. The laboratory also includes a blood bank with sufficient reserve of different blood units for patients who require immediate blood transfusion.</p> <p>We offer more than 550 general laboratory tests for the analysis of all body fluids in clinical examination, biochemistry, serology and immunology, histopathology, microbiology, molecular biology, and cytogenetics. These tests form the backbone of medical treatment, clinical diagnosis and prevention, allowing our doctors to accurately assess patient health and make proper clinical decisions. Our information systems enable test results to be disseminated efficiently and securely to our doctors and patients. Self-service information platforms are also available for the convenience of our patients who may check their test results on the internet.</p>	<ul style="list-style-type: none"> • Kanghua Hospital attained ISO15189 from the CNAS in recognition of its high quality and competence in medical laboratory diagnostics, allowing its test results to be recognised by international healthcare institutions. Kanghua Hospital is the only hospital in Dongguan with such accreditation. • Kanghua Hospital has implemented advanced streamlined laboratory automation systems and sample transmissions systems to generate test results accurately and efficiently. • Kanghua Hospital undertakes numerous research projects and teaching activities in laboratory medicine with renowned academic institutions, such as Southern Medical University (南方醫科大學).

BUSINESS

Our special services

Our special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for the more affluent patients that we regularly receive. We believe these services differentiate us as a high-end healthcare provider. On account of the increasingly diverse healthcare needs of our patients, we have begun to expand and ramp up our offerings of special services in recent years. These services are priced at our discretion and are generally more expensive than basic medical services. For more information on our pricing, please see “— *Regulatory Pricing Control and Our Pricing*”. These services are not typically covered under social insurance programmes. Patients usually pay for these services themselves or seek reimbursements from commercial insurance providers.

Our special services feature a combination of highly skilled and qualified medical professionals, advanced medical technology and equipment and premium clinical environment. For this reason, services of similar level are not generally offered in every hospital. In particular, according to the NHFPC, due to public policy reasons, VIP healthcare services at public hospitals as a percentage of total healthcare services is not allowed to exceed 10% in terms of service volume. Such restrictions widen the supply-and-demand gap in the market of high-end healthcare services and present opportunities for private hospitals to sustain rapid growth in this market.

BUSINESS

As at the Latest Practicable Date, our special service offerings were as follows:

Special service	Description
1. VIP healthcare services <ul style="list-style-type: none"> — VIP obstetrics (VIP產科) — VIP gynaecology (VIP婦科) — VIP outpatient (VIP門診) 	See “— <i>Our VIP healthcare services</i> ” for further details.
2. Reproductive medicine (生殖醫學科)	<p>Kanghua Hospital offers a comprehensive range of assisted reproductive services for couples with infertility disorders. The application of assisted reproductive technology (人類輔助生殖技術) involves a multifaceted consideration of medical, social, moral and legal implications and is a specialised clinical technology subject to strict regulations and control in the PRC. Only a specific type of medical institution having fulfilled various requirements such as clinical capability, specialist staffing, clinical premises and environment, medical equipment, management and quality standard will be granted a permit to engage in assisted reproductive technology in the PRC, and such permit is generally subject to periodic review. According to Frost & Sullivan, only a limited number of hospitals in the PRC are permitted to engage in assisted reproductive technology. According to Frost & Sullivan, as at 31 December 2015, (i) there were only about 41 hospitals in Guangdong Province (representing approximately 3.1% of the total number of hospitals in Guangdong Province as at 31 December 2015) with such permits; and (ii) Kanghua Hospital was among the only eight private hospitals in Guangdong Province with such permits. Kanghua Hospital obtained a permit from the Guangdong HFPC to engage in assisted reproductive technology using husband’s semen, including artificial insemination with husband’s semen (夫精人工授精技術), conventional IVF and embryo transfer (常規體外受精-胚胎移植技術) and intracytoplasmic sperm injection (卵胞漿內單精子顯微注射) with a current validity period from 25 May 2015 to 24 May 2025. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our revenue generated from reproductive medicine amounted to approximately RMB14.0 million, RMB29.2 million, RMB35.4 million and RMB14.3 million, respectively.</p>
3. Plastic and aesthetic surgery (整形美容外科)	<p>Kanghua Hospital and Renkang Hospital offer a full range of surgical and non-surgical cosmetic treatment options for all areas of the face and body. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our revenue generated from plastic and aesthetic surgery amounted to approximately RMB3.5 million, RMB3.9 million, RMB4.7 million and RMB1.4 million, respectively.</p>
4. Laser treatment (激光科)	<p>Kanghua Hospital offers advanced laser treatment and skin care services, including laser hair removal, acne treatment, acne scarring treatment, stretch marks treatment and pigmentation treatment. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our revenue generated from laser treatment amounted to approximately RMB3.4 million, RMB4.1 million, RMB5.9 million and RMB2.3 million, respectively.</p>

BUSINESS

Our special services had achieved consistent growth during the Track Record Period. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our revenue generated from special services amounted to approximately RMB46.9 million, RMB68.8 million, RMB81.8 million and RMB33.1 million respectively, representing approximately 5.5%, 7.0%, 7.7% and 8.7% of our total revenue for the same periods. We will continue to expand our special service offerings as a differentiation strategy and reinforce our position as a high-end healthcare services provider. For more information, please see “— *Our Healthcare Services — Expansion of our healthcare services*”.

Our VIP healthcare services

As part of our special services offerings, our hospitals offer premium VIP inpatient and outpatient services with a view to catering for the needs of the growing affluent population in the Pearl River Delta Region, in particular patients covered under high-value commercial insurance programmes and expatriates from Hong Kong, Macau, Taiwan and other countries in the South East Asia.

With priority in booking, payment, access to medical results and drugs, VIP outpatient services at our hospitals significantly shorten the waiting time and improve the overall patient experience. Adopting the “one patient, one doctor and one consulting room” approach, our VIP outpatient services provide personalised care specific to individual patient and significantly improve privacy. VIP suites at our hospitals are spacious and provide inpatients with highly private and comfortable accommodation for post-treatment recuperation. As at 30 April 2016, Kanghua Hospital and Renkang Hospital had approximately 100 and 15 beds in operation dedicated for VIP inpatients, respectively. We believe the quality of VIP services at Kanghua Hospital is unmatched in other public or private hospitals in Guangdong Province.

Kanghua Hospital’s outpatient VIP services are attended by highly qualified and experienced doctors (associate chief doctors or above) as well as over 50 renowned multi-site doctors and over 30 Hong Kong doctors providing consultancy services to our VIP patients as at 30 April 2016. Furthermore, Kanghua Hospital features dedicated advanced facilities, such as the purpose-built Huaxin Building combining modern interiors, spacious accommodation and outstanding patient care, for VIP inpatients. Huaxin Building has a design capacity to deploy up to 300 beds for VIP inpatients and is a one-stop medical facility offering a full suite of O&G services, including diagnosis, health assessment, newborn delivery, postnatal care, recuperation and a wellness regimen. Huaxin Building has luxurious hotel-standard accommodations, with standard, deluxe and presidential rooms and greenery views. Patients are able to enjoy a truly unique experience at Huaxin Building’s VIP suites served by a dedicated nursing station which is staffed 24 hours a day. VIP coordinators are on call 24 hours a day to assist VIP patients’ needs including security, visitor access, family overnight stay, catering and scheduling of appointments. On account of a wider mid- and high-end patient base, Kanghua Hospital offers more sophisticated VIP services on a larger scale than Renkang Hospital.

For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our revenue generated from VIP healthcare services amounted to approximately RMB25.9 million, RMB31.6 million, RMB35.9 million and RMB15.2 million, respectively. Our VIP healthcare services, which we price based on our cost structure, command higher prices than our basic healthcare services. In particular, for each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the average spending per visit for our VIP inpatient services at Kanghua Hospital (which consisted primarily of high-end O&G

BUSINESS

inpatient services during the Track Record Period) was approximately 33.1%, 37.9%, 59.6% and 156.8% higher than the average spending per visit for our regular O&G inpatient services at Kanghua Hospital for the same periods. The following table sets forth certain key information of our VIP healthcare services at each of our hospitals as at or for the periods indicated:

	Year ended 31 December			Four months ended
				30 April
	2013	2014	2015	2016
VIP inpatient services				
Inpatient visits ⁽¹⁾				
— Kanghua Hospital	1,248	1,434	1,365	395
— Renkang Hospital	—	—	—	5
Average spending per visit (RMB) ⁽²⁾				
— Kanghua Hospital	8,203.5	8,662.5	10,359.7	16,751.9
— Renkang Hospital	—	—	—	9,400.0
No. of beds in operation ⁽³⁾				
— Kanghua Hospital	30	30	30	100
— Renkang Hospital	—	—	—	15
VIP outpatient services				
Outpatient visits ⁽⁴⁾				
— Kanghua Hospital	22,647	28,163	37,617	16,634
— Renkang Hospital	4,441	4,653	4,733	1,463
Average spending per visit (RMB) ⁽⁵⁾				
— Kanghua Hospital	610.1	602.0	505.8	463.4
— Renkang Hospital	425.4	474.1	577.2	566.6

- (1) Represents the number of inpatient visits for the hospital's VIP inpatient services.
- (2) Represents the hospital's average spending per VIP inpatient visit calculated by dividing the hospital's revenue from VIP inpatient services by the hospital's VIP inpatient visits.
- (3) Represents the number of beds deployed for the hospital's VIP inpatient services as at the end of the relevant period.
- (4) Represents the number of outpatient visits for the hospital's VIP outpatient services.
- (5) Represents the hospital's average spending per VIP outpatient visit calculated by dividing the hospital's revenue from VIP outpatient services by the hospital's VIP outpatient visits.

BUSINESS

Expansion of our healthcare services

We will continue to focus on the organic growth of our hospitals. We plan to enhance our appeal to patients by (i) upgrading our medical capability through strengthening our team of multi-disciplinary healthcare professionals, including industry leading experts and multi-site doctors; (ii) expanding our service offerings, in particular complex high-end special services that differentiate us from other hospitals; (iii) enhancing our offerings of premium one-stop healthcare solutions to high-end patients; and (iv) further improving our service delivery quality. Some of the key expansion areas we will focus on include the following:

VIP healthcare services: we are currently expanding the capacity of our VIP inpatient facilities at Huaxin Building of Kanghua Hospital from approximately 100 beds in operation as at 30 April 2016 to approximately 200 by the end of 2017 when it is expected to be fully completed and operational. We plan to gradually increase the intake of VIP inpatients while maintaining the high level of quality VIP services we provide. We believe the increasingly affluent population in the Pearl River Delta Region is becoming more receptive to premium healthcare services such as those offered by us. Furthermore, we will continue to enhance and expand our maternity VIP services and high-end comprehensive prenatal diagnosis, as we expect such services will gain popularity in view of the implementation of the two-child policy by the PRC government. We also plan to expand the scope of our VIP physical examination services to incorporate high-end preventive healthcare elements and related advisory services.

High-end reproductive medicine: with the implementation of the two-child policy, we believe the demand for reproductive medicine for the prevention, diagnosis and management of reproductive problems in both males and females has potential to grow. According to the data published by the NHFPC, there are approximately 90 million eligible couples under the two-child policy in the PRC. However, approximately 60% of them are aged 35 or above. As women age, they typically experience greater difficulties in conceiving naturally because the number and quality of egg follicles that remain in their bodies decline. These women may therefore decide to use our assisted reproductive services to assist with conceiving. With the continued participation of women in higher education, partners meeting and marrying later, longer participation of women in workforce and the increasing cost of living and the importance that young people place on attaining financial security prior to having children, we expect the number of patients requiring fertility consultation and assisted reproductive technology will increase. We plan to enhance our capacity and capability in reproductive medicine to capture the opportunities presented by the two-child policy. We also plan to offer a highly personalised and discreet consultation and treatment environment for our patients seeking such services to ensure they are not deterred from visiting due to privacy reasons.

Advanced oncology offerings: according to the Global Cancer Report 2014 published by the World Health Organisation and International Agency for Research on Cancer, in 2012, the cancer population in the PRC represented approximately 25% of the global cancer population and the PRC contributed the highest number of new cancer cases globally. The fatality rate of cancer population in the PRC is also the highest in the world even though the population is increasingly affluent. In view of this trend, we intend to continue to ramp up our oncology offerings and post-treatment rehabilitation services. Every new cancer treatment and technology brings hope to cancer patients. This may include the purchase of advanced medical equipment and introduction of the latest cancer treatment procedures, particularly those involving

BUSINESS

a multi-disciplinary approach. We plan to implement proton therapy (質子治療) in Kanghua Hospital, a cutting-edge radiotherapy for the treatment of complex cancers with significantly fewer side effects. Such technique requires the use of highly advanced therapy facilities that are currently at very limited capacity in the PRC.

Neurology offerings: changes in lifestyle along with industrialisation in the PRC have resulted in a growing prevalence of stress and social pressure in the working population. We expect that neuroses, headaches and neuropsychological problems will become more common. Furthermore, we expect that the ageing population in the PRC will result in more patients suffering from long-term neurodegenerative disorders such as multiple sclerosis, stroke, Alzheimer's disease and Parkinson's disease. In view of this, we plan to expand our neurology offerings, including advanced multi-disciplinary treatments, palliative care and community rehabilitation.

High-end preventive healthcare services: the increasingly affluent population in the PRC has led to a prevalence of lifestyle diseases, such as diabetes, cancer, obesity, hypertension and heart disease. The population in the PRC is also becoming more health conscious. As a result, we anticipate that the demand for preventive healthcare services will continue to increase. We intend to develop high-end preventive healthcare services using the latest biotechnology, including comprehensive genetic health assessment, early risk factors detection for cancer and other diseases, sub-health detection, chronic diseases management, personalised health regiment, long-term recuperation, lifestyle enhancement, cellular repair, anti-ageing treatment and early diseases prevention. Such preventive healthcare services will further expand our continuum of healthcare services and enhance our position as a one-stop high-end healthcare solutions provider.

Holistic elderly care services: following a global trend of population aging, we expect the demand for geriatric services to grow considerably in the PRC over the next few years. To capture these opportunities, we intend to establish a dedicated geriatric centre and facilities integrating a continuum of institutional medical and nursing care for the elderly (醫養結合), providing prevention and treatment of chronic geriatric diseases, functional rehabilitation, long-term care, post-acute rehabilitation, palliative treatment and rescue and treatment of acute and serious geriatric diseases, in particular prevalent diseases such as cardiovascular and cerebral vascular diseases.

OUR OTHER ACTIVITIES AND FUNCTIONS

We undertake various activities at our hospitals that are outside the scope of our revenue-generating business operations.

Medical research

Medical research is an integral part of our institutional practice. While we do not have a dedicated research and development department, we actively encourage our multi-disciplinary teams of healthcare professionals to undertake research initiatives in conjunction with their clinical practice. Our advanced medical facilities, wide patient base and clinical resources provide a robust research platform for our healthcare professionals. We strive to bring our patients advanced care and therapies through innovative medical research. We possess the capability and sophistication, in terms of medical facilities and personnel, to undertake significant medical research programmes that may improve our knowledge in the medical domain and ultimately the way our patients are treated. From time to time, our healthcare

BUSINESS

professionals publish research findings on peer-reviewed scientific journals, including international journals covered by the Science Citation Index (SCI), national core journals (全國核心期刊) and statistical source journals (統計源期刊). On account of the significance of some of our research initiatives, we have received certain funding from the PRC government from time to time.

The research conducted at our hospitals has led to many technological breakthroughs. In June 2015, the invention of a transformable discectomy tool kit (一種可調型椎間盤切除刀套件) by a team of leading orthopaedic surgeons at Kanghua Hospital was successfully registered as a national patent (國家發明專利). The invention has significant applications in minimally invasive surgeries on the human spinal cord, which we believe will fill the medical capability gap in this respect in the PRC. Furthermore, a team of leading plastic surgery specialists at Kanghua Hospital pioneered the research in multi-detector CT assisted clinical application of prefabricated and pre-expanded super-thin perforator flaps in the reconstruction of extensive facial and cervical scars (MDCT輔助的預擴張超薄穿支皮瓣在面頸部大面積癍痕修復中的臨床應用研究). Such clinical application significantly improves the reconstruction of contours, facial features and emotion expressions of patients who have suffered from extensive facial and cervical scars. This research project has received numerous prestigious recognitions, including First Class Dongguan Science and Technology Award (東莞市科學技術獎一等獎) from the Dongguan Municipal Government in 2014 and Fuxing — China Association of Plastics and Aesthetics Science and Technology Award (復星•中國整形美容協會科學技術獎) from the China Association of Plastics and Aesthetics in 2016.

We believe collaboration is crucial in driving advancements in healthcare. We regularly organise internal and external seminars and national and international large scale academic conferences to promote the exchange of medical knowledge. These initiatives not only further our medical knowledge, but also contribute towards maintaining our standing and brand as an innovative and resourceful healthcare group. In search of the best treatments and cure for our patients, we are also engaged in long-term collaboration with renowned institutions such as the Aesculap Akademie GmbH (德國蛇牌學院), Macau Polytechnic Institute (澳門理工學院), the 301 Military Hospital (中國人民解放軍總醫院), the Beijing Jishuitan Hospital (北京積水潭醫院), the First Affiliated Hospital of Sun Yat-sen University (中山大學附屬第一醫院), the Southern Medical University (南方醫科大學) and Guangzhou University of Chinese Medicine (廣州中醫藥大學). Such collaboration involves the establishment of joint research bases, joint undertaking clinical trials, mutual training and development of healthcare professionals and sharing of medical facilities, clinical data and expertise. For example, Kanghua Hospital has established the International Clinical Base of Southern Medical University for Metabolic Diseases (南方醫科大學國際代謝病臨床基地) in cooperation with Southern Medical University (南方醫科大學) to develop new treatments for metabolic diseases such as diabetes and conduct clinical trials of experimental treatments. Kanghua Hospital also has an international reach in cooperating with hospitals. In particular, Kanghua Hospital entered into a “Sister Hospitals in the Private Healthcare Sector in China and France” cooperation agreements (中法民營姐妹醫院合作協議) with each of Clinique du Valois (法國法羅斯醫院) and Polyclinique de l’Atlantique (法國大西洋醫院). Such collaboration generates mutual benefits through a wide array of technical exchange and management interaction. This allows us to study, learn and integrate international best practices into the clinical practices of Kanghua Hospital, where appropriate.

Medical education

In addition to medical research, we commit substantial clinical resources to teaching and training activities. In 2011, the teaching capability of Kanghua Hospital was comprehensively reviewed by a committee led by the Guangdong HFPC. Kanghua Hospital fulfilled a stringent set of criteria set out in The Eligibility Criteria for Teaching Hospitals of General Tertiary Medical Academic Institutions in Guangdong Province (廣東省普通高等醫學院校教學醫院評審合格標準), including teaching conditions, teaching management and teaching implementation, and became accredited as a “Teaching Hospital” (教學醫院) by the Guangdong HFPC. Kanghua Hospital is a training base for several medical teaching institutions, including the Guangzhou University of Chinese Medicine (廣州中醫藥大學), Guangdong Medical University (廣東醫學院) and Guangdong Pharmaceutical University (廣東藥學院) and undertakes to provide comprehensive clinical internship and apprenticeship opportunities to undergraduate, graduate and postgraduate students in various disciplines of medicine, medical technology and pharmacy. The medical interns benefit from a comprehensive teaching management system, dedicated clinical teaching areas and a wide patient base, which are essential for holistic clinical training. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, Kanghua Hospital trained approximately 199, 226, 239 and 61 interns of various disciplines. Kanghua Hospital also provides specialised clinical training and guidance to the core medical professionals from lower tier hospitals in an on-going effort to deepen our collaboration with such hospitals. To facilitate research and learning, each of Kanghua Hospital and Renkang Hospital maintains a dedicated medical library with extensive electronic resources to facilitate access.

We are committed to keeping our staff abreast of the latest developments in the healthcare industry by providing them with continuous education and assessments. We have developed a highly standardised and effective training and rotation programme and assessment procedures specifically designed for our resident doctors to ensure they acquire a solid clinical foundation and hands-on experience. From time to time, we organise academic conferences, workshops and participate in external academic functions. We identify and sponsor our staff with high development potential to undertake further studies and professional training in prestigious academic institutions and participate in industry conventions.

Social contribution

As encompassed in our motto “Empathic • Virtuous Medical Practice” (蒼生為念•厚德載醫), we regard social contribution as one of our core values. We pride ourselves on being a socially responsible private hospital operator. Our social contribution primarily takes the form of free or discounted medical assistance and education seminars.

We actively provide voluntary medical assistance directly to the unfortunate or underserved communities in society. For example, we have committed Kanghua Hospital towards an initiative of providing medical assistance to natural disaster relief efforts, orphans or children from families with limited means suffering from prevalent diseases such as cataract, cleft lip or palate (or harelip), leukaemia and congenital heart diseases. In particular, Kanghua Hospital is the designated hospital for the “Hope of Heart” project (心希望工程), which aims at treating children with congenital heart diseases in the Pearl River Delta Region. Since the inception of the “Hope of Heart” project from 2010 up to the Latest Practicable Date,

BUSINESS

Kanghua Hospital had provided medical assistance to over 300 children. This project is a substantial and meaningful undertaking that was recognised as one of the Top 10 Charitable Projects in Dongguan (東莞十大慈善項目) by the Dongguan Municipal Government in 2013. Since 2012, Kanghua Hospital has also provided medical assistance to over 400 cataract patients.

Targeted at the underserved communities in society, our hospitals also provide free consultancy, general examination, door-to-door follow up services and health education seminars on a monthly basis. Some of the charitable programmes our hospitals participate in are tangential to the promotion of our healthcare services. For example, Kanghua Hospital and Renkang Hospital regularly organise charitable programmes, including “Care for the Elderly” (關愛老人活動) for the promotion of geriatric services, “Health to a Thousand Companies” (健康進千企) for the promotion of hand and foot microsurgeries, “Care for the Children” (關愛兒童活動) for the promotion of paediatrics services, “Pink Ribbon” (粉紅絲帶活動) for the promotion of breast-related services and “Auditorium for Pregnant Women” (孕婦大講堂) for the promotion of O&G services.

In addition to voluntary medical assistance, we also aim to provide charitable donations to support disaster relief efforts from time to time. In April 2013, Renkang Hospital organised a fund raising activity for the victims of the Sichuan Ya’an earthquake (四川雅安地震), pursuant to which Renkang Hospital and its staff collectively made a donation of approximately RMB0.5 million.

Our social contribution efforts are highly regarded in the community and the healthcare sector. We believe such initiatives not only improve the lives of the underserved communities in society, but also generate positive media coverage for our Group.

REGULATORY PRICING CONTROL AND OUR PRICING

As advised by our PRC Legal Advisers, pursuant to applicable laws and regulations in the PRC, as a private for-profit hospital operator, we are generally entitled to set the prices for our services, pharmaceuticals and medical consumables at our own discretion subject to public display on the website of the Dongguan Development and Reform Bureau (東莞市發展和改革局). However, in order to maintain our market position and compete effectively with other public hospitals and non-profit hospitals, for basic medical services, pharmaceuticals and medical consumables that are generally available at public or not-for-profit hospitals, we price them at a tariff similar to such hospitals of the same tier in the same region. We understand that pricing at public and non-profit hospitals in the PRC is primarily affected by two factors:

- (1) regulatory pricing control: PRC government laws and regulations at the national and regional levels impose pricing controls and price ceilings on various services, pharmaceuticals and medical consumables provided by public and non-profit hospitals. For example, pursuant to the Pharmaceuticals Zero Mark-up Policy (藥品零加成政策), public hospitals in Dongguan are not allowed to make a profit on the sale of essential pharmaceuticals; and
- (2) reimbursement limits under social insurance programmes: certain services, pharmaceuticals and medical consumables covered under social insurance programmes are subject to reimbursement limits set by the PRC government. Patients will be required to pay for the excess if their medical bills exceed the relevant reimbursement limits. Thus, patients may be inclined to only visit the hospitals that have a pricing tariff within the relevant reimbursement limits.

BUSINESS

We routinely carry out market research and keep up to date on the regulatory changes to ensure our pricing is maintained at a competitive level. Therefore, regulatory pricing control and social insurance programmes' reimbursement limits indirectly exert an influence on our pricing.

For services, pharmaceuticals and medical consumables that are generally limited in public and non-profit hospitals, such as those provided under our special services, we price them at a tariff based on an array of factors including the market position of the relevant services, complexity of treatment, products and equipment involved, experience of healthcare professionals involved, operating costs, market conditions, consumer spending power and competitors' pricing of similar services. Our special services are generally more expensive than basic medical services and command a higher profitability.

OUR STAFF

We believe our success depends critically on our ability to attract, develop and retain our staff, in particular, our doctors. We are committed to retaining renowned and influential healthcare professionals in the healthcare sector to consistently maintain the high quality of our hospital services. As at 30 April 2016, we had approximately 1,752 and 657 staff at Kanghua Hospital and Renkang Hospital respectively. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our total staff cost amounted to approximately RMB181.4 million, RMB209.7 million, RMB237.6 million and RMB85.8 million respectively, representing approximately 21.1%, 21.2%, 22.2% and 22.6% of our total revenue for the respective period. We generally entered into a direct employment agreement with our staff and do not rely on agency or temporary staff. As at 30 April 2016, we had a total of 597 doctors and we had not received any notifications or filings from our doctors that they were engaged in multi-site practice with other healthcare facilities. As at 30 April 2016, other than 59 doctors from other healthcare facilities who were engaged in multi-site practice with us and 31 Hong Kong doctors, we did not have any part-time doctors. See also "*Business — Our Staff — Multi-site practice of doctors*". Hong Kong doctors from time to time provide VIP consultation services at Kanghua Hospital to attract patients who are particularly receptive to the quality and reputation of doctors in Hong Kong. We believe by employing a permanent work force, we are in a better position to control the overall quality of our staff. We adopt a flexible and incentive-based remuneration structure including components of basic salary and performance bonus which also takes into account patients' satisfaction levels and feedbacks. We generally re-assess the salary of our staff annually and make adjustments taking into account factors such as the development cycle of the hospital, external market conditions, marketing strategy and development focus. We believe our salary level is competitive and is in general higher than public hospitals and other private hospitals in Guangdong Province. We believe our medical research and teaching platform are instrumental in attracting top talent in the industry. See "*— Our Other Activities and Functions*". Such platform affords a high degree of autonomy and a wide range of possibilities for our healthcare professionals to pursue their research and academic aspirations as part of their professional development. Our clinical infrastructure, and multi-disciplinary collaboration environment in support of research initiatives are highly conducive to our healthcare professionals undertaking advanced and complex research.

Healthcare professionals are highly sought after in Guangdong Province. Therefore, we strategically extend our recruitment efforts to other provinces in the PRC. We implement a series of internet recruitment campaigns to reach a wide base of potential candidates and on-campus recruitment drives in key medical schools and nursing schools in multiple provinces to attract talent out of Guangdong Province. We actively

BUSINESS

identify and track highly distinguished industry leaders suitable for our hospitals, maintain a good relationship and approach them to work for us at the appropriate time. Our senior management is also actively involved in the recruitment of our key personnel. Our teaching affiliations with academic institutions enable us to identify potential young healthcare professionals and recruit them early on. We also have in place various referral schemes to identify potential candidates from our existing staff's social networks. Referred staff generally has higher retention rates and increased engagement in our hospitals.

The following table shows a breakdown of our staff by general function as at the dates indicated:

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015	As at 30 April 2016
Doctors ⁽¹⁾	614	632	642	597
Other medical staff	863	981	1,016	1,047
Management staff	85	93	86	130
Administrative and finance staff	217	205	230	237
Others	<u>585</u>	<u>554</u>	<u>554</u>	<u>398</u>
Total	<u>2,364</u>	<u>2,465</u>	<u>2,528</u>	<u>2,409</u>

(1) This number represents the total number of doctors employed by us. It does not include the number of part time doctors (i.e. doctors from other healthcare facilities who were engaged in multi-site practice with us and Hong Kong doctors).

Our comprehensive staff remuneration and retention policy is designed with a view to rewarding staff performance and long term staff retention. It primarily includes: (i) economic components comprising basic salary determined with reference to the individual's position, seniority and length of service, performance bonus determined with reference to the metrics specific to the individual's job function and other benefits; and (ii) non-economic components comprising personal development, job challenge and satisfaction, recognition, work environment, work safety and career advancement. We regularly make reference to available market data and adjust our remuneration with a view to remaining competitive. Based on statistics from Frost & Sullivan, our average annual staff salary was higher than the national average for health workers at healthcare institutions. While financial incentives are an important factor in staff retention, we recognise that they alone are not enough to improve recruitment and retention in a sustainable manner. Therefore, we place equal emphasis on non-economic factors, in particular personal development, work environment and collegiality. We believe our career advancement track is transparent and achievable. We provide our staff with the opportunity to continue medical education and research in their field while working at our hospitals. With a view to retaining and developing talent, we actively identify high potential staff and provide them with additional training opportunities, industry exposure and an accelerated career track. We believe by providing training for new skills and tuition reimbursement for external courses, our staff will feel valued, important and invested in us. We regularly carry out staff appraisals to discuss achievements, strengths, and areas for development, and to set personal objectives with a view to ensuring our staff feels motivated and appreciated for their contribution. We maintain open channels of communication with our staff to keep them informed of our latest developments and provide them with opportunities to voice their opinions. We also recognise that our healthcare professionals, in particular doctors and nurses, may be subject to a high pressure and demanding work environment from time to time due to their job nature, which may result in attrition. We actively monitor the emotional

BUSINESS

wellbeing of our staff and provide counselling and supporting arrangements where appropriate. We regularly gauge the working hours of our staff to identify any staff with excessive workloads and make alternative staffing arrangements if necessary. We aim to build a strong organisational culture to cultivate a sense of belonging among our staff through various staff functions and events. We believe the creation of a healthy and harmonious working environment will improve staff morale and productivity in the long term.

We pride ourselves on maintaining harmonious relationships with our staff in the spirit of “Kanghua People” (康華人). Each of our hospitals has adopted a labour union for its staff to protect their rights and to encourage them to participate in the management of the hospital’s business. During the Track Record Period and up to the Latest Practicable Date, none of our staff had negotiated with us on the employment terms through the labour unions or in a way of collective bargaining and we had not experienced any major labour disputes or labour strikes that had interfered with our operations in any material respect. In 2009, Kanghua Hospital was recognised by the Dongguan Municipal Government (東莞市人民政府) as a corporation with harmonious labour relations (勞動關係和諧企業). Staff retention rate is one of the key performance indicators of a hospital department. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our retention rate for doctors was approximately 85.5%, 92.2%, 89.6% and 90.8%, respectively.

Each of our hospitals has a Human Resources Department. Its functions include recruiting, obtaining licenses for, and conducting performance reviews of, medical staff, and administering the performance-based compensation system. In addition, it develops, disseminates and monitors training and development programme for our staff.

Qualification of our doctors

The success and competitiveness of our hospitals depend on our ability to recruit and retain qualified and experienced doctors. Our reputation plays a crucial role in recruiting highly qualified and experienced doctors. Our resources and commitment in medical research and education provide a valuable personal development platform for our doctors and play an important role in attracting talent. Prior to joining our hospitals, many of our doctors practised at similar tier hospitals and were highly regarded experts or leaders in their respective medical fields.

In the PRC, licensed doctors are subject to periodic assessment of their professional skills, achievements and professional ethics by institutions or organisations authorised by the public health department in the PRC. In the PRC, there are three professional qualification ranks for doctors, which are, from the lowest to the highest rank: (i) junior qualification for resident doctors (住院醫師) who must have a medical degree, and typically undertake entry-level tasks such as patients’ medical records preparation and practice under the supervision of attending doctors or other superiors; (ii) mid-end qualification for attending doctors (主治醫師) who may supervise resident doctors and typically undertake routine clinical treatments, teaching, research and diseases prevention tasks; and (iii) senior qualification for associate chief doctors (副主任醫師) who may supervise attending and resident doctors, direct research work of a specific discipline, and typically undertake complex and rare clinical treatments and chief doctors (主任醫師) who typically command the highest level of medical capability in a specific discipline and are generally the

BUSINESS

head of a clinical practice. The table below sets forth, as at the dates indicated, the number of each rank of doctors employed by us:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
Chief doctors and associate				
chief doctors	146	157	157	160
Attending doctors	238	240	256	267
Resident doctors	230	235	229	170

The above table does not include the number of part time doctors (i.e. doctors from other healthcare facilities who were engaged in multi-site practice with us and Hong Kong doctors).

The Human Resources Department in each of our hospitals regularly reviews the profile of our doctors and reminds them to apply for their next professional rank when they become eligible. We closely monitor the qualification registration and licensing records on a continuing basis to ensure that all our doctors comply with all applicable requirements under PRC laws and regulations, in particular, each doctor's practice is within the scope of his or her qualification and license. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material complaints or penalties in relation to our doctors practising beyond the scope of their respective licenses.

Additionally, from time to time, we invite visiting specialist doctors, such as multi-site doctors and Hong Kong doctors, who do not have a direct employment relationship with us to consult on difficult, highly unusual or complicated conditions on an ad hoc or regular basis. They may also be invited from other third-party hospitals or medical institutions at the request of our doctors or patients. The remuneration of visiting specialist doctors who provide services on an ad hoc basis is usually paid per consultation, procedure or treatment performed. The remuneration of visiting specialist doctors who provide consultancy services on a regular basis is usually a fixed sum. The rate of remuneration of visiting specialist doctors is determined by their seniority, relevant experience and industry reputation.

Training and development

We provide structured training and education programmes to enable our staff to consistently deliver high quality services. These programmes aim to equip our staff with a sound foundation of the medical principles and knowledge as well as practical skills in their respective practice area and foster a high standard of practice, organisation capability and vigilant attitude. For example, we require our doctors to produce high quality medical records of our patients with precision and clarity, which are essential for maintaining a comprehensive medical history of our patients for future diagnosis and treatments. We routinely assess the quality of medical records prepared by our doctors as one of their performance indicators. Regular internal and external mandatory trainings are organised for our medical staff to keep them abreast of the latest development in healthcare. From time to time, we identify and sponsor our staff with high development potential to undertake further studies and professional training in prestigious academic institutions and participate in industry conventions. Our medical staff also benefit from experience and knowledge exchange during seminars and sharing sessions regularly held in our hospitals.

BUSINESS

Our staff are mandatorily assessed from time to time to ensure they meet the required standard of competence. Through various training and education programmes, we also aim to foster a proactive risk reporting culture among our staff, which is important in the early detection of clinical failure and damage control.

Staff welfare contribution

Under the relevant PRC laws and regulations, we are required to contribute towards various government sponsored employee benefit plans, including the provision of social insurance and housing provident funds. These amounts constitute a predetermined percentage of salaries, bonuses and certain allowances of our employees, with a specified maximum amount. As advised by our PRC Legal Advisers, during the Track Record Period, we were in compliance with local policies governing the aforementioned government employee benefit plans in all material respects.

In addition to the mandatory contributions, we provide discounted healthcare services and various subsidies to our staff and their children. We regularly organise staff functions to maintain their sense of belonging to our hospitals, including corporate retreats for our middle and senior management, and incentive trips for our outstanding staff. Our cultural programmes foster a collaborative and friendly atmosphere among our staff, and make them feel like part of our “Kanghua” family. We believe one of the key retention factors for our staff is their emotional attachments to our hospitals.

Multi-site practice of doctors

According to Frost & Sullivan, one of the difficulties historically faced by private hospitals in the PRC was the government’s stipulation that each doctor could only register and practise in one medical facility. Given such restriction, many doctors preferred to work in public hospitals because they believe it would offer them a stable career track with higher visibility than private hospitals. As a result, it was relatively difficult for private hospitals to build up a high quality and experienced team of doctors. According to Frost & Sullivan, as at 31 December 2014, approximately 87.1% and 12.9% of the doctors in the PRC were employed by public hospitals and private hospitals, respectively.

According to Frost & Sullivan, with a view to promoting the flow of doctors and improving the balance of medical resources, the central government of the PRC has promulgated the multi-site practice policy and implemented pilot programmes in several provinces, including Guangdong Province where Kanghua Hospital and Renkang Hospital are located. According to the multi-site practice policy, doctors are allowed to practise at multiple medical facilities, including private hospitals. Refer to “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC — Laws and regulations on medical personnel of healthcare institutions — The Notice on Issues concerning Multi-site Practice of Doctors*” for further details. According to Frost & Sullivan, multi-site practice benefits private hospitals by facilitating their access to high quality doctors who were historically dominated by public hospitals in the PRC. Following the implementation of multi-site practice pilot programmes, the PRC government has gradually removed limitations such as the number of practice sites and multi-site practice hours and streamlined the administrative procedures for doctors to register for their multi-site practice, significantly improving the mobilisation of high quality doctors particularly between public and private hospitals. According to Frost & Sullivan, the multi-site practice policy has become one of the key drivers in promoting the development of private hospitals in the PRC.

BUSINESS

As a private hospital operator, we have taken advantage of the multi-site practice policy and attracted leading and reputable doctors from other healthcare facilities to engage in multi-site practice with us. As at 30 April 2016, we had 59 doctors from other healthcare facilities who were engaged in multi-site practice with us. In addition to enabling us to offer more complex and comprehensive healthcare treatments to patients and addressing different market needs, we note that these multi-site doctors also bring in a wealth of experience and knowledge that benefit our own team of healthcare professionals through regular exchange and correspondence. We believe multi-site doctors have generally improved our overall clinical capability, reputation and competitive position. We intend to continue to attract more quality multi-site doctors in the future. Through building a rapport with our multi-site doctors in the long term, we may have an opportunity to recruit suitable candidates to practise primarily at our hospitals, further strengthening our own team of healthcare professionals.

According to the relevant rules of multi-site practice, if our own doctors opt to engage in multi-site practice with other healthcare facilities, they should inform, and make the necessary filings with, us. As at the Latest Practicable Date, we had not received any notifications or filings from our doctors that they were engaged in multi-site practice with other healthcare facilities.

MARKETING AND PROMOTION

Guided by our motto “Empathic • Virtuous Medical Practice” (蒼生為念•厚德載醫), the service of humanity is at the core of our values. We strive to provide our patients with the best healthcare available, while adhering to strict ethical standards of medical practice, and treat them with respect, compassion and confidentiality. We primarily adopt a “word of mouth” marketing approach, and focus on shaping our brand “Kanghua” (康華) as a high quality and ethical healthcare service provider. Our target audience includes patients and their families, communities, corporations, doctors and other healthcare professionals, hospital staff and society. Through such approach, in addition to generating more patients, we are able to attract quality healthcare professionals to work for us and enhance our staff loyalty. We have received numerous recognitions associated with the quality of our brand. In 2014, (i) Kanghua Hospital was recognised as a top 100 credible healthcare brand in the PRC (中國健康服務業品牌榜醫療機構公信力百強榜單) by Health News (健康報), a publication managed by the NHFPC; and (ii) each of Kanghua Hospital and Renkang Hospital was recognised as a top 100 private hospital with good reputation in the PRC (全國百家好口碑民營醫院) by the People’s Daily Online (人民網). In 2015, Kanghua Hospital was recognised as one of the most valuable private hospitals in the PRC (全國最具價值民營醫院) by the Private Hospital Management Branch of Chinese Hospital Association (中國醫院協會民營醫院管理分會), the “Chinese Medical Pathology Science” Magazine (《中國醫療病理科學》雜誌), and the Private Hospital Equipment Management Branch of the China Association of Medical Equipment (中國醫學裝備協會民營醫院裝備管理分會).

Our marketing strategies include the following:

Cooperation with lower tier hospitals, community healthcare centres and clinics. We have a dedicated marketing team to foster cooperation with lower tier hospitals, community healthcare centres and clinics which are generally less sophisticated in the provision of medical treatments and where specialised diagnostic and treatment facilities for tertiary care patients are not generally available. We actively provide them with regular trainings, consultancy, seminars and technical and medical assistance and establish

BUSINESS

multiple channels of information exchange. These lower tier hospitals, community healthcare centres and clinics recognise our medical capability and regularly refer patients to us, in particular patients with critical conditions requiring specialised care in cardiology and cardiovascular surgery, neurology, O&G, general surgery and orthopaedics or complicated diseases that do not respond to their available treatment protocols. Before a transfer is committed, our trained medical professionals carry out a robust assessment and provide stabilisation services to the patients necessary to ensure, within reasonable medical probability, that no material deterioration of a patient's medical condition is likely to result from or occur during the transfer to our hospitals.

Relationships with commercial insurance providers. We actively seek to establish strategic partnerships with commercial insurance providers. For example, Kanghua Hospital was the first hospital in the PRC to establish direct insurance settlement arrangements (直結直賠) with Ping An Life Insurance Company of China, Ltd. (中國平安人壽保險股份有限公司) in 2015 and the first hospital in Guangdong Province to establish a similar arrangement with Taikang Life Insurance Co., Ltd. (泰康人壽保險股份有限公司) in 2012, enabling medical bills of the patients under relevant insurance programmes to be settled directly between Kanghua Hospital and the relevant commercial insurance provider. Such arrangement significantly facilitates the convenience of these patients receiving treatments at Kanghua Hospital, and promotes Kanghua Hospital as their hospital of choice. We are in the process of actively negotiating with other commercial insurance providers to establish similar settlement arrangements which will attract the inflow of patients under the benefit of commercial insurance programmes. As a leading private general hospital operator in the PRC, we believe commercial insurance providers are receptive to cooperating with us.

Community outreach. To promote our hospital services to communities in the region, our marketing team frequently visits various organisations in the region, organise lectures and seminars and provide free basic clinical services from time to time. For example, our marketing team organises seminars on the prevention of work-related injuries and first aid knowledge for employees of corporations to promote our work-related injuries healthcare services, in particular, orthopaedics to these corporations. Our marketing team also develops relationships with governmental bodies, public security bureaus and primary and secondary schools to promote our preventive healthcare services, in particular, our physical examination services, by organising various healthcare related festivities and health awareness seminars.

Advertising and social media. Since our incorporation, we have positioned our "Kanghua" brand as a high-end healthcare services provider. We do not conduct excessive, exaggerated or high-pressure advertising activities to attract patients. Our advertising activities principally include promoting our hospital activities and services within the premises of our hospitals using banners, notice boards, posters and newsletters, and on our websites and social media platform. We do not pay third party internet search engines to promote our hospitals or services. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our expenses on advertising activities amounted to approximately RMB1.7 million, RMB0.8 million, RMB0.7 million and RMB0.3 million, respectively, representing less than 0.2% of our total revenue for the same periods. Our Directors confirmed that we had not conducted any false or misleading medical advertising activities during the Track Record Period. As advised by our PRC Legal Advisers, (i) we had been in compliance with applicable PRC laws and regulations with respect to our advertising activities in all material respects during the Track Record Period; and (ii) none of our medical disputes settled during the Track Record Period involved and, none of our on-going medical disputes involves, any allegation of false or misleading medical advertising activities.

BUSINESS

Research and publications. Our healthcare professionals frequently publish their research findings on scientific peer-reviewed journals including international journals covered by the Science Citation Index (SCI), national core journals (全國核心期刊) and statistical source journals (統計源期刊). Our hospitals also undertake a substantial number of research projects and have established affiliations with renowned academic institutions. See sub-section “— *Our Other Activities and Functions — Medical research*”. These activities elevate our status as a sophisticated and resourceful healthcare group in the industry, particularly among healthcare professionals.

Corporate social responsibility events. From time to time, we provide voluntary financial or medical assistance to public institutions and disadvantaged communities in society. These events not only benefit the needed but also attract media coverage to promote our brand awareness and generate goodwill. See sub-section “— *Our Other Activities and Functions — Social contribution*”.

Domestic and foreign cooperation and correspondence. We undertake cooperative projects with other hospitals, associations and foreign delegations. These relationships present our Kanghua brand with a high degree of prestige and amplify public awareness of our brand. We frequently invite domestic government officials and foreign cooperative partners to visit our hospitals and host academic conferences. Such activities reflect the important status of our hospitals. In May 2016, Kanghua Hospital entered into an agreement with The Second Affiliated Hospital of Sun Yat-sen University (中山大學附屬第二醫院), a long established Grade A Class III general hospital in Guangzhou with industry leading capability in general surgery, pursuant to which both hospitals shall cooperate in the general surgery domain, including technical and knowledge exchange, multi-site practice and two-way patient referral (雙向轉診).

OUR CUSTOMERS

Our customers are typically individual patients from the local Dongguan area and other cities in the vicinity, including patients from Hong Kong, Macau, Taiwan and other countries in the South East Asia who work in the Pearl River Delta Region as well as business corporations and government administrations who purchase our healthcare services, such as physical examination and workplace injuries services, for their employees. During the Track Record Period, each of our five largest customers contributed less than 1% of our total revenue in the respective period. As at the Latest Practicable Date, none of our Directors, Supervisors or any Shareholder, who to the knowledge of our Directors, owns more than 5% of our issued share capital immediately following completion of the Global Offering (but without taking into account the exercise of the Over-allotment Option) nor any of their respective associates had any interest in any of our five largest customers.

BUSINESS

We receive payments primarily from (i) social insurance programmes; (ii) patients who finance their medical treatments themselves and/or are funded by commercial insurance providers; and (iii) business corporations or government administrations who purchase our employee healthcare services. The table below sets forth, for the periods indicated, the medical bill settlement amounts received from each payer source:

	Year ended 31 December						Four months ended 30 April	
	2013		2014		2015		2016	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Social insurance programmes ⁽¹⁾	207,462	24.2	264,732	26.9	267,736	25.2	102,961	27.1
Self-pay ⁽²⁾	608,541	71.0	675,622	68.8	755,627	71.2	269,983	71.2
Corporate customers ⁽³⁾	40,939	4.8	42,308	4.3	37,626	3.5	6,163	1.6
Total amount of payment received	856,942	100.0	982,662	100.0	1,060,989	100.0	379,107	100.0

Notes:

- (1) This includes payments directly settled under social insurance programmes that we have a designated status for.
- (2) In addition to payments from patients who finance their medical treatments themselves, this includes payments from privately-insured patients or their commercial insurance providers. Privately-insured patients generally settle medical bills with us first and separately claim for reimbursements from their commercial insurance providers with the relevant receipts.
- (3) Corporate customers refer to the business corporations and government administrations who purchase our employee healthcare services, typically physical examination and workplace injuries related services.

Our patients' self-pay portion of the medical expenses is generally paid on the day of discharge. The settlement cycle for reimbursements under designated social insurance programmes ranges from 30 to 90 days. The settlement cycle for our corporate customers is typically 90 days.

Social insurance programmes

Social insurance in Dongguan (東莞社會保險) accounted for most of our payments received from social insurance programmes during the Track Record Period. Each of Kanghua Hospital and Renkang Hospital is a designated hospital under the social insurance in Dongguan (東莞市社保定點醫院) with a current validity period of 14 August 2014 to 30 September 2018 and 7 August 2014 to 30 September 2018, respectively. As advised by our PRC Legal Advisers, for a hospital to maintain "designated" status under the social insurance in Dongguan, it must: (i) comply with applicable laws, rules and standards on the national, provincial and municipal level and has a sound and comprehensive healthcare services management system; (ii) participate in the local social insurance in full and make contributions according to applicable requirements; (iii) hold a practising license, have an operating history of at least one year with no illegal record in the last two years and have a good social reputation; (iv) have a team of locally qualified healthcare professionals that meets the requirements corresponding to its rating; (v) prioritise the provision of basic medical services that meet the requirements corresponding to its rating; and (vi) be equipped with healthcare services information management system that is capable of operating in network with the social insurance information system.

BUSINESS

With a wide geographic coverage, Kanghua Hospital is also a designated hospital under the social insurance in Shenzhen (深圳市社保定點醫院) with a current validity period of 1 July 2016 to 31 December 2016. As advised by our PRC Legal Advisers, for a hospital to maintain a “designated” status under the social insurance in Shenzhen, it must (i) be a medical institution approved by a health administrative department; and (ii) pass a comprehensive assessment based on, among other things, operating history, scale, disciplines, number and qualifications of doctors and nurses, teaching affiliations and medical equipment. Our PRC Legal Advisers have advised us that, based on the policy of the social insurance in Shenzhen, the validity period for designated status is typically not longer than two years. Before the current validity period, Kanghua Hospital had a validity period of two years from 1 July 2014 to 30 June 2016 pursuant to an agreement entered into between Kanghua Hospital and the Shenzhen Social Insurance Fund Administration (深圳市社會保險基金管理局) (the “**Administration**”). In June 2016, the Shenzhen Social Insurance Fund Administration (深圳市社會保險基金管理局) issued a notice to all designated institutions that due to an impending change to the social insurance scheme in Shenzhen, and with a view to ensuring a smooth transition into the new scheme, the Administration would not enter into new agreements with the designated institutions whose validity period would expire on 30 June 2016; instead, the Administration would enter into supplemental agreements with such institutions as a temporary arrangement until the completion of such transition, upon which new agreements would be entered into. Accordingly, Kanghua Hospital entered into a supplemental agreement with the Administration to renew the validity period of its designated status for six months (i.e. 1 July 2016 to 31 December 2016). As at the Latest Practicable Date, we were not aware of any impending change to the social insurance scheme that may have a material adverse impact on the renewal of Kanghua Hospital’s designated status under the social insurance in Shenzhen. Unless there are unforeseeable changes to the policy of the social insurance in Shenzhen, we do not currently expect that there will be any impediment for Kanghua Hospital to renew its designated status under the social insurance in Shenzhen because: (i) based on the advice of our PRC Legal Advisers with respect to the requirements for a hospital to maintain a designated status under the social insurance in Shenzhen, we believe that Kanghua Hospital fulfils such requirements in all material respects; and (ii) as at the Latest Practicable Date, we had not received any administrative notice that Kanghua Hospital’s designated status will not be renewed. Furthermore, even if Kanghua Hospital were not able to renew its designated status with the social insurance in Shenzhen, we are of the view that it would not have a material impact on our operations as payments from social insurance programmes in Shenzhen only amounted to approximately RMB26,287.8, RMB1.4 million, RMB1.8 million and RMB0.8 million for the three years ended 31 December 2015 and the four months ended 30 April 2016.

Relationship with commercial insurance providers

Our relationship with commercial insurance providers is conducive to attracting patients. Commercial insurance providers usually maintain a list of “designated” hospitals that they have approved to be appropriate providers of medical services. Generally, their clients will only be reimbursed for treatments from hospitals included on such list. Our hospitals are included on the list of “designated” hospitals of a number of commercial insurance providers. Their clients typically pay for their medical bills themselves and subsequently claim reimbursements from the commercial insurance providers. Thus, such payments fall under the “self-pay” category in the payer source table above. As we are not generally involved in such settlement process, we are unable to ascertain the amount of payments from patients funded by such commercial insurance providers.

BUSINESS

In recent years, as one of our marketing strategies, we have sought to develop direct settlement programmes and strengthen our cooperation with commercial insurance providers with a view to attracting more privately-insured patients. As we have only recently begun to establish direct settlement arrangements with a limited number of commercial insurance providers, during the Track Record Period, the amount of payments received by us through direct settlement with commercial insurance providers accounted for an immaterial proportion of the total amount of payments received by us. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, such payments amounted to approximately RMB0.5 million, RMB0.8 million, RMB1.4 million and RMB0.7 million, respectively and are included under the “self-pay” category in the payor source table above. Kanghua Hospital has entered into a number of cooperation agreements with such providers, the key terms of which are summarised below:

Promotion. In addition to being included on their list of “designated” hospitals, the providers have agreed to actively promote and directly refer their clients to Kanghua Hospital.

Discount. We have agreed to provide clients of certain providers with discount of our some healthcare services, such as inpatient bed charges, major inpatient check-ups (including CT and MRI scans), VIP outpatient services and physical examination services.

Scope of service and pharmaceuticals. Some providers set out the scope of treatments and pharmaceuticals that their clients are subject to. If it becomes necessary to use pharmaceuticals outside of the prescribed scope, the patients shall be responsible for the relevant costs, and prior consent from such patients should be obtained before administration.

Medical bills settlement. Some providers settle with us on a monthly basis while some providers settle with us within a period of time after the relevant patients are discharged. Direct settlements with Ping An Life Insurance Company of China, Ltd. (中國平安人壽保險股份有限公司) and Taikang Life Insurance Co., Ltd. (泰康人壽保險股份有限公司) require us to configure Kanghua Hospital’s information systems to link up with their settlement platforms in a secure manner. We shall cooperate to address any billing-related enquiries the providers may have from time to time.

Term. These agreements typically have a term of one year, and unless either party decides otherwise, such agreements will be automatically renewed on identical terms upon expiry.

Customer services

We place a high priority on providing our patients with consistently high quality service and support, which is crucial to our long-term success. We provide patient care in an ethical manner, and at the best possible quality, taking into consideration patient safety, patients’ satisfaction and efficiency in providing our services. We continuously review our services and practices to ensure both quality and integrity are up to standards. In particular, the Medical Ethics Committee (醫學倫理委員會) is responsible for ensuring patients are treated fairly and ethically by our healthcare professionals and no excessive or unnecessary medical treatments are being pressured to the patients. As embodied in our motto “Empathic • Virtuous Medical Practice” (蒼生為念•厚德載醫), we adopt a humanitarian approach in treating all our patients, the well-being of whom form the core of our values. We generally adopt a “treatment before payment”

BUSINESS

approach (先治療後付費) where appropriate, especially in acute medical cases and life-threatening situations. We believe this is an ethical practice that represents our values and enhances our reputation as an ethical private hospital operator. We believe we have established a reputation for excellence by putting patients first, and the goodwill generated from this will translate into long term economic benefits. In line with requirements under applicable PRC laws and regulations, we have established a strict “no red packet policy” (拒收紅包政策) for our medical professionals not to personally accept any form of payment or advantages from patients in return for more favourable medical treatments. At Kanghua Hospital, we require our doctors-in-charge and each of their patients to sign a “no giving or receiving red packets agreement” (醫患雙方不收和不送紅包協議書).

We believe our service quality differentiates us from other hospitals, particularly public hospitals. Our hospitals have a dedicated Customer Service Department responsible for ensuring that our patients’ experience is positive. We continuously review and streamline our patient registration process and provide regular staff customer-service training. From time to time, we conduct patient satisfaction surveys as a means for measuring and monitoring our patients’ experience and satisfaction. Such surveys also serve to establish a baseline to monitor changes in patient experience and satisfaction in specific area of service delivery in our hospitals. We regularly conduct telephone follow-ups with our patients as part of our holistic after care services and service feedback collection. For some of our patients who require assistance in re-integration into society, we visit them on site to follow up on their medical conditions and provide recommendations on their living environment. We are constantly developing improved ways of using patient feedback to directly influence how we provide care to our patients. To provide incentives to our employees to deliver high quality service, our staff remuneration packages also take into account patients’ satisfaction levels and feedbacks.

In 2013, the Guangdong HFPC appointed a third party market researcher to conduct a patient satisfaction survey of 130 Class II or above hospitals in Guangdong Province using international standard benchmark of customer satisfaction. The survey took 1.5 years to complete, and Kanghua Hospital was one of only two private hospitals and the only hospital in the Dongguan region to be ranked among the top 20 hospitals in terms of patient satisfaction. In 2015, the Dongguan HFPB appointed the Hospital Association of Dongguan (東莞市醫院協會) to conduct a comprehensive evaluation on the clinical and service quality of all Class II and Class III hospitals in Dongguan (東莞市二、三級醫院醫療質量和醫療服務評價督導檢查). According to the evaluation results, the patient satisfaction level of Kanghua Hospital reached 97.86%, the highest in Dongguan. The results of the official survey and evaluation set out above endorse the high quality of our services.

Patient complaints management

The subjective nature of the healthcare industry means that we occasionally receive complaints from our patients. We have implemented a standardised customer complaint management with a view to promptly, accurately and comprehensively collecting feedback from our patients, addressing our patients’ concerns, continuously improving our clinical processes and ultimately delivering service of the highest standard to our patients. We generally classify patient complaints in three major categories of importance: (i) critical complaints, which may involve deficiencies in our clinical quality resulting in adverse effects to our patients, medical disputes attracting media attention and intervention from regulatory authorities, extremely poor service attitude, verbal abuses or assaults on our patients, or any complaints regarding our

BUSINESS

medical ethics; (ii) regular complaints, which may involve general service attitude, environment, accommodation, hospital or inter-departmental processes resulting in inconvenience to our patients, billing error, repeated assessment, pricing or lack of communication or language skills; and (iii) immaterial complaints, which may involve mere service recommendations or trivial comments, or complaints that are frivolous, vexatious or are primarily attributable to the patients' individual condition. For each of the three years ended 31 December 2015 and the period from 1 January 2016 to the Latest Practicable Date, we had received 251, 268, 228 and 144 patient complaints, respectively. The table below sets forth the breakdown of patient complaints of our hospitals for the periods indicated:

Patient complaints	Year ended 31 December			From 1 January
	2013	2014	2015	2016 to the Latest Practicable Date
Critical complaints				
Kanghua Hospital	49	33	18	14
Renkang Hospital	2	4	2	2
— Total	<u>51</u>	<u>37</u>	<u>20</u>	<u>16</u>
Regular complaints				
Kanghua Hospital	103	70	63	44
Renkang Hospital	26	40	31	17
— Total	<u>129</u>	<u>110</u>	<u>94</u>	<u>61</u>
Immaterial complaints				
Kanghua Hospital	32	58	79	32
Renkang Hospital	39	63	35	35
— Total	<u>71</u>	<u>121</u>	<u>114</u>	<u>67</u>

The table below sets forth further details of our critical complaints for the periods indicated:

Critical complaints	Year ended 31 December			From 1 January
	2013	2014	2015	2016 to the Latest Practicable Date
Patient fatality related complaints ⁽¹⁾	2	5	5	0
Newborn fatality/miscarriage related complaints ⁽²⁾	3	2	1	0
Treatment/Surgery related complaints ⁽³⁾	22	11	5	10
Diagnosis related complaints ⁽⁴⁾	18	14	4	3
Pharmaceuticals related complaints ⁽⁵⁾	3	3	0	1
Clinical workflow related complaints ⁽⁶⁾	2	1	2	0
Medical ethics related complaints ⁽⁷⁾	1	1	3	2
— Total	<u>51</u>	<u>37</u>	<u>20</u>	<u>16</u>

Notes:

- (1) Refers to critical complaints that primarily involved patient fatality allegedly as a result of our medical treatments or surgeries.
- (2) Refers to critical complaints that primarily involved newborn fatality during delivery or miscarriage during pregnancy allegedly as a result of our medical treatments or surgeries.

BUSINESS

- (3) Refers to critical complaints that primarily involved patients allegedly suffering from adverse effects as a result of our medical treatment or surgeries or patients' dissatisfaction with the results of our medical treatments or surgeries.
- (4) Refers to critical complaints that primarily involved patients allegedly missing the best timing of treatment or receiving an inappropriate course of treatment because of our deficiency and/or delay in clinical diagnosis.
- (5) Refers to critical complaints that primarily involved patients allegedly suffering from side effects as a result of our inappropriate administration of pharmaceuticals.
- (6) Refers to critical complaints that primarily involved our deficiency in clinical workflow potentially resulting in adverse consequences.
- (7) Refers to critical complaints that primarily involved alleged conducts of our healthcare professionals that fall below the ethical standard required of a medical practitioner.

Our patients may lodge a complaint by mail, telephone, our touch-screen terminals or in person. We have dedicated facilities set up to record the complaint process on a confidential basis to safeguard the interests of all parties involved and ensure that the complaint processes are conducted fairly with proper records. Each of Kanghua Hospital and Renkang Hospital has a Complaint Office (投訴辦公室), a unit led by a highly experienced hospital manager and dedicated to the management of patient complainants. The Complaint Office acts as the complainant point of contact, explains the complaint process to the complainants, directs patient complaints to appropriate departments and governance committees for detailed investigation and root-cause analysis, conducts in-depth fact-finding, proactively oversees and manages the complaint processes, coordinates and communicates with the parties involved, accurately records all relevant findings on a confidential basis and formulates the appropriate replies to the complainants. All initial complaints and views will be handled and responded to directly by the Complaint Office. We are committed to resolving all patient complaints in the shortest period of time, or on the spot, if possible, though resolution of critical complaints generally requires a longer period of time. For critical complaints involving clinical safety or possible health implications, we proactively take immediate actions to prevent and minimise adverse effects on our patients. Our policy mandates every complaint to be properly lodged and processed through the system and prohibits our staff from reaching a private settlement with the complainants, which may potentially put us in a disadvantaged situation if such complaints were to escalate further.

BUSINESS

For critical complaints that may escalate into medical disputes, the Complaint Office will notify the Medical Dispute Contingency Task Force (醫療糾紛應急處理小組), headed by the director and senior management of the hospital, to initiate the medical dispute process involving a highly coordinated effort of various units of the hospital. The table below sets forth the general functions of these units:

Unit	General functions
Medical Dispute Contingency Task Force (醫療糾紛應急處理小組)	<ul style="list-style-type: none"> responsible for the overall supervision of the dispute process at the scene
The department subject to the medical dispute (糾紛科室)	<ul style="list-style-type: none"> inform the Complaint Office (投訴辦公室) immediately of any medical dispute arising; collate a comprehensive set of medical documents relevant to the medical dispute; within six hours of the dispute arising, conduct an internal analysis of the medical dispute and relay all pertinent information to the Complaint Office and the Medical Administration Department (醫務部);
The Complaint Office (投訴辦公室)	<ul style="list-style-type: none"> inform the Medical Dispute Contingency Task Force to initiate the medical dispute process; provide explanations and comfort to the relevant patients and their family members and prevent escalation of the medical dispute; inform patients and/or their families of their rights, such as the right to archive the relevant medical records and apparatus and request for an autopsy and explain the medical dispute process; consolidate findings from the department involved and the Medical Administration Department and report to the Medical Dispute Contingency Task Force; coordinate the mediation, litigation and appraisal processes; report significant medical disputes to the relevant authorities;
The Medical Administration Department (醫務部)	<ul style="list-style-type: none"> internally ascertain the degree of responsibility of the hospital with respect to the medical dispute; review the findings from the relevant departments and coordinate relevant experts to analyse the medical dispute; if necessary, invite external experts for their opinion;
The Department of Security (保衛科)	<ul style="list-style-type: none"> ensure the safety of staff and that the normal operation of the hospital is not affected by excessive behaviours of the patients and their related parties; inform the police for assistance if the situation becomes out of control or if the normal operation of the hospital is adversely affected;
The Department of Medical Records Management (醫案管理科)	<ul style="list-style-type: none"> arrange for patients or their family members to obtain a copy of the patients' medical records in accordance with applicable laws and regulations; administrate the procedure of archiving patients' medical records if so requested;
The Department of Brand Management (品牌管理科)	<ul style="list-style-type: none"> prepare the spokesperson for the hospital with respect to the medical dispute; record and collect evidence at the scene, if necessary; liaise with the media to ensure the medical dispute is accurately and fairly reported;

BUSINESS

If the complainants are not satisfied with our handling or the outcomes of their complaints, they may (i) apply to an external mediation committee to resolve the matter by mediation; (ii) apply to the local health authorities for administrative proceedings; or (iii) file a lawsuit against us. Please refer to “— *Legal Proceedings and Compliance — Medical disputes*” for details of our material medical disputes during the Track Record Period and up to the Latest Practicable Date. In compliance with the relevant reporting requirements, we actively update the local health authorities the status of our medical disputes on a quarterly and annual basis.

We regard patient complaint management as an important component for the continuous improvement of our clinical safety. We treat each of our patients’ complaints seriously and regard them as the best source for improvement. Complaint reports are regularly reported to our senior management for review. For every patient complaint, we are committed to understanding its fact pattern and root cause, ascertaining the responsible parties and areas of improvement. We organise a monthly complaints analysis meeting to identify improvement areas in our clinical processes, make recommendations and ensure the relevant administrative and clinical departments implement the necessary improvements promptly. In addition, we organise a quarterly complaints sharing session to share our findings on the root cause of the complaints, improvement processes implemented by us and our lessons learnt with a view to cultivating a sense of vigilance among our staff.

In our line of business, it is inevitable that certain complaints may from time to time escalate into incidents of medical violence (醫療暴力事件). In order to better prepare for such occurrence, our staff carries out a risk assessment of patient violence based on factors including (i) patient’s agitated expressions and disturbing behaviours; (ii) whether the patient is displaying signs of resistance against our recommended treatments; (iii) patient’s history of violent and intimidating acts; (iv) friends or family displaying violent behaviours; and (v) patient’s history of drug or alcohol abuse. Our Department of Security (保衛科) is able to dispatch security officers who are experienced in handling incidents of medical violence. We also work closely with the police bureaus and law enforcement agencies which are able to in short notice dispatch officers to our hospitals if necessary. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incidents of medical violence that would have a material adverse impact on our business operations.

OUR SUPPLIERS

Our suppliers primarily consist of agents and distributors of pharmaceuticals, medical consumables and medical equipment that are either obtained from reputable local manufacturers or imported from international manufacturers. For some medical products, such as class I vaccines (第一類疫苗), we are required to obtain supplies directly from the Chinese Centre for Disease Control and Prevention (中國疾病預防控制中心). Our suppliers are cautiously selected for quality, reputation, price, product and service offerings and delivery capability. We routinely assess our suppliers’ performance, credit-worthiness, re-confirm their qualifications (such as GMP and/or GSP Certificates, where appropriate) and ensure the compliance status and quality of our supplies. We have adopted a stringent policy that prohibits suppliers from contacting and offering rebates to our doctors to solicit business. If any supplier is found to be in violation, we will immediately terminate the business relationship. We believe that such practice minimises the risk of corrupt practices by individual staff at our hospitals who may exert influence on procurement, thereby safeguarding the quality of our supplies. We seek to manage risks by maintaining adequate inventories and building strong relationships directly with our suppliers. We generally agree pricing terms

BUSINESS

with our suppliers on the basis that we will not pay higher than (i) the market price; and (ii) the selling price to other third parties. While both Kanghua Hospital and Renkang Hospital have separate Procurement Departments, we identify and aggregate the procurement requirements of both hospitals and negotiate volume discounts with our suppliers, where practicable.

In addition to the purchase of pharmaceuticals, medical consumables and medical equipment, we also rely on various vendors for engineering and renovation services, electricity supply and non-healthcare related ancillary management services for our operations.

For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our five largest suppliers together accounted for 50.9%, 50.3%, 43.6% and 51.6% of our total purchases of pharmaceuticals, medical consumables, medical equipment, construction and renovation services and electricity supply and non-healthcare related ancillary management services (“**Total Purchases**”), respectively, and our single largest supplier, Dongguan Yuheng Pharmaceuticals Co., Ltd. (東莞市裕恒醫藥有限公司) (“**Yuheng**”), accounted for 34.2%, 37.9%, 25.3% and 32.0% of our Total Purchases during the same periods, respectively. During the Track Record Period and until September 2015, one of our Controlling Shareholders, namely Xingda Property, had a controlling interest in Yuheng. In September 2015, Xingda Property disposed all of its interest in Yuheng to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the distribution of pharmaceuticals, medical consumables and medical equipment is not a core part of our operations. Thereafter, Yuheng became an Independent Third Party. Yuheng is a wholesaler of pharmaceuticals and medical equipment primarily to hospitals in the PRC. Our business relationship with Yuheng began in 2010. We have a long term agreement that does not impose any minimum purchasing commitment on us and we may place orders with Yuheng at our own discretion. The pricing of the relevant products is determined at the time we place our orders with reference to market price. The agreement sets out the framework of delivery, settlement, inspection and quality control, product defects, compensation arrangements for delivery failure, medical equipment training, packaging and warranty. The agreement is for an indefinite period but we may terminate it if Yuheng commits a material breach or fails to deliver the relevant supplies within a prescribed period. We have a credit period of 90 days with Yuheng.

During the Track Record Period, we had also engaged Dongguan Lisheng Decoration Engineering Co., Ltd. (東莞市力盛裝飾工程有限公司) (“**Lisheng**”) to carry out various engineering, renovation and maintenance services for our operations. During the Track Record Period and until December 2015, two of our Controlling Shareholders, namely Xingda Property and Kanghua Group, had a controlling interest in Lisheng. In December 2015, they disposed all of their equity interest in Lisheng to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the provision of engineering and renovation services is not a core part of our operations. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, Lisheng accounted for approximately 1.3%, 0.1%, 3.5% and 0.3% of our Total Purchases, respectively.

During the Track Record Period, we had also engaged Dongguan Zhuozhong Property Management Co., Ltd. (東莞市卓眾物業管理有限公司) (“**Zhuozhong**”) for the provision of certain non-healthcare related ancillary management services, including security, landscape management, logistics arrangement for staff and guests, traffic control, dormitory management, waste management and general cleaning services to our

BUSINESS

hospitals. During the Track Record Period, one of our Controlling Shareholders, namely Kanghua Group, had a controlling interest in Zhuozhong. In May 2016, Kanghua Group disposed all of its interest in Zhuozhong to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the provision of non-healthcare related ancillary services is not a core part of our operations. Thereafter, Zhuozhong became an Independent Third Party. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, Zhuozhong accounted for approximately 1.9%, 2.1%, 1.4% and 2.8% of our Total Purchases, respectively.

We expect our transactions with each of Yuheng, Lisheng and Zhuozhong will continue after the Listing.

As at the Latest Practicable Date, none of our Directors, Supervisors or any Shareholder, who to the knowledge of our Directors, owns more than 5% of our issued share capital immediately following completion of the Global Offering (but without taking into account the exercise of the Over-allotment Option) nor any of their respective associates had any interest in any of our five largest suppliers. Our Directors confirm that, during the Track Record Period, we did not encounter any business disruption due to shortage of medical supplies and other consumables. We believe that any shortage or delay in the supply of materials will not have any material impact on us as we can quickly shift to other suppliers with comparable quality and price.

Procurement and inventory

Each of our hospitals has a Procurement Department and maintains its own inventory. The Procurement Department centralises the procurement of pharmaceuticals, medical consumables and medical equipment and other non-medical supplies and services of all departments in the hospital. We aggregate the needs of both hospitals and collectively negotiate with our suppliers for volume discounts, where practicable.

In order to maintain close oversight, we have established a systematic approval process involving various departments, dedicated governance committees and management for different categories of procurement, such as new drugs that are not in the hospital's formulary, expensive consumables and substantial medical equipment. In light of the critical nature of our healthcare services, emergency procurement protocols are in place in our hospitals to respond to the urgent needs of our patients within a short period of time. Our general procurement process involves the following: (i) requisition; (ii) inventory redundancy check; (iii) feasibility study and approval by a governance committee (if applicable for medical equipment, pharmaceuticals or medical consumables procurement); (iv) approval by hospital head office (醫院辦公室); (v) approval by the procurement department; (vi) approval by the finance department; (vii) approval by hospital chairman; and (viii) execution of purchase by the procurement department. Such procurement process involves segregated approvals ensuring that no particular individual or department has excessive authority, control or influence.

Our procurement is generally divided into three categories: (i) pharmaceuticals and medical consumables; (ii) medical equipment; and (iii) non-medical:

Pharmaceuticals and medical consumables: purchase of new pharmaceuticals that are not in the hospital's formulary is generally reviewed and approved by the Pharmacy Department, a dedicated governance committee and the management of the hospital. In order to achieve cost optimisation of our

BUSINESS

pharmaceuticals and medical consumables, their monthly consumption level is monitored and reviewed taking into account clinical feedbacks from our medical professionals. Any change in product line due to new technology, methodology or cost optimisation reasons will require a feasibility study subject to multiple levels of review and approvals.

Medical equipment: purchase of substantial medical equipment is a capital intensive undertaking which requires a thorough feasibility study, taking into account the planning of the hospital and cost-benefit analysis which is subject to review and approval by a dedicated governance committee and the management of the hospital. We generally purchase our medical equipment without any hire-purchase arrangement.

Non-medical purchasing: includes procurement of information and communication technology hardware and software, stationery, office equipment, furniture, corporate gifts, advertisements, construction materials and outsourced contracts for catering, laundry, security, landscaping, renovation and construction. We have established an approval process with a view to ensuring these purchases are necessary, wastage or duplication of internal resources is minimised and the relevant purchase terms are reasonable having performed cost-effective analysis of other comparable products or services.

Our inventories primarily consist of pharmaceuticals and medical consumables. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our inventory turnover days were 17.9, 16.6, 15.9 and 16.5, respectively, while the balance of our inventories as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016 accounted for approximately 5.3%, 5.1%, 4.9% and 6.3%, respectively, of our total current assets. As advised by our PRC Legal Advisers, the storage of certain pharmaceuticals, such as narcotics, psychotropic substances, poisons and radioactive drugs are regulated. For further details, refer to “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC — Regulations on the supervision over pharmaceuticals in healthcare institutions*”. As advised by our PRC Legal Advisers, during the Track Record Period, we were in full compliance with the applicable laws and regulations in relation to the storage of medical supplies in all material aspects.

Our inventories are strictly organised in terms of admission and expiry dates. Pharmaceutical expiry dates are closely monitored to ensure expired items are not administered and are safely disposed in accordance with applicable laws and regulations. We regularly carry out physical inventory stock-takes and assessments to reconcile our internal records. We keep approximately 15 to 21 days of inventory to meet the needs of our hospital services.

Our inventories are reviewed periodically to identify slow-moving or obsolete inventories. Inventories are carried at the lower of cost and net realisable value. Full provision will be made for damaged or defective items. During the Track Record Period, we did not make any significant inventory provisions.

BUSINESS

CLINICAL GOVERNANCE AND RISK MANAGEMENT

Clinical governance

We believe sound clinical governance is fundamental to the delivery of high quality healthcare services in our hospitals. We maintain strong clinical governance oversight over our hospitals. We have adopted a standardised and comprehensive risk management policy and supporting procedures covering the assessment of risks throughout our hospitals, identifying, analysing and learning from medical disputes or near-miss situations, and the relevant arrangements in case of emergencies. The following table sets out the main clinical governance committees at each of our hospitals and their key functions:

Clinical governance committee	Key functions
Service Quality Committee (服務質量領導小組)	responsible for formulating the overall service quality control plan of the hospital and regularly monitoring performance indicators to assess the service quality standard of the hospital
Medical Records Management Committee (病案管理委員會)	responsible for managing the medical records of patients and ensuring that medical staff consistently adhere to the standards and conventions required in the preparation of such medical records
Medical Ethics Committee (醫學倫理委員會)	responsible for keeping abreast in the development of medical ethics both domestically and internationally, formulating the code of conduct and conduct of ethics for medical staff and reviewing medical disputes from an ethical perspective
Blood Transfusion Management Committee (輸血管理委員會)	responsible for ensuring the clinical applications of blood adheres to applicable rules and regulations; providing technical support in such applications; assessing blood transfusion efficacy and analysing side-effects or medical disputes arising from blood transfusion therapies
Pharmaceutical Administration and Therapeutics Committee (藥事管理與藥物治療學委員會)	responsible for ensuring the pharmaceutical applications and prescriptions are reasonable and comply with applicable rules and regulations, reviewing procurement of new drugs, evaluating the efficacy and safety of drugs, and providing guidance to clinical departments on the reasonable prescription of drugs
Doctors Evaluation Committee (醫師考核委員會)	responsible for ensuring that the doctors are periodically evaluated for their fundamental medical knowledge and practical skills
Infection Control Committee (感染管理委員)	responsible for formulating and monitoring infection control and prevention protocols and plans, reviewing hospital construction and expansion plans from the infection control and prevention perspective, assessing the level of pathogen's resistance to antibiotics and reviewing antibiotics application, and supervising the use and maintenance of clinical equipment including sterilisation
Healthcare Quality Management Committee (醫療質量管理委員會)	responsible for formulating the overall healthcare quality and safety plan of the hospital, identifying the root cause of any deficiencies of healthcare quality, and providing comprehensive recommendations, and monitoring and supervising the healthcare quality of each clinical department. It is also mandated to perform a periodic comprehensive high level review of (i) medical records of patients; (ii) drug prescription patterns by doctors; (iii) laboratory testing and check-up receipts; (iv) medical disputes; (v) hospital infections control; (vi) achievement of clinical objectives; (vii) medical ethics; (viii) implementation of policies and protocols; and (ix) patient satisfaction levels
Equipment Appraisal Committee (設備論證委員會)	responsible for formulating the overall medical equipment procurement plans and management policies, evaluating the procurement and retirement of substantial medical equipment and reviewing procurement applications from clinical departments
Nursing Management Committee (護理管理委員會)	responsible for managing nursing services provided at the hospital, including continuous nursing improvement, structured training to nursing staff, provision of specialised care and occupational safety

BUSINESS

The application of root cause analysis, a systemic process for identifying the initiating causes of a problem, is fundamental to our clinical governance. For every patient death, surgical failure, patient complaint, patient complication and medical dispute, we are committed to identifying the root cause, learning from these incidents and making the necessary changes promptly to prevent future occurrences.

Our clinical governance committees work in conjunction to oversee clinical governance and seek assurance that clinical governance arrangements are working effectively to safeguard patients and improve the quality of clinical care. One of the key functions of our clinical governance is the comprehensive review of material medical disputes and any associated fatal accident inquiries relating to clinical services and patient safety independent from the hospital staff or department involved and making appropriate recommendations. Every material medical dispute will be reviewed and analysed in-depth by the appropriate governance committees. In addition, the performance indicators of every clinical department in our hospitals are continuously monitored with a view to ensuring our clinical governance standards strictly comply with the applicable standards and guidelines set out by NHFPC. For example, we have established systematic procedures to monitor patient fatality rate, re-admission rate, ALOS, average hospitalisation cost, and rate of unplanned surgery required as clinical quality indicators for our inpatient hospital services. We closely monitor our doctors' prescription patterns to ensure that the proportion of our patients' medical bills attributable to the pharmaceuticals is maintained within a reasonable range and to assess whether there is evidence of clinical abuse or excessive prescription of medicine, which is one of our key governance standards. During the Track Record Period, (i) the average inpatient spending and outpatient spending of Kanghua Hospital attributable to pharmaceuticals had been maintained at the level of approximately 33% and 46%, respectively; and (ii) the average inpatient spending and outpatient spending of Renkang Hospital attributable to pharmaceuticals had been maintained at the level of approximately 36% and 42%, respectively. For medicine with antibiotic properties, we track and review the utilisation rate by our patients, prescription proportion and antibiotic strength to ensure the relevant governance indicators associated with the use of antibiotic medicine comply with NHFPC standards. Our clinical governance oversight is facilitated by our sophisticated clinical information management system which records and assimilates our clinical data. See also sub-section “— *Information Technology Systems*” below.

Clinical risk

Modern healthcare is a complex business with inherent risks. With the increasing advancement of medical technology, treatment procedures, particularly those offered at our highly specialised clinical departments, have become more sophisticated. The emergence of complications, the side-effects of drugs, as well as the changes in patients' conditions may also increase the risks involved in treatment procedures. Such inherent risks mean that patients will occasionally suffer harm while under our care. We seek to minimise the frequency and degree of such instances of patient harm through clinical risk management, as part of our overall clinical governance and quality framework focusing on clinical quality and patient outcomes. In the event that an adverse medical event occurs, it is of paramount importance to conduct a detailed analysis to find out whether it is caused by known risks, complications, clinical conditions of the patient or human factors. A key aspect of our clinical risk management is collecting and analysing information relating to

BUSINESS

the causes or potential causes of injury to patients, then by applying this learning, seek to improve levels of patient safety and well-being. The table below sets forth the clinical risks that our hospitals are generally subject to:

Diagnostic failure (診斷缺陷)	Misdiagnosis or delayed diagnosis of a medical condition, illness, or injury leading to incorrect treatment, delayed treatment, or no treatment at all
Treatment failure (治療缺陷)	Failure to follow treatment protocols and implement the relevant treatment procedures appropriately leading to adverse consequences
Emergency care failure (搶救缺陷)	Failure to provide appropriate and/or timely emergency care to patients leading to severe adverse consequences such as patient death
Surgical failure (手術缺陷)	Failure to determine the appropriate surgical procedure, incision site and/or timing leading to a failed surgery
Failure in hospital infection control and reporting of infections (醫院感染控制及傳染病疫情報告缺陷)	Failure to implement appropriate quarantine procedures resulting in patients and/or staff contracting infections, repeated outbreaks of infections in the hospital, patients contracting infections as a result of improper blood transfusion procedures, failure to report instances of infections that may lead to community outbreaks
Nursing failure (護理缺陷)	Delayed medical care to patient left unattended by nurses leading to severe adverse consequences, blood transfusion of the wrong blood type or patient, incorrect use of medical facilities or medicine, failure to check adverse drug reaction history of the patient
Anaesthesiology failure (麻醉缺陷)	Failure to properly implement anaesthesiology procedures due to incorrect use of equipment and/or medicine, failure to monitor the conditions of the patient under anaesthesiology leading to cardiac arrest, hypoxia and/or organ damage
Operating theatre failure (手術室缺陷)	Use of unsterilised surgical tools, delivery of patient to an incorrect operating theatre; patient falling out of bed during delivery leading to severe adverse consequences
Medical record failure (病歷書寫缺陷)	Material omission of key information in the patient's medical records leading to incorrect diagnosis or delay in medical treatment and/or emergency care, failure to obtain patient's consent to surgeries and risk acknowledgements
Medical technology failure (醫技工作缺陷)	This covers non-clinical medical failures, including medical technology assisted diagnosis such as radiology, laboratory medicine, pathology, nuclear medicine and functional diagnostics, also includes failure in cross-matching blood types before blood transfusion and delay and/or incorrect supply of drugs to patients leading to severe adverse consequences

BUSINESS

We foster a culture of open communication and actively encourage our staff to promptly report all potential or suspected patient safety incidents through our reporting systems on a no-repercussion-basis. This provides us with an opportunity to learn from the issues raised by our staff so that we can continue to improve the quality of patient care.

All medical disputes are subject to an investigative review by the Medical Administration Department (醫務部) to identify the potential for improvement to our systems of care and service reliability. The Medical Administration Department coordinates the relevant clinical departments and medical personnel to conduct a thorough analysis of medical disputes and if necessary, invites external experts to review highly unusual and complicated disputes. We augment the arrangements to encourage staff reporting with a scheme of mandatory reporting of certain clearly defined conditions of significant medical events, including “near-miss” situations where no immediate harm was suffered, but could recur if conditions or causes are not remedied. These events are then subject to further investigation using the principles of root cause analysis.

As part of our clinical risk management, we monitor how our systems and processes affect patient safety, clinical effectiveness and patient experience. We are committed to continuously improving our systems and processes following the “Plan, Do, Check, Act” approach (“規劃-執行-檢核-行動”), which involves re-designing processes to remove unnecessary complexity, thoroughly analysing material medical disputes in order to improve service reliability and collecting feedbacks and insights from our staff, patients and regulators.

We believe our high standard of clinical governance maintains our inpatient fatality rate consistent with the risks inherent in our hospital operations and industry. As Kanghua Hospital is positioned to perform complex and high-risk clinical procedures from time to time, it generally has a higher inpatient fatality rate than Renkang Hospital. Furthermore, Kanghua Hospital regularly accepts patient transfers from lower tier hospitals. Such patients are generally in critical conditions and/or require specialised and complex emergency procedures not available in the referring hospitals. By their inherent conditions, such patients have a higher fatality rate. The emergency procedures they require also carry higher risks of unfavourable clinical outcome. The table below sets forth the inpatient fatality rate of our hospitals for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	Number of inpatient deaths	% of total inpatients	Number of inpatient deaths	% of total inpatients	Number of inpatient deaths	% of total inpatients	Number of inpatient deaths	% of total inpatients	Number of inpatient deaths	% of total inpatients
Kanghua Hospital .	229	0.66	226	0.62	211	0.56	79	0.73	106	0.82
Renkang Hospital .	36	0.25	31	0.21	33	0.24	10	0.25	15	0.38
Total	265	0.53	257	0.50	244	0.48	89	0.60	121	0.72

For the purpose of comparing the inpatient fatality rate of our hospitals to other hospitals of the same tier in Dongguan, the table below sets forth the average inpatient fatality rate of Class III and Class II general hospitals in Dongguan for the periods indicated, according to the Frost & Sullivan Report:

BUSINESS

	Year ended 31 December		
	2013 ⁽¹⁾	2014	2015
Class III general hospitals	N/A	0.70%	0.62%
Class II general hospitals ⁽²⁾	N/A	0.30%	0.33%

Notes:

- (1) According to Frost & Sullivan, the data for 2013 is not available as the relevant authority had not published such data for the year 2013 and the years before and there is no alternative reliable data source.
- (2) Renkang Hospital has not applied to be rated under the NHFPC classification system. The inpatient fatality rate of Class II general hospitals in Dongguan is selected for the purpose of comparison with Renkang Hospital as we believe the level of service and fee structure of Renkang Hospital are similar to that of Class II general hospitals in Dongguan.

Kanghua Hospital had a considerably lower inpatient fatality rate than the average of Class III general hospitals in Dongguan in 2014 and 2015, respectively. Similarly, Renkang Hospital had a considerably lower inpatient fatality rate than the average of Class II general hospitals in Dongguan in 2014 and 2015, respectively. We attribute this difference to our vigilant healthcare professionals, clinical quality and clinical governance.

Workspace health and safety risk

We maintain an internal audit and inspection program to ensure the safety of our hospital premises for patients, the public and staff. The aim of the audit process is to ensure that our workplace is continuously monitored and that deficiencies in relation to set standards are remedied. We ensure that each of our hospital departments is periodically inspected and audited for safety issues, such as medical treatment safety, environment safety and occupational safety. We actively encourage staff to report health and safety incidents and risks on a no repercussion basis, and the learning from proactive monitoring and findings from incident reviews is used to improve further and refine training programmes, policies and working practices.

We conduct regular sanitisation to contain the potential spread of infectious diseases at our hospitals. We have established surveillance systems to closely monitor the prevalence of nosocomial infections (醫院感染現患率) at our hospitals and ensure that they are maintained at very low levels in compliance with NHFPC standards. We also provide periodical occupational safety education and training to augment our staff's awareness of safety issues. We provide our staff with regular health assessment to monitor their overall health. In particular, we adopt stringent assessment protocols for our staff that are regularly exposed to high-risk environments such as radiation and clinical wastes to ensure their exposure is within acceptable safety limits.

Our Directors confirm that during the Track Record Period, no material work place accidents or work-related injuries occurred at either of our hospitals that had a material adverse effect on our business, results of operations and prospects. We believe our safety record has contributed towards creating a trusted brand that signifies both safety and quality of our medical care.

Government regulations and inspections

We are subject to numerous rules and regulations that regulate the qualifications and conduct of healthcare professionals and standards for healthcare services in the PRC. See “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC*”. As part of our clinical governance framework, we are committed to complying with the relevant rules and regulations in the PRC. For example, our clinical governance procedures comply with the core procedures promulgated by the NHFPC to ensure healthcare safety, which include proper procedures for initial diagnosis, ward inspection, consultation, medical disputes handling, discussions of fatality cases, medical records keeping, pre-operation discussions, care of critically ill patients and shift relief system. Additionally, our hospitals are subject to unscheduled inspections by relevant government authorities, including the Dongguan HFPB that reviews healthcare services provided by us, inspects the implementation of the relevant rules and procedures, and determines areas that can be further improved. Our Directors confirm that during the Track Record Period, we had not been notified of any material non-compliance of the relevant rules and procedures promulgated by the relevant government authorities. None of our hospitals has been found to be in any material violations during the inspections conducted by the Dongguan HFPB, the clearance of which is a prerequisite for our hospitals to pass the annual inspection requirement of their Medical Institution Practice Licenses.

Anti-bribery and corruption risk management

The PRC government has recently enhanced its anti-bribery efforts to prevent improper payments and other benefits received by doctors, staff and hospital administrators in connection with the procurement of pharmaceutical and medical supplies and the provision of healthcare services. In addition, Grade A Class III hospitals in the PRC, such as our Kanghua Hospital, are subject to particularly stringent requirements, including as part of the criteria for such ratings, requiring all such hospitals to (i) implement internal controls and risk management measures addressing bribery and corruption risks; and (ii) undergo annual inspections from relevant regulatory authorities as to their anti-bribery and corruption status. We have implemented the following policies and procedures to address potential bribery and corruption incidents:

- we have an anti-bribery function at our Group level led by our chief financial officer. This function is in charge of developing the overall framework of anti-bribery and corruption policies and procedures and providing guidance and supervision towards implementing them across our hospitals. Each of our hospitals will immediately report any suspected incidents of bribery and corruption to our chief financial officer, who will then carry out any further investigations if necessary and determine the appropriate course of action. From time to time, we provide training to our staff and updates on recent anti-bribery and corruption issues and practices as they arise;
- we have in place a robust whistle blower programme accessible by our staff and business partners, including a dedicated hotline and an email address, to receive reports of alleged corruption on a no-repercussion basis, with the option of anonymity. We have established a zero-tolerance policy towards our staff accepting any form of bribes. Such policy is included in our staff handbook and code of conduct. Any of our staff found in breach of our anti-bribery and corruption policy will be dismissed. We also take appropriate measures to discourage our patients from offering any form of payment or gift to our staff for better or priority services, including displaying the relevant policies and laws in prominent places;

BUSINESS

- we have close oversight over our procurement processes. We have established a systematic multi-tier approval process involving various departments, dedicated governance committees and management for different categories of procurement. Our procurement processes are segregated and no particular individual or department has excessive authority, control or influence, thereby minimising the risk of corruption or abuse. Before engaging in any business relationship with a new supplier, we will conduct due diligence to ensure we have a reasonable understanding of its background and its connection with us, including how such supplier was referred to us in the first place. We require our suppliers to agree to anti-bribery and corruption provisions in our supply agreements. In particular, our suppliers are prohibited from soliciting business with our staff directly. Any violation will result in our immediate business termination with such suppliers; and
- as part of our key clinical governance, the Pharmaceutical Administration and Therapeutics Committee at each of our hospitals regularly reviews drug prescription patterns. Any unreasonable or inexplicable irregularities or red flags indicative of a deliberate attempt to substantially increase the prescription of certain drugs will be promptly reported and investigated.

Information and patient data risk management

Each of Kanghua Hospital and Renkang Hospital has an Information Technology Department responsible for reviewing and implementing our data protection measures in accordance with relevant laws and regulations. Our network resources that store and manage patient data are physically disconnected from our internet access points to prevent external leakage and tempering activities. We strictly adhere to grade three security requirements under the Administrative Measures for the Graded Protection of Information Security (信息安全等級保護管理辦法) promulgated by the PRC government. Our network security, system security and database security are reviewed from time to time and are comprehensively audited at least once every year to ensure the required standards are met.

We have formulated policies for data administration (including patient data) which sets out the overall responsibilities and procedures to ensure that all users adhere to defined standards. We have promulgated internal instructions setting out specific procedures regarding the handling of documents containing patient data. Our staff is also required to observe our internal instructions on the security of our computer systems (including storage, processing, transmission and management of classified information, data encryption and physical security of computer systems). Violation of the above requirements will result in disciplinary actions. We provide regular updates and trainings to our staff on data protection to cultivate their data protection awareness. Our staff who need to have access to sensitive data are also required to enter into a confidential undertaking with us with respect to any patient data, operational, financial and other information that may come across during their employment with us.

We also implement strong access controls to our information. The degree of access and control our staff has to our information is determined by reference to the relevance to their role, their post and/or seniority and is reviewed from time to time. Any unnecessary or obsolete access rights will be revoked immediately. All network actions are recorded on our systems and continuously monitored for any irregularity. In the event of an information security breach, our records will enable us to carry out detailed investigations and damage control.

BUSINESS

Cash management

As part of our cash management policy to manage our excess cash, we have invested in certain financial product issued by a PRC commercial bank to achieve higher interest income without interfering with our business operations or capital expenditures. We carefully balance our need for interest income and the risks associated with financial products by investing in simple financial products issued by reputable financial institutions. Our senior management, including our chief executive officer and chief financial officer, is involved in these investment decisions. Our senior management periodically reviews our investment strategies and investment portfolios to ensure they achieve our cash management objectives. Before making a proposal to invest in financial products, the head of the finance department of the relevant hospital or Group company must assess the cash flow and operational needs and capital expenditures of such hospital or company. If the cash flow exceeds its operational needs and an appropriate low-risk investment opportunity is available, the head of the relevant finance department will submit the investment proposal to our senior management for approval. Regardless of investment size, a proposal to invest in any investment products must first be reviewed and approved by our chief financial officer, Mr. Wong Wai Hang Ricky, a Certified Public Accountant in Hong Kong. Our chief financial officer is also responsible for reviewing the relevant documentation and negotiation with the counterparty. After our chief financial officer approves the proposal, it must also be approved by (i) our chief executive officer, if the investment amount exceeds RMB10 million; or (ii) our executive Directors and the independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules, if the investment amount exceeds RMB100 million.

In assessing a proposal to invest in a financial product, a number of criteria must be met, including:

- the term of the financial product should generally not exceed one year;
- the proposed investment must not interfere with our business operations or capital expenditures;
- the financial product must be issued by a reputable bank with which we have a long-term relationship, preferably exceed five years; and
- the investment portfolio of the financial product should generally bear low risk.

We believe our cash management policy regarding investment in financial products and the related risk management mechanisms are adequate. We may make investments in financial products that meet the above criteria as part of our cash management where we believe it is appropriate to do so after the Listing.

COMPETITION

The healthcare service industry in the PRC has experienced rapid growth in recent years. The total healthcare expenditure in the PRC grew at a CAGR of 15.3% from RMB1,998.0 billion in 2010 to RMB3,531.2 billion in 2014 and is expected to grow further at a CAGR of 9.5% from 2015, reaching RMB6,188.9 billion by 2020, according to Frost & Sullivan. Public hospitals continue to play a dominant role in the healthcare services market. General hospital is the fastest growing segment in terms of hospital number within the private hospital market in the PRC, which is in turn the fastest growing segment within the overall hospital market in the PRC, according to Frost & Sullivan. As at 31 December 2015, Kanghua Hospital was the largest private for-profit general hospital in the PRC in terms of the number of registered beds, according to Frost & Sullivan. In terms of revenue, Kanghua was the third largest private for-profit general hospital in the PRC for the year ended 31 December 2015, according to Frost & Sullivan.

BUSINESS

The healthcare services market in the PRC is highly competitive. We generally compete with other public and private general hospitals, as well as specialty hospitals, in particular those with a Class III rating. We believe the principal competitive factors are high-end medical capability, price and quality of services, designated status under social and/or commercial insurance programmes, relationship with commercial insurance providers, comprehensive array of service offerings (in particular special services), convenience and location in proximity to residential or business areas, brand recognition and reputation and customised healthcare services. We believe that we are well positioned to attract revenue opportunities presented by the expected growth in the healthcare industry. We intend to leverage our leading position, our reputation and extensive market knowledge to capture the growth opportunities by selective acquisition or entering into management arrangement with other hospitals.

INFORMATION TECHNOLOGY SYSTEMS

Each of our hospitals maintains a robust clinical information technology system to ensure the operational efficiency of hospital management involving patient registration, medical records, treatment history, medical history, laboratory tests, radiology requests and drugs prescribed. Such information technology system integrates the following:

Electronic Medical Records (EMR): the EMR system assists our medical professionals in the creation, storage, and organisation of comprehensive patient histories in electronic format comprising medical records such as patient charts, electronic prescriptions, laboratory orders, and evaluations. The EMR system allows for patient information to be shared efficiently across all departments within the hospital. It is the core information system for centralised patient management across all the departments in the hospital.

Hospital Information System (HIS): the HIS streamlines daily operations in our hospitals, including the management of patient records and billing history, outpatient registrations and inpatient admissions. In the future, we plan to link up the HIS systems of Kanghua Hospital and Renkang Hospital with a view to delivering seamless treatment of patients who may visit either hospital from time to time.

Picture Archiving and Communications System (PACS): the PACS manages radiology requests (such as CT and MRI scans) and results and issues reports and bills for our radiology services.

Radiology Information System (RIS): closely integrated with PACS, the RIS is used to store, manipulate, and distribute patient radiological data and images, consisting of patient tracking and scheduling, result reporting and image tracking capabilities.

Laboratory Information System (LIS): the LIS manages laboratory requests and results, and issues reports and bills for our laboratory services.

The combination of these systems provides a comprehensive approach ensuring communication between staff and patients is fast, efficient and convenient. From a medical perspective, digital information management empowers our hospitals to integrate the medical management and clinical systems for diagnosis, radiology or examination purposes. From a clinical governance perspective, information

BUSINESS

management systems play a critical role in facilitating our oversight over key clinical parameters and allows early detection of clinical failures. Our hospitals' information systems were developed with adaptation and scalability in mind so that they can adapt to changing business developments and expansion for future business needs.

Our direct settlement protocol with commercial insurance providers such as Ping An Life Insurance Company of China, Ltd. (中國平安人壽保險股份有限公司) and Taikang Life Insurance Co., Ltd. (泰康人壽保險股份有限公司) is highly dependent on our information systems being capable of communicating with the platform of the insurance provider in real-time and in a secure manner. We have a dedicated team of system engineers to maintain and promptly troubleshoot any problems that may arise, particularly during the initial phase of cooperation with the insurance providers.

We have implemented measures to provide multi-tier protection for the data stored on our system and minimise system failures. We have implemented backup systems to protect our data against catastrophic events and disaster recovery/business continuity plans. We have established policies for protecting user data and maintaining network stability in each of our hospitals.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any disruption or failure in our information technology systems that would have a material adverse impact on our business operations.

INTELLECTUAL PROPERTY

We have registered or applied for registration of certain trademarks and patents in the PRC and Hong Kong relating to the names and logos of our hospitals. As at the Latest Practical Date, we had (i) six trademarks registered in the PRC; (ii) one pending trademark application in the PRC; (iii) two trademarks registered in Hong Kong; and (vi) five registered domain names. See also "*Appendix VI — Statutory and General Information — 4. Further Information About Our Business — B. Our intellectual property*".

We recognise the importance of our intellectual property rights and will protect and enforce our intellectual property rights if we become aware of any potential infringement. As at 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 at any 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

All of the land and buildings underlying our hospital operations are leased from Kanghua Group and Tongli Enterprise (being companies controlled by our individual Controlling Shareholders). For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, (i) rental paid/payable to Kanghua Group for the land and buildings underlying Kanghua Hospital amounted to approximately RMB15.0 million, RMB15.0 million, RMB15.0 million and RMB6.6 million, respectively; and (ii) rental paid/payable to Tongli Enterprise for the land and buildings underlying Renkang Hospital amounted to approximately RMB2.6 million, RMB2.9 million, RMB3.2 million and RMB1.1 million, respectively. In

BUSINESS

April 2016, we entered into the Kanghua Hospital Lease Agreement and Renkang Hospital Lease Agreement to secure the long-term use of the land and buildings underlying Kanghua Hospital and Renkang Hospital, respectively, for a term of 10 years commencing from 1 January 2016 to 31 December 2025. For more information, see “*Connected Transactions*”. As at 30 April 2016, we leased an aggregate of approximately 328,000 sq.m. GFA under the two lease agreements. We primarily use such leased plots of land and buildings for the operation of our hospitals, as well as for administrative office premises and staff dormitories. The material terms of the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement are as follows: (i) annual rental payable in arrears; (ii) rental to be adjusted every year based on the growth rate of 7%, which was determined based on historical GDP growth of the PRC; (iii) if the landlord decides to sell the relevant land and buildings during the lease term, we have a right of first refusal to purchase such land and buildings at market price to be determined by an independent third party valuer; (iv) we may request to renew the lease agreement by giving notice 90 days before expiry of the lease term, and the landlord shall not unreasonably decline our request for renewal; and (v) if the landlord decides not to renew the lease agreement, it shall give us advance notice of at least one year before expiry of the lease term, compensate us for economic losses and the necessary expenses incurred as a result of such relocation and render all reasonable assistance to such relocation.

With a view to securing our long term continued use of the land and buildings underlying our hospital operations, Kanghua Hospital has obtained an irrevocable undertaking from Kanghua Group, pursuant to which Kanghua Group shall take all necessary actions to ensure that, upon expiry of the Kanghua Hospital Lease Agreement on 31 December 2025, Kanghua Hospital shall be entitled to lease the relevant land and buildings on the same conditions and in the same manner for another 10 years at a rent to be determined with reference to the then market rate. Renkang Hospital has obtained an identical irrevocable undertaking from Tongli Enterprise with respect to the Renkang Hospital Lease Agreement (collectively, the “**Renewal Undertakings**”). As advised by our PRC Legal Advisers, such Renewal Undertakings are valid, effective and enforceable under PRC laws and regulations. Furthermore, Kanghua Hospital has obtained an irrevocable undertaking from Kanghua Group, pursuant to which Kanghua Group has agreed that during the term of the Kanghua Hospital Lease Agreement (and the renewal thereof), subject to applicable laws and regulations at the relevant time, unless (i) agreed in writing by Kanghua Hospital; and (ii) there are appropriate arrangements in place for the normal operation of Kanghua Hospital, Kanghua Group shall not dispose of the land and buildings subject to the Kanghua Hospital Lease Agreement (or the renewal thereof) to any third party. Renkang Hospital has obtained an identical irrevocable undertaking from Tongli Enterprise with respect to the Renkang Hospital Lease Agreement (and the renewal thereof) (collectively, the “**Non-Disposal Undertakings**”). As advised by our PRC Legal Advisers, such Non-Disposal Undertakings are valid, effective and enforceable under PRC laws and regulations.

Historically, Kanghua Group, Kanghua Hospital, Tongli Enterprise and Renkang Hospital operated as a group of companies under the common control of our Controlling Shareholders. Kanghua Group and Tongli Enterprise are investment holding companies, with a number of investments including their respective interests in Kanghua Hospital and Renkang Hospital. Kanghua Group purchased the land-use rights of the land underlying Kanghua Hospital before Kanghua Hospital was formally established as a corporate entity in the PRC, and similarly, Tongli Enterprise purchased the land-use rights of the land underlying Renkang Hospital before Renkang Hospital was formally established as a corporate entity in the PRC. According to PRC land registration laws, Kanghua Group and Tongli Enterprise, as purchasers, obtained the land-use rights certificates of the relevant land. According to PRC building registration laws, which provide that the holder of the building ownership certificate of a building and the holder of the

BUSINESS

land-use rights certificate of the underlying land of such building should be identical, Kanghua Group and Tongli Enterprise also obtained the building ownership certificates of the relevant buildings constructed on the relevant land. For this historical reason, Kanghua Hospital and Renkang Hospital do not hold the relevant land-use rights certificates and building ownership certificates underlying their hospital operations.

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, our landlords had, for financing purposes, created security interests over certain land and buildings underlying our hospital operations in favour of financial institutions in the PRC, namely Dongguan Rural Commercial Bank Co., Ltd. Nancheng Sub-branch (東莞農村商業銀行股份有限公司南城支行) (“**DRC Bank Nancheng**”), Dongguan Rural Commercial Bank Co., Ltd. Houjie Sub-branch (東莞農村商業銀行股份有限公司厚街支行) (“**DRC Bank Houjie**”) and Dongguan Securities Co., Ltd. (東莞證券有限公司) (“**DG Securities**”, together with DRC Bank Nancheng and DRC Bank Houjie, the “**Lenders**”). As advised by our PRC Legal Advisers, such security interests take the form of (i) mortgages (抵押) (the “**Mortgages**”) registered with competent land and building authorities, pursuant to which the relevant Lenders purportedly have the right of repayment from the relevant mortgaged property on a priority basis in the event of default of the relevant debt obligations; and (ii) property ownership certificate custodial and property disposal agreements (物業權證託管及物業處置協議) (the “**Custodial Arrangements**”), being contractual arrangements that are not registrable with land and building authorities, pursuant to which the relevant Lenders are given possession of the relevant land-use rights certificates and/or building ownership certificates and an authorisation to deal with such properties in the event of default of the relevant debt obligations.

Our PRC Legal Advisers have analysed the validity and enforceability of the Mortgages and Custodial Arrangements and are of the view that (i) with respect to the Mortgages, pursuant to the Guarantee Law (擔保法) and the Property Law (物權法) in the PRC, hospitals that operate in the form of a public institution (事業單位) or a social organisation (社會團體) are prohibited from creating mortgages over medical facilities (醫療衛生設施) (including land and buildings). Each of the mortgagors, being Kanghua Group and Tongli Enterprise, is a non-state-owned for-profit entity that has been registered as a limited liability company with the competent administration for industry and commerce, and is not a public institution or a social organisation. However, according to the Clarifying Opinion of the Legal Working Committee of the National People’s Congress in Reply to the General Office of The Ministry of Housing and Urban-Rural Development as to whether the Educational and Medical Facilities of Private Schools, Kindergartens and Hospitals can be Mortgaged (全國人民代表大會常務委員會法制工作委員會回復住房和城鄉建設部辦公廳關於私立學校、幼兒園、醫院的教育設施、醫療衛生設施能否抵押的請示的意見), land and buildings of privately-owned hospitals are prohibited from being mortgaged. Therefore, notwithstanding that the Mortgages have been registered with competent land and building authorities, there is uncertainty as to whether the people’s courts or arbitral tribunals would uphold such Mortgages in the event of enforcement; and (ii) with respect to the Custodial Arrangements, as they do not establish a mortgage interest or any other form of security interest under the Guarantee Law and the Property Law in favour of the Lenders, thus, there is uncertainty as to whether such Custodial Arrangements will be enforceable as intended in practice. Our PRC Legal Advisers are of the view that any determination that the Mortgages and Custodial Arrangements are invalid or unenforceable would not have any direct impact on the relevant land-use rights, the relevant building ownership or our use of the relevant land and buildings as tenants. Our PRC Legal Advisers have further advised that the creation of the Mortgages and the Custodial Arrangements, irrespective of any determination that they are invalid or unenforceable, would not result in any administrative penalties or fines under applicable laws and regulations in the PRC.

BUSINESS

In view of the security interests created over the land and buildings underlying our hospital operations, the following arrangements were made to secure our long term continued use of the land and buildings:

- *The Lender Consents.* Notwithstanding that our PRC Legal Advisers are of the view that there are uncertainties in the validity and enforceability of the security interests currently created over the land and buildings underlying our hospital operations as explained above, to reduce the risk that such security interests may result in significant disruptions to our operations, we have procured our landlords to obtain written consents from the Lenders. As advised by our PRC Legal Advisers, DRC Bank Nancheng has given written consents with respect to its security interests over certain land and buildings underlying Kanghua Hospital, pursuant to which DRC Bank Nancheng agreed (i) to Kanghua Group entering into the Kanghua Hospital Lease Agreement with us; (ii) that it would not require the termination of the Kanghua Hospital Lease Agreement during the term of the relevant Mortgage or Custodial Arrangement; and (iii) that in the event the relevant Mortgage or Custodial Arrangement is enforced, Kanghua Hospital may continue to use the relevant land and buildings unaffected in accordance with the Kanghua Hospital Lease Agreement until the end of its lease term, upon which Kanghua Hospital shall have the right to purchase or lease them on fair and market terms. As advised by our PRC Legal Advisers, DG Securities has given similar consents with respect to its security interests over certain land and buildings underlying Kanghua Hospital (subject to compliance with the relevant financing agreements), and DRC Bank Houjie has given similar consents with respect to its security interests over certain land and buildings underlying Renkang Hospital (collectively, the “**Lender Consents**”). As advised by our PRC Legal Advisers, as at the Latest Practicable Date, each of the security interests created over the land and buildings underlying our hospital operations has been made subject to a Lender Consent. As advised by our PRC Legal Advisers, such Lender Consents are effective, valid and enforceable under PRC laws and regulations.
- *The Lender Consent Undertakings.* As advised by our PRC Legal Advisers, Kanghua Hospital has obtained an irrevocable undertaking from Kanghua Group, pursuant to which Kanghua Group agreed not to create any further encumbrances over the land and buildings underlying Kanghua Hospital in favour of any person unless that person has given a consent in substantially the same form as the Lender Consents described above. As advised by our PRC Legal Advisers, Renkang Hospital has obtained an identical undertaking from Tongli Enterprise with respect to the land and buildings underlying Renkang Hospital (collectively, the “**Lender Consent Undertakings**”). As advised by our PRC Legal Advisers, such Lender Consent Undertakings are effective, valid and enforceable under PRC laws and regulations.
- *The Repayment Undertakings.* As advised by our PRC Legal Advisers, Kanghua Hospital has obtained an irrevocable undertaking from Kanghua Group and Mr. Wang Junyang (our Controlling Shareholder and the holder of a 97.46% interest in Kanghua Group), pursuant to which (i) Kanghua Group agreed to service any debt obligations secured by the land and buildings underlying Kanghua Hospital from time to time in priority over its other debt obligations, and to use its best endeavours to prevent the enforcement of such security interests, including liquidating its other assets to service the relevant repayment obligations, if necessary; and (ii) Mr. Wang Junyang agreed to guarantee the debt obligations secured by the land and buildings underlying Kanghua Hospital from time to time and to use his best endeavours to prevent the enforcement of such security interests, including liquidating his other personal assets to support the relevant repayment obligations, if necessary. As advised by our PRC Legal Advisers, Renkang Hospital has obtained an identical undertaking from Tongli Enterprise and Mr. Wang Junyang (our Controlling Shareholder and the holder of a 31%

BUSINESS

interest in Tongli Enterprise) with respect to any debt obligations secured by the land and buildings underlying Renkang Hospital from time to time (collectively, the “**Repayment Undertakings**”). As advised by our PRC Legal Advisers, such Repayment Undertakings are effective, valid and enforceable under PRC laws and regulations.

- *Risk of foreclosure assessment.* We have assessed the risk of foreclosure on the land and buildings underlying our hospital operations based on (i) a review of the financial information provided by Kanghua Group and Tongli Enterprise, which shows that during the Track Record Period, each of them had a positive net asset value; (ii) an analysis of all the security interests created over the land and buildings underlying our hospital operations and the extent of the relevant debt obligations; (iii) a certificate from DRC Bank Nancheng (being the holder of the security interests created by Kanghua Group over certain land and buildings underlying Kanghua Hospital) confirming that Kanghua Group has had a good repayment history, financial standing and credit worthiness since their relationship began and its default risk is extremely low; (iv) a certificate from DG Securities (being the holder of the security interests created by Kanghua Group over certain land and buildings underlying Kanghua Hospital) confirming that Kanghua Group has had a good repayment history since their relationship began and has had good credit worthiness since DG Securities provided the current facilities; (v) a certificate from DRC Bank Houjie (being the holder of the security interests created by Tongli Enterprise over certain land and buildings underlying Renkang Hospital) confirming that Tongli Enterprise has always had a good repayment history, financial standing and credit worthiness since their relationship began and its default risk is extremely low; and (vi) a review of the asset portfolio provided by Mr. Wang Junyang (our Controlling Shareholder and the holder of 97.46%, 31% and 80% interests in Kanghua Group, Tongli Enterprise and Xingye Group, respectively), which shows that Mr. Wang Junyang has sufficient means to support the relevant repayment obligations secured by the land and buildings underlying our hospital operations, if need be.

We are of the view that the lease arrangements as currently structured with our landlords are in the best interests of our Company and our Shareholders as a whole. In particular, such arrangements, together with the undertakings provided by our landlords and the Lender Consents as a whole, sufficiently secure our interest in the long term continued use of the land and buildings underlying our hospital operations and are more favourable than injecting them into our Group for the following reasons:

- (a) with a view to executing our growth strategies effectively, we will continuously streamline our business components and focus on our strength in hospital operation and management. Where possible, we intend to delineate ourselves from non-healthcare related operations. Owning and managing the property interests of the land and buildings involves substantial management efforts and real estate expertise on a continuous basis, particularly in light of their significant size and scale, and is not a core part of our operations. Therefore, as opposed to injecting the land and buildings into our Group, we believe the lease arrangements are more aligned with our strategy of achieving growth as a hospital operator and manager using an “asset-light” approach;
- (b) the lease arrangements enable us to secure long-term use of the relevant land and buildings more economically at a fair market rent without incurring a substantial amount of capital expenditure to purchase the land and buildings. We are also able to more effectively allocate our financial resources to our core operations to increase our competitiveness and generate shareholder returns;

BUSINESS

- (c) under the lease arrangements, we only pay rent for the actual GFA that we occupy. As at 30 April 2016, Kanghua Hospital occupied a construction GFA of approximately 254,896 sq.m., representing approximately 75.7% of the total construction GFA of the buildings on the relevant land. Such arrangements enable us to optimise our resources allocation based on our operating needs and expansion plans from time to time, as opposed to having to purchase, manage and maintain building space in excess of the operating needs of Kanghua Hospital;
- (d) the Renewal Undertakings and Non-Disposal Undertakings commit our landlords to secure our long term continued use of the land and buildings. As advised by our PRC Legal Advisers, such Renewal Undertakings and Non-Disposal Undertakings are effective, valid and enforceable under PRC laws and regulations;
- (e) the Lender Consents reduce the risk of a third party assuming control of the relevant land and buildings in the event any security interest becomes enforceable, which may result in significant disruptions to our business operations. Pursuant to Lender Consents, the lenders have agreed that we may continue to use the relevant land and buildings unaffected in accordance with the relevant lease agreement until the end of the relevant lease term, upon which we shall have the right to purchase or lease them on fair and market terms. This may give us sufficient time to evaluate our options and should we decide to purchase the relevant land and buildings, make any necessary arrangements, including determining the market value of the land and buildings, raising financial resources and obtaining the requisite approvals. As advised by our PRC Legal Advisers, such Lender Consents are effective, valid and enforceable under PRC laws and regulations;
- (f) the Lender Consent Undertakings protect our position in the event our landlords create further encumbrances over the land and buildings in favour of any person, as such person will be required to give a consent in substantially the same form as the Lender Consents. As advised by our PRC Legal Advisers, such Lender Consent Undertakings are effective, valid and enforceable under PRC laws and regulations; and
- (g) based on the assessment as set out in the paragraph headed “*Risk of foreclosure assessment*” above, our Directors are satisfied that, and the Sole Sponsor concurs, the risk of foreclosure on the land and buildings underlying our hospital operations due to our landlords’ default is remote. Furthermore, the Repayment Undertakings give us assurance that the debt obligations secured by the land and buildings underlying our hospital operations will be serviced by our landlords in priority to their other debt obligations and Mr. Wang Junyang, our Controlling Shareholder, will also support such debt obligations, if required.

MEDICAL LIABILITY INSURANCE

We began to enrol Kanghua Hospital and Renkang Hospital in medical liability insurance programme (醫療責任保險) in February 2016. Prior to this, we satisfied the medical liability claims against us using our financial resources. As advised by our PRC Legal Advisers, our hospitals are not required by any laws or regulations of the PRC to maintain any form of medical liability insurance. Our Directors are of the view that, such insurance typically commands a high premium to coverage ratio and thus, it is not always justifiable from a cost-benefit perspective, particularly when our stringent clinical governance has consistently maintained the occurrence of our medical disputes at a manageable level. For each of the three years ended 31 December 2015 and the period from 1 January 2016 up to the Latest Practicable Date, we paid approximately RMB26,000, RMB617,917, RMB311,000 and RMB2,194,889 respectively as

BUSINESS

compensation for settling medical disputes. For more information, please see sub-section “— *Legal Proceedings and Compliance — Medical disputes*”. However, as we continue to expand in scale and complexity of service offerings, we believe it would be prudent from a risk management perspective to maintain such insurance going forward.

The table below sets forth details of medical liability insurance coverage for each of Kanghua Hospital and Renkang Hospital as at the Latest Practicable Date:

Hospital	Date of commencement for current coverage	Date of expiry of current coverage	Insurance premium (RMB)	Maximum amount of current coverage (RMB) in aggregate	Maximum amount of current coverage per claim (RMB)
Kanghua Hospital	1 February 2016	31 January 2017	767,031	2,000,000	200,000
Renkang Hospital	1 February 2016	31 January 2017	212,830	1,000,000	200,000

Our current medical liability insurance covers harm suffered by our patients arising from our clinical activities, including (i) failure by our medical professionals to properly inform our patients of their medical conditions and risks associated with our treatment procedures and obtain patients’ consent; (ii) failure by our medical professionals to discharge their duties at a level consummate with the relevant medical standards; (iii) harm due to defects in, and the improper use of, pharmaceuticals or medical devices by our medical professionals; and (iv) harm due to unintentional deviation from standard treatment protocols by our medical professionals.

We believe our current medical liability insurance coverage is adequate taking into account (i) the scale of our hospitals; (ii) historical medical liability claims against us; and (iii) the complexity of our service offerings. However, we cannot assure you that we will have sufficient insurance coverage for all of our medical liabilities that may arise in our business operations. See “*Risk Factors — Risks Relating to Our Business and Industry — We may not carry adequate insurance for professional and other liabilities which may arise in our business*”. In addition to medical liability insurance, we also maintain machinery breakdown insurance (機器損壞保險), public liability insurance (公眾責任保險) and cash insurance (現金保險) for our hospitals. We do not maintain business interruption insurance for our operations or key employee insurance for our management. We believe our overall insurance coverage for each of our hospitals as at the Latest Practicable Date was at a level consistent with market practice in the hospital industry in the PRC.

ENVIRONMENTAL MATTERS

Our hospitals are subject to an extensive framework of PRC laws and regulations concerning health, safety and environmental matters. This includes medical sanitation, reduction of occupational hazards in hospitals, prevention of medical accidents, disease control, disposal of medical waste and discharge of waste water, pollutants and radioactive substances. For details of the relevant PRC laws and regulations, see “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC — Regulations on environmental protection related to healthcare institutions*”.

BUSINESS

To ensure we retain the highest standards, we remain committed to complying with the PRC regulatory framework, preventing and reducing the hazards and risks inherent in hospital operations, whilst ensuring the health and safety of our patients. As advised by our PRC Legal Advisers, during the Track Record Period, our hospitals were in compliance with all applicable laws and regulations with regard to environmental protection in all material aspects. We have implemented internal policies and procedures in this regard and require all our hospitals to engage qualified service providers to dispose of medical waste and radioactive substances. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our cost of compliance with environmental protection rules and regulation was approximately RMB1.6 million, RMB1.6 million, RMB1.6 million and RMB0.5 million, respectively. We expect such compliance cost to increase in the future in line with the continued expansion of our hospitals.

LICENSES, PERMITS AND CERTIFICATES

We operate in a heavily regulated industry in the PRC. As a result, we are required to obtain various licenses, permits, approvals and certificates for our operations. See “*Regulatory Overview — Laws and Regulations Related to the Healthcare Services Sector in the PRC*”. As advised by our PRC Legal Advisers, we have obtained the necessary licenses, approvals, certificates and permits for our business operations and we have been in compliance in all material respects with all relevant PRC laws and regulations in relation to our business operations during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth the major licenses, certificates and permits that are necessary for the operation of our hospitals as at the Latest Practicable Date:

License	Hospital	Effective Date	Expiration Date
Medical Institution Practising License (醫療機構執業許可證)	Kanghua Hospital	18 September 2015	18 September 2030
Medical Institution Practising License (醫療機構執業許可證)	Renkang Hospital	22 April 2016	29 August 2028

In addition to the above licenses, we have also obtained other licenses relevant to our business operations, such as License for Providing Technical Healthcare Services to Mothers and Infants (母嬰保健技術服務執業許可證), License for 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) and Radiation Safety License (輻射安全許可證).

As advised by our PRC Legal Advisers, all of our licenses, permits and certificates required for our operations are valid and effective and have not been revoked as at the Latest Practicable Date.

Grade A Class III rating certificate of Kanghua Hospital

Kanghua Hospital was the first private for-profit general hospital in the PRC rated as a Grade A Class III hospital under the NHFPC hospital classification system, the highest attainable rating for hospitals in the PRC, according to Frost & Sullivan. The rating certificate for Grade A Class III hospital issued by the Guangdong HFPC had a validity period from January 2011 to January 2016 which is subject to review by the Guangdong HFPC. Our PRC Legal Advisers made an official visit to the Guangdong HFPC with respect to the review process for the Grade A Class III rating certificate. The official who received the visit advised that (i) the Guangdong HFPC had regularly conducted ad hoc inspections on Kanghua Hospital,

BUSINESS

during which the Guangdong HFPC had not discovered any material issues that would affect Kanghua Hospital in attaining the Grade A Class III rating; (ii) based on the Guangdong HFPC's understanding of Kanghua Hospital and the ad hoc inspections conducted, no impediment is expected for Kanghua Hospital to attain the Grade A Class III rating; and (iii) during the interim period before the review by the Guangdong HFPC, Kanghua Hospital is nevertheless recognised as, and is permitted to hold itself out as, a Grade A Class III hospital. In addition to the interview, we also obtained a written confirmation from the Guangdong HFPC confirming (i) since Kanghua Hospital obtained its Grade A Class III rating in January 2011, there has not been any cancellation or withdrawal of such rating; (ii) the Guangdong HFPC anticipated to conduct a review of Kanghua Hospital's rating in 2017; and (iii) during the interim period before the review, Kanghua Hospital is nevertheless recognised as a Grade A Class III hospital and must operate strictly in accordance with the standard of a Grade A Class III hospital in all aspects. Our PRC Legal Advisers are of the view that: (i) the Guangdong HFPC is a competent health and family planning authority for the rating of hospitals under the NHFPC classification system in Guangdong Province; and (ii) based on the interview and the written confirmation issued by the Guangdong HFPC, Kanghua Hospital is recognised as, and permitted to hold itself out as, a Grade A Class III hospital under the NHFPC classification system pending a review of its rating by the Guangdong HFPC. As confirmed by the Guangdong HFPC, we expect the review of Kanghua Hospital's Grade A Class III rating will take place in 2017.

A Grade A Class III rating signifies the highest standard of hospitals in the PRC and is difficult to attain. According to the Frost & Sullivan Report, only approximately 4.5% of all hospitals in the PRC were Grade A Class III hospitals as at the end of 2014. Based on the current operating status of Kanghua Hospital, our Directors are of the view that Kanghua Hospital will be able to maintain its Grade A Class III rating upon the review by the Guangdong HFPC in 2017. In particular, our Directors are of the view the occurrence of medical disputes at Kanghua Hospital is consistent with the risks inherent in its business operations as a provider of complex and advanced healthcare services targeted at treating the most challenging and high risk cases, and is not a result of any critical fault or systematic failure in Kanghua Hospital's clinical operations that fall short of the standard required of a Grade A Class III hospital. In compliance with the relevant reporting requirements, we actively update the local health authorities with regard to the status of our medical disputes on a quarterly and annual basis. Neither Kanghua Hospital nor its staff has been subject to any administrative investigation or disciplinary proceedings in relation to medical disputes. In August 2016, we obtained a written confirmation from the Dongguan HFPB that during the period from 1 January 2013 to 3 August 2016, (i) Kanghua Hospital had passed inspections (校檢); and (ii) none of Kanghua Hospital or its staff had been subject to any investigations, disciplinary proceedings or penalties for breach of relevant laws, regulations, administrative rules and regulatory documents. In addition, during the interview with Guangdong HFPC as described above, Guangdong HFPC, being the body responsible for reviewing the Grade A Class III rating of Kanghua Hospital, has advised that (i) Guangdong HFPC had regularly conducted ad hoc inspections on Kanghua Hospital, during which the Guangdong HFPC had not discovered any material issues that would affect Kanghua Hospital in attaining the Grade A Class III rating; and (ii) based on the Guangdong's HFPC's understanding of Kanghua Hospital and the ad hoc inspections conducted, no impediment is expected for Kanghua Hospital to attain the Grade A Class III rating. In March 2016, we settled a medical dispute (the "**Dispute**") relating to a surgery performed by Kanghua Hospital in around 2012. The Dispute involved a judicial adjudication that Kanghua Hospital had primary liability. Medical judgment can inherently be very subjective, particularly when viewed in hindsight. We attribute the outcome of this Dispute primarily to a difference in medical opinion, as opposed to our gross clinical negligence or failure. While we do not entirely agree with the outcome of the Dispute, particularly

BUSINESS

the level of responsibility attributed to us, we nevertheless conducted thorough root-cause analysis with a view to improving our clinical processes and preventing future recurrence. As advised by our PRC Legal Advisers, according to the Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class III (三級綜合醫院評審準則實施細則), medical disputes have an impact on the hospital rating assessment if such disputes have been administratively determined or adjudicated to be medical misconducts and/or first degree medical malpractice (as stipulated in the Regulations on Handling Medical Malpractice) by the relevant health authority or health association (in the case of Kanghua Hospital, the Dongguan HFPB or the Dongguan Medical Association (東莞市醫學會)). As advised by our PRC Legal Advisers, since the Dispute did not involve any administrative determination or adjudication of medical misconduct or medical malpractice on the part of Kanghua Hospital or its staff by Dongguan HFPB or the Dongguan Health Association (東莞市醫學會) as evidenced by the written confirmation from Dongguan HFPB that during the period from 1 January 2013 to 3 August 2016, Kanghua Hospital had not been (i) determined to be completely or primarily liable for any first degree or second degree medical malpractice according to the medical malpractice appraisal records of the Dongguan Medical Association (東莞市醫學會); and (ii) fined by the Dongguan HFPB for violating any laws and regulations applicable to healthcare institutions, the Dispute, notwithstanding that we are judicially determined to be primarily responsible for, would not have any material adverse impact on Kanghua Hospital's Grade A Class III rating review in 2017. As advised by Frost & Sullivan, based on their industry experience and knowledge, it is not uncommon for Class III general hospitals in the PRC to encounter medical disputes for which they are judicially adjudicated to be primarily or secondarily liable. Based on the above, we consider that Kanghua Hospital's medical disputes (on-going or settled, including the Dispute) will not have a material adverse effect on its Grade A Class III rating review in 2017.

Kanghua Hospital had a lower inpatient fatality rate than the average of Class III general hospitals in Dongguan in 2014 and 2015, according to the Frost & Sullivan Report (see also “— *Clinical Governance and Risk Management — Clinical risk*”). The inpatient fatality rate of Kanghua Hospital increased from approximately 0.56% for the year ended 31 December 2015 to approximately 0.82% for the four months ended 30 April 2016 principally because (i) Kanghua Hospital has recently increased the intake of critical patients and performed more complicated and high-risk procedures; and (ii) the total inpatient visits of Kanghua Hospital during the first quarter are generally lower due to the Chinese New Year, during which patients requiring non-critical inpatient healthcare services typically tend not to visit. Despite the increase in inpatient fatality rate, for the period from 1 January 2016 to the Latest Practicable Date, Kanghua Hospital had not encountered any material increase in critical complaints. For each of the three years ended 31 December 2015 and the period from 1 January 2016 to the Latest Practicable Date, the number of critical complaints relating to patient fatality or newborn fatality/miscarriage at Kanghua Hospital amounted to 5, 7, 6 and nil respectively (see also “— *Our Customers — Patient complaints management*”). We consider that the increase in Kanghua Hospital's inpatient fatality rate for reasons set out above will not have a material adverse effect on its Grade A Class III rating review in 2017.

As advised by our PRC Legal Advisers, none of Kanghua Hospital and its medical staff has been adjudicated to be liable for any medical malpractice as stipulated in the Regulations on Handling Medical Malpractice (醫療事故處理條例), which may have a negative impact on its Grade A Class III rating review in 2017. However, the NHFPC hospital classification system measures a wide range of clinical and operation parameters when rating a hospital. See “*Regulatory Overview — Laws and Regulations Related*

BUSINESS

to the Healthcare Services Sector in the PRC — Regulations on the administration and classification of healthcare institutions”. The absence of any medical malpractice itself does not necessarily indicate that Kanghua Hospital will be able to maintain its Grade A Class III rating.

As advised by our PRC Legal Advisers, the rating of hospitals under the NHFPC classification system is primarily premised on the capability and quality of healthcare services and the clinical governance of the hospitals. The rating is not itself a permit or license to operate a hospital. As advised by our PRC Legal Advisers, failure by Kanghua Hospital to maintain its rating of a Grade A Class III hospital will not in general invalidate its Medical Institution Practising License (醫療機構執業許可證) that allows it to operate as a hospital or restrict the scope of healthcare services it may provide. As such, our Directors consider that there will be no material impact on our business operations if Kanghua Hospital receives a rating that is less than Grade A Class III in the upcoming review by the Guangdong HFPC. However, failure to maintain a Grade A Class III rating may adversely affect our ability to compete effectively with other hospitals also possessing the Grade A Class III rating. See “*Risk Factors — Risks Relating to Our Business and Industry — The Grade A Class III rating of our Kanghua Hospital carries significant competitive advantages. If we are unable to maintain such rating in the future, our reputation and our ability to compete with other hospitals could be adversely affected.*”

LEGAL PROCEEDINGS AND COMPLIANCE

Compliance

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with all applicable PRC laws and regulations in all material respects.

Medical disputes

Due to the nature of the healthcare industry and the inherent risks in treating patients, especially patients with complex medical conditions requiring intensive care or high-risk clinical procedures, we are exposed to risks of medical disputes that we cannot entirely eliminate. See “*Risk Factors — Risks Relating to Our Business and Industry — We are exposed to inherent risks of medical disputes and legal proceedings arising from our operations, and resolving such disputes and proceedings could result in significant costs and materially and adversely affect our results of operations and prospects, as well as our reputation and business.*” Our clinical protocols mandate our healthcare professionals to fully inform our patients of any known inherent risks and obtain their signed consents before conducting the relevant treatments and procedures. One of the key objectives of our clinical governance is the early identification, analysis and learning of all medical disputes. See also the sub-section “— *Clinical Governance and Risk Management*” for further details. We have a systematic complaint management in place to handle patient complaints, in particular those that may escalate into medical disputes. See also the sub-section headed “— *Our Customers — Patient complaints management*” for further details. Medical disputes may generally be resolved through judicial, administrative or mediation proceedings or through private negotiation and settlement. Most of our medical disputes were resolved through private negotiation and settlement or mediation without any admission of liability on our part. In determining our position in resolving a medical dispute, we take into account a balance of factors, including: (i) the merits of such medical dispute, in particular the consolidated findings from our clinical governance committees and the Medical Dispute Contingency Task Force after a comprehensive review of such medical dispute; (ii) the circumstances of

BUSINESS

the patient and its family, including the degree of injuries suffered, background, financial means, motives and any humanitarian consideration; (iii) the potential impact on our reputation if such medical dispute persists; and (iv) whether the patient’s claim is proportionate in the circumstances. We maintain records of all medical disputes, procedures taken, findings, and resolution proceedings.

As advised by our PRC Legal Advisers, in the course of resolving a medical dispute, the court, or sometimes the parties in negotiation or mediation may request for a (i) medical malpractice appraisal (醫療事故鑒定) pursuant to the Regulations on Handling Medical Malpractice (醫療事故處理條例) by a medical association approved by the local branch of the NHFPC, which adjudicates whether a medical malpractice was involved; or (ii) judicial appraisal (司法鑒定) by an independent qualified appraiser, which adjudicates (a) whether the healthcare provider was at fault; (b) if the healthcare provider was at fault, the causal relationship between such fault and the patient’s injuries; and (c) the responsibility level of the healthcare provider. As advised by our PRC Legal Advisers, a judicial appraisal is a civil procedure that does not involve any administrative determination or adjudication of medical malpractice. As advised by our PRC Legal Advisers, (i) none of our medical disputes settled during the Track Record Period involved any determination that we were liable for medical malpractice; and (ii) none of our on-going medical disputes involved any determination that we were liable for medical malpractice as at the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, none of our doctors or medical staff were involved in any disciplinary proceedings or otherwise determined to be liable for medical malpractice. For more details on medical malpractice see sub-section “— *Medical malpractice*”.

The table below sets forth the number of medical disputes settled by each Kanghua Hospital and Renkang Hospital involving compensation and the total amount of compensation determined during the period indicated.

	Year ended 31 December						From 1 January 2016 up to the Latest Practicable Date	
	2013		2014		2015		Date	
	Number of medical disputes settled	Amount of compensation determined (RMB)	Number of medical disputes settled	Amount of compensation determined (RMB)	Number of medical disputes settled	Amount of compensation determined (RMB)	Number of medical disputes settled	Amount of compensation determined (RMB) ⁽¹⁾
Kanghua Hospital	1	6,000	12	382,917	7	550,616	6	1,870,272
Renkang Hospital	1	20,000	2	235,000	2	85,000	0	0
Total	2	26,000	14	617,917	9	635,616	6	1,870,272

Note:

(1) This amount does not include an unpaid medical bill of RMB108,480.53 waived by Kanghua Hospital during the period.

As the largest private for-profit general hospital in the PRC in terms of the number of registered beds in 2015 according to the Frost & Sullivan Report, Kanghua Hospital receives patients with critical conditions and performs complex clinical diagnosis, treatments and procedures on a daily basis. In contrast, Renkang Hospital generally receives a smaller number of critical patients and provides healthcare services that carry less inherent risks of medical dispute. Therefore, most of our medical disputes involve Kanghua Hospital.

BUSINESS

We began to enrol Kanghua Hospital and Renkang Hospital in medical liability insurance programmes (醫療責任保險) in February 2016. Prior to this, we satisfied the medical liability claims against us using our financial resources. For more details on our medical liability insurance programmes, see sub-section headed “— *Medical Liability Insurance*”.

We regard material medical disputes as disputes arising from our clinical activities that either involved a patient fatality or resulted in monetary compensation of RMB50,000 or more. The table below sets forth further details of such material medical disputes settled during the Track Record Period and up to the Latest Practicable Date:

No.	Dispute settlement date	Hospital involved	Settlement method	Background of dispute	Judicial appraisal results ⁽¹⁾	Compensation paid by us (RMB)
1.	January 2014	Kanghua Hospital	Mediation	Delayed diagnosis of liver cancer	Not conducted	55,000
2.	January 2014	Kanghua Hospital	Mediation	Newborn with critical conditions transferred from another hospital; fatality despite emergency treatment	Not conducted	1,000
3.	May 2014	Kanghua Hospital	Mediation	Newborn fatality after 18 days due to pulmonary haemorrhage and multiple organ failures	Not conducted	100,000
4.	May 2014	Renkang Hospital	Mediation	Patient underwent caesarean delivery with combined spinal and epidural anaesthesia; patient went into a vegetative state; fatality despite emergency treatment at Kanghua Hospital	Not conducted	200,000
5.	June 2014	Kanghua Hospital	Mediation	Patient with cardiac conditions transferred from another hospital; fatality due to cardiac arrest despite emergency treatment	Not conducted	20,000
6.	October 2014	Kanghua Hospital	Mediation	Newborn fatality due to acute respiratory failure	Not conducted	100,000
7.	November 2014	Kanghua Hospital	Mediation	Malunion of fracture (骨折癒合不良) after orthopaedic procedures	Not conducted	50,000
8.	February 2015	Kanghua Hospital	Mediation	Patient with severe hepatobiliary conditions transferred from another hospital; fatality due to complications after emergency treatment and hepatobiliary procedures	Not conducted	100,000
9.	March 2015	Kanghua Hospital	Mediation	Patient fatality due to complications after treatment for stones and inflammation of intrahepatic and extrahepatic bile ducts	Not conducted	80,000
10.	October 2015	Renkang Hospital	Private settlement	Patient in early pregnancy requested abortion; patient’s pregnancy persisted after abortion procedure	Not conducted	60,000

BUSINESS

No.	Dispute settlement date	Hospital involved	Settlement method	Background of dispute	Judicial appraisal results ⁽¹⁾	Compensation paid by us (RMB)
11.	October 2015	Kanghua Hospital	Litigation	Patient fatality due to complications after urological procedures	Minor causation attributable to the hospital (10%-20%)	124,616.27
12.	December 2015	Kanghua Hospital	Mediation	Patient suffered from partially damaged femoral nerve after orthopaedic procedure	Not conducted	200,000
13.	April 2016	Kanghua Hospital	Mediation	Patient was a victim in a traffic accident and was admitted to hospital; the patient suffered from neck fracture during hospitalisation	Not conducted	20,000 and waiving the patient's unpaid medical bill of 108,480.53
14.	March 2016	Kanghua Hospital	Litigation	Patient fatality after surgical removal of left lung	Primary responsibility attributable to the hospital (60%-80%)	959,718.88
15.	May 2016	Kanghua Hospital	Litigation	Patient's right limb had to be amputated after surgical removal of varicose veins	Minor causation attributable to the hospital (1%-20%)	194,533.44
16.	July 2016	Kanghua Hospital	Mediation	Patient fatality during a transfer to another hospital requested by the patient's family	Minor causation attributable to the hospital (1-20%)	196,000
17.	July 2016	Kanghua Hospital	Mediation	Patient fatality after treatment for abdominal conditions	Secondary liability attributable to the hospital (21% - 40%)	200,000
18.	August 2016	Kanghua Hospital	Mediation	Patient suffered from multiple adverse conditions after surgical removal of the left lower lobe of the lung	Secondary liability attributable to the hospital (21%-40%)	300,000

Note:

- (1) The level of responsibility of a hospital as adjudicated in a judicial appraisal can be generally classified into four categories: (i) completely responsible, such that the patient's injuries were entirely attributable to the hospital's fault; (ii) primarily responsible, such that the patient's injuries were primarily attributable to the hospital's fault, with other factors playing a secondary role; (iii) secondarily responsible, such that the medical patient's injuries were primarily attributable to other factors, with the hospital's fault playing a secondary role; and (iv) minor causation, such that the patient's injuries were in most parts attributable to other factors, with the hospital's fault playing a minor role. The percentage in the bracket denotes the level of responsibility attributable to the hospital in quantitative terms, as determined by the relevant appraiser.

BUSINESS

Ongoing medical disputes

As at the Latest Practicable Date, we had 12 on-going medical disputes. The table below sets forth the details of our on-going medical disputes:

No.	Approximate date of the relevant medical act	Hospital involved	Background of dispute	Estimated maximum exposure ⁽¹⁾	Current status
(RMB)					
1.	July 2011	Kanghua Hospital	A patient received a colour ultrasound (心臟彩超) check-up of her heart and was diagnosed with a congenital heart condition at Kanghua Hospital. Kanghua Hospital recommended the patient to undergo a surgical procedure. Before she was admitted to the hospital for the scheduled procedure, the patient felt that her condition had deteriorated and went to Kanghua Hospital for check-up. Subsequently, the patient received treatments for her condition. The patient alleged that Kanghua Hospital failed to inform her of the seriousness of her condition during her check-up in July 2011 and delayed her treatment, resulting in deterioration of her septal defect (心房間隔缺損處). Kanghua Hospital and the patient jointly requested Dongguan Medical Association (東莞市醫學會) for a medical malpractice appraisal, which in its report dated September 2014, concluded that this was not a medical malpractice. The patient was not satisfied with the medical malpractice appraisal results and, in October 2015, filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB300,000.	N/A	As at the Latest Practicable Date, the court had yet to reach a decision.
2.	November 2011	Kanghua Hospital	A patient was treated for tumours found in the vertebral columns (椎體腫瘤) at Kanghua Hospital. Approximately seven months after the radioactive seed implantation therapy, the patient's lower body became paralysed (下半身癱瘓). The patient alleged that radioactive seed implantation therapy was not appropriate for his condition. In September 2013, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB3,259,423.87.	142,543.63	The court requested the Judicial Appraisal Centre of Zhongshan University (中山大學法醫鑒定中心) for a judicial appraisal, which in its report dated January 2015 concluded that minor causation was attributable to Kanghua Hospital (approximately 10%). In May 2016, the first court reached a decision in favour of the patient such that Kanghua Hospital was ordered to pay compensation of RMB142,543.63. The patient was not satisfied with the amount of compensation and appealed the decision to the Dongguan Intermediate People's Court (東莞市中級人民法院). As at the Latest Practicable Date, the immediate court had yet to reach a decision.
3.	February 2012	Kanghua Hospital	A patient suffering from cervical spondylotic myelopathy (脊髓型頸椎病) received surgical operations at Kanghua Hospital. After the operations, the patient experienced leg numbness and unstable walking. Symptoms did not improve after treatment. The patient alleged that Kanghua Hospital did not take sufficient remedial actions during and after the surgical operations and as a result, Kanghua Hospital missed the optimal timing for proper treatment. In May 2014, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB148,246.72.	29,600	The court requested the Judicial Appraisal Centre of Zhongshan University (中山大學法醫鑒定中心) for a judicial appraisal, which concluded that in its report dated July 2015 that minor causation was attributable to Kanghua Hospital (approximately 10%). As at the Latest Practicable Date, the court had yet to reach a decision.

BUSINESS

No.	Approximate date of the relevant medical act	Hospital involved	Background of dispute	Estimated maximum exposure ⁽¹⁾	Current status
				(RMB)	
4.	May 2013	Kanghua Hospital	A pregnant patient received an obstetrics surgery of foetus removal at Kanghua Hospital. After surgery, the patient experienced various complications, including disseminated intravascular coagulation (彌漫性血管內凝血), pulmonary embolism (肺栓塞), heart failures (心力衰竭) and lung infection (肺部感染). The patient alleged these complications were due to multiple improper treatments of Kanghua Hospital. In November 2013, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB 290,817.05.	N/A	The court requested the Southern Medical University (南方醫科大學) for a judicial appraisal. In April 2016, the university held an inquiry. As at the Latest Practicable Date, the conclusion of the inquiry remained pending.
5.	July 2013	Kanghua Hospital	A patient was admitted to Kanghua Hospital due to chest tightness and shortness of breath and underwent a thyroid removal surgery (甲狀腺切除). After surgery, the patient later went into a critical condition and died despite emergency treatments at Kanghua Hospital. The family members of the patient alleged that the cause of death of the patient was her cardiac condition which was not diagnosed by Kanghua Hospital in the first place and Kanghua Hospital should be responsible. In October 2013, the family members filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB714,734.7.	150,958.03	<p>The first court requested the Guangdong Nantian Expert Testimony Firm (廣東南天司法鑒定所) for a judicial appraisal, which in its report dated August 2014 concluded that minor causation was attributable to Kanghua Hospital (1%-20%). In December 2014, the first court reached a decision in favour of the family members such that Kanghua Hospital was ordered to pay compensation of RMB150,958.03. Both the family members and Kanghua Hospital appealed the decision to the Dongguan Intermediate People's Court (東莞市中級人民法院).</p> <p>In December 2015, the intermediate court upheld the first court's decision. In May 2016, the family members appealed to the Guangdong Provincial Higher People's Court (廣東省高級人民法院). As at the Latest Practicable Date, the higher court had yet to reach a decision.</p>
6.	November 2013	Kanghua Hospital	A patient was admitted to Kanghua Hospital due to abdominal pain. The patient was treated in various departments, including gastroenterology, neurology and spine and joint surgery. After receiving spinal surgery, the patient's lower limbs became completely paralysed (下肢完全癱瘓). The patient alleged that his condition was a result of, among other things, delayed diagnosis and treatment by Kanghua Hospital. In March 2015, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB705,559.09.	N/A	As at the Latest Practicable Date, the court had yet to reach a decision.
7.	December 2013	Kanghua Hospital	A patient was treated for acute complications of a surgical wound at Kanghua Hospital. Before the patient was admitted to Kanghua Hospital, he had received a left colectomy (左半結腸切除術) for the treatment of colon cancer at another hospital. After a series of comprehensive treatments at Kanghua Hospital, the conditions of the patient did not improve, even though his vitals remained stable. The parents of the family requested the patient be transferred to another hospital for treatment. The patient died two months after he was transferred to another hospital. The parents of the patient alleged that Kanghua Hospital failed to discharge its medical duty to properly treat the patient when the patient was under its care and should also be responsible for the patient's death. In December 2014, the parents of the patient filed a lawsuit against the three hospitals involved (including Kanghua Hospital) at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB1,313,279.71.	N/A	The court has requested the Guangdong Medical Association (廣東省醫學會) for a judicial malpractice appraisal. As at the Latest Practicable Date, the Guangdong Medical Association (廣東省醫學會) had yet to conclude its findings.

BUSINESS

No.	Approximate date of the relevant medical act	Hospital involved	Background of dispute	Estimated maximum exposure ⁽¹⁾	Current status
				(RMB)	
8.	March 2014	Renkang Hospital	A patient received a spinal corrective massage therapy (脊柱矯正推拿手法治療) at Renkang Hospital. The patient alleged that the therapist did not inform the patient of the reasons for performing such therapy and the risks and the sequela involved; unaware of the patient's congenital conditions, the therapist caused injuries to the patient when performing the massage therapy. The patient also alleged that her patient records were not properly prepared and maintained. In August 2016, the patient filed a lawsuit against the therapist in the Taiwan Taichung District Court (臺灣台中地方法院) and claimed for two million New Taiwan Dollars. In September 2016, the patient sought the court to include Renkang Hospital as the defendant.	N/A	As at the Latest Practicable Date, the court had yet to reach a decision.
9.	February 2015	Kanghua Hospital	A patient was diagnosed with venous malformation of the right calf (右小腿靜脈血管畸形) at Kanghua Hospital. After receiving arteriography and injection sclerotherapy of the right calf (右下肢動脈造影及右下肢靜脈硬化注射術), the patient's right toes showed signs of necrosis (壞死徵象). The right first toe and a portion of the right second toe had to be amputated. The patient alleged that Kanghua Hospital was the cause of the surgical failure and it did not provide appropriate post-surgical treatments. In May 2015, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB794,672.9.	N/A	The court requested the Centre of Forensic Science of Southern Medical University (南方醫科大學司法鑒定中心) for a judicial appraisal. As at the Latest Practicable Date, the conclusion of appraisal remained pending.
10.	October 2015	Kanghua Hospital	A pregnant patient was admitted to Kanghua Hospital due to premature rupture of membrane (胎膜早破). The patient was recommended to continue observation of the foetus as it was not full term. The foetus later died in the patient's womb. The patient alleged that Kanghua Hospital had made a wrong judgment and missed the best opportunity for surgery. In January 2016, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院) and claimed for RMB758,619.28.	N/A	As at the Latest Practicable Date, the court had yet to reach a decision.
11.	April 2016	Kanghua Hospital	A pregnant patient was admitted to Kanghua Hospital due to premature rupture of amniotic fluid (羊水早破) and delivered a new born via caesarean section. During the operation, the patient experienced massive bleeding, haemorrhagic shock (失血性休克) and uterine inertia (宮縮乏力). After emergency treatment, the patient's uterus was surgically removed. The patient alleged that this outcome was due to improper care of Kanghua Hospital during and after the caesarean section. In May 2016, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院). The claim amount was not specified.	N/A	As at the Latest Practicable Date, the court had yet to reach a decision.
12.	April 2016	Kanghua Hospital	A patient was treated for coronary heart disease (冠心病) at Kanghua Hospital and underwent coronary artery stent implantation surgery (冠狀動脈支架植入手術). The patient allegedly suffered from severe blockage of a radial artery (橈動脈嚴重閉塞) due to improper treatment by Kanghua Hospital during and after the surgery. In June 2016, the patient filed a lawsuit against Kanghua Hospital at the Dongguan First People's Court (東莞市第一人民法院). The claim amount was not specified.	N/A	As at the Latest Practicable Date, the court had yet to reach a decision.

Note:

- (1) We generally consider that we do not have any monetary exposure until an appraisal concludes that we are responsible, in which case we estimate our maximum exposure based on the maximum responsibility level attributable to us. In case of an appeal, we estimate our maximum exposure based on the compensation payable by us, if any, as determined by the court in the first trial.

BUSINESS

We will continue to monitor the development of our on-going medical disputes and try to minimise any potential adverse effect on our Group. Based on the latest development of our on-going medical disputes, we estimate that the aggregate maximum exposure in relation to our on-going medical disputes will not exceed RMB0.4 million. We make provisions for our on-going medical disputes in our financial statements based on our estimated maximum exposure. As at 31 December 2013, 2014, 2015 and 30 April 2016, such provision amounted to approximately RMB0.2 million, RMB1.0 million, RMB2.4 million and RMB1.2 million, respectively. Our Directors are of the view that none of our on-going medical disputes (individually or in aggregate) would have any material adverse effect on our business, results of operations or prospects.

Medical malpractice

As advised by our PRC Legal Advisers, medical malpractice (醫療事故), as stipulated in the Regulations on Handling Medical Malpractice (醫療事故處理條例) promulgated by the State Council in September 2002, refers to faulty medical acts of the medical institution or its medical staff in violation of the laws, administrative regulations or departmental rules on medical and healthcare administration, or of standards or procedures for diagnosis, treatment and care, that result in personal injuries to a patient. As advised by our PRC Legal Advisers, under the Regulations on Handling Medical Malpractice (醫療事故處理條例), medical malpractice can be classified into four degrees of seriousness: (i) first degree medical malpractice (一級醫療事故): causing death or heavy disability of a patient; (ii) second degree medical malpractice (二級醫療事故): causing medium disability, or organ or tissue damage of a patient, thus resulting in severe dysfunction; (iii) third degree medical malpractice (三級醫療事故): causing minor disability, or organ or tissue damage of a patient, thus resulting in common dysfunction; and (iv) fourth degree medical malpractice (四級醫療事故): causing other tangible personal injuries to a patient. As advised by our PRC Legal Advisers, according to the Interim Measures on Medical Malpractice (醫療事故技術鑒定暫行辦法), liability for medical malpractice can be classified into four levels: (i) complete liability (完全責任): the patient's injuries were entirely attributable to the healthcare provider's fault; (ii) primary liability (主要責任): the patient's injuries were primarily attributable to the healthcare provider's fault, with other factors playing as secondary role; (iii) secondary liability (次要責任): the patient's injuries were primarily attributable to other factors, with the healthcare provider's fault playing a secondary role; and (iv) minor liability (輕微責任): the patient's injuries were in most parts attributable to other factors, with the healthcare provider's fault playing a minor role.

As advised by our PRC Legal Advisers, medical malpractice is adjudicated by the medical association (醫學會) located in the region of the relevant hospital. With respect to our Kanghua Hospital and Renkang Hospital, such adjudicating body is the Dongguan Medical Association (東莞市醫學會), a body approved by the Dongguan HFPB. As advised by our PRC Legal Advisers, if any medical malpractice is determined to have occurred, the Dongguan HFPB will take into consideration the severity and circumstances of the medical malpractice and issue a warning. If the circumstances are serious, the Dongguan HFPB may order the healthcare institution to suspend business for rectification within a prescribed time limit to the satisfaction of the Dongguan HFPB, failing which the Dongguan HFPB may revoke the business license of the healthcare institution, and the medical personnel who are held to be responsible could be subject to criminal liabilities according to the provisions of the criminal law concerning medical malpractice. If circumstances are not severe enough for criminal punishments, the relevant medical personnel will be given administrative or disciplinary penalties. As advised by our PRC Legal Advisers, (i) none of our medical disputes settled during the Track Record Period involved any determination that we were liable

BUSINESS

for medical malpractice; and (ii) none of our on-going medical disputes involved any determination that we were liable for medical malpractice as at the Latest Practicable Date. During the Track Record and up to the Latest Practicable Date, none of our doctors or medical staff were involved in any disciplinary proceedings or otherwise determined to be liable for medical malpractice.

Furthermore, we obtained written confirmations from the Dongguan HFPB for each of our hospitals that, during the period from 1 January 2013 to 3 August 2016, the hospital (i) had not been determined to be completely or primarily liable (完全責任或主要責任) for any first degree or second degree medical malpractice (第一、二級醫療事故) according to the medical malpractice appraisal records of the Dongguan Medical Association (東莞市醫學會); (ii) had passed inspections (校檢); and (iii) had not been fined by the Dongguan HFPB for violating any laws or regulations applicable to healthcare institutions. Our PRC Legal Advisers are of the view that the Dongguan HFPB is a competent authority to issue the confirmations for each of our hospitals because according to the Medical Institution Regulations (醫療機構管理條例) and its implementation rules, health administration departments at the county-level and above are responsible for supervising and regulating medical institutions located within the administrative districts of such departments.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis may contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2013, 2014 and 2015 refer to our financial years ended 31 December of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We operate the largest private for-profit general hospital in the PRC, Kanghua Hospital, in terms of the number of registered beds as at 31 December 2015, according to the Frost & Sullivan Report. Kanghua Hospital was also the first private for-profit general hospital in the PRC to attain a Grade A Class III rating, the highest rating attainable by hospitals in the PRC, according to the same source. Kanghua Hospital offers a continuum of healthcare services to a diverse range of patients, particularly those with critical, complex or rare medical conditions. Located in Dongguan, at the heart of the Pearl River Delta Region and in close proximity to the Guangshen Expressway, Kanghua Hospital is strategically positioned to service a wide geographic region. During the Track Record Period, more than 70% of Kanghua's inpatients were from patients residing outside of Dongguan. In addition to Kanghua Hospital, we also operate Renkang Hospital in Dongguan, a private for-profit general hospital servicing the local communities in the surrounding area. Both hospitals complement each other through patient referral, technical assistance, multi-site practice and research and teaching collaborations. As at 30 April 2016, Kanghua Hospital and Renkang Hospital had 2,006 and 480 registered beds, respectively.

We excel in many healthcare disciplines. Kanghua Hospital has (i) one National Key Clinical Discipline (國家臨床重點專科) in plastic surgery accredited by the NHFPC; (ii) three Guangdong Provincial Key Clinical Disciplines (廣東省臨床重點專科) in cardiology, general surgery and medical imaging, accredited by the Guangdong HFPC; and (iii) two Dongguan Special Disciplines (東莞市特色專科) in spine and joint surgery and thoracic surgery, accredited by the Dongguan HFPB. In terms of revenue in 2015, Kanghua Hospital had, among private general hospitals in Southern China, (i) the largest cardiology discipline; (ii) the largest O&G discipline; and (iii) the second largest orthopaedics discipline, according to Frost & Sullivan. In addition to clinical practice, Kanghua Hospital, as a large scale regional medical institution with Grade A Class III rating, is substantially involved in research and teaching initiatives. Research projects conducted at Kanghua Hospital have led to scientific breakthroughs and received numerous awards. In January 2012, Kanghua Hospital was accredited as a "Teaching Hospital" (教學醫院) by the Guangdong HFPC. We attribute much of our success to the skills and experience of our management and multi-disciplinary teams of healthcare professionals.

FINANCIAL INFORMATION

We began to offer special services primarily targeted towards high-end patients in recent years. Such services typically extend beyond basic medical needs and have a higher profitability. Our special services currently include a suite of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. Our special services had achieved consistent growth during the Track Record Period. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, our revenue generated from special services amounted to approximately RMB46.9 million, RMB68.8 million, RMB81.8 million and RMB33.1 million, respectively, representing approximately 5.5%, 7.0%, 7.7% and 8.7% of our total revenue for the same periods.

During the Track Record Period, our revenue increased by 14.7% from RMB858.9 million in 2013 to RMB985.1 million in 2014 and increased by 8.0% to RMB1,063.7 million in 2015. Our revenue increased by 22.4% from RMB310.6 million for the four months ended 30 April 2015 to RMB380.1 million for the four months ended 30 April 2016.

BASIS OF PRESENTATION

We were established as a limited liability company under the name of “Dongguan Kanghua Enterprise Co., Ltd. (東莞市康華實業有限公司)” in the PRC on 30 January 2002. On 30 December 2015, we were converted into a joint stock limited company and renamed as “Guangdong Kanghua Healthcare Co., Ltd. (廣東康華醫療股份有限公司)”.

Historically, pursuant to an acting-in-concert arrangement between Mr. Wang Junyang, Ms. Wang Aici, Ms. Wang Aiqin and Mr. Chen Wangzhi, all of whom are close family members (collectively the “**Concert Parties**”), the Concert Parties controlled our Company, Kanghua Hospital and Renkang Hospital through their holding companies, namely Kanghua Group, Xinye Group, Xingda Property and Tongli Enterprise.

In September 2015, our Company, Kanghua Hospital, Renkang Hospital, Kanghua Group, Xinye Group, Xingda Property and Tongli Enterprise underwent the Reorganisation, following the completion of which (i) our Company became the holding company of Kanghua Hospital and Renkang Hospital; and (ii) Kanghua Group, Xinye Group and Xingda Property became the holding company of our Company. For more information of the Reorganisation, please refer to the section headed “*History, Reorganisation and Corporate Structure — Our Corporate Development — The Reorganisation*” in this prospectus. We established Kanghua Healthcare Management and Kanghua Healthcare Management (HK) in February 2016 and May 2016, respectively, following which our Company became the holding company of the Group.

In June 2016, the Concert Parties entered into the Concert Party Agreement, pursuant to which the Concert Parties agreed to vote in concert for all operational and other matters at board meetings or shareholders’ meetings of our Company and confirmed the existence of their previous acting-in-concert arrangement.

Our Shares are directly held by Kanghua Group, Xinye Group and Xingda Property, all of which are PRC incorporated companies under the ultimate control of the Concert Parties. Our Group have been controlled by the Concert Parties throughout the Track Record Period and up to the date of this prospectus. Our Group is regarded as a continuing entity. Accordingly, the consolidated financial statements of our Group have been prepared using the principles of merger accounting on the basis as if our Company had always been the holding company of our Group.

FINANCIAL INFORMATION

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows, which include the results, changes in equity and cash flows of the Group members for the Track Record Period have been prepared using the principles of merger accounting, as if our Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period.

The consolidated statements of financial position at the end of each reporting period have been prepared to present the assets and liabilities of the Group members as if the current group structure had been in existence at those dates.

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, many of which may be beyond our control. A discussion of the key factors is set out below.

Healthcare market conditions in the PRC

We derive substantially all of our revenue from the healthcare services provided through our hospitals in the PRC. For each of the three years ended 31 December 2015 and the four months ended 30 April 2015 and 2016, revenue generated from Kanghua Hospital accounted for 82.1%, 81.5%, 82.2%, 82.7% and 84.0% of our total revenue, respectively, and revenue generated from Renkang Hospital accounted for the remainder. As a result, our results of operations and financial conditions are significantly affected by healthcare market conditions in the PRC.

Driven by the economic boom, a growing yet ageing population, an increase in disposable income per capita and the increasing emphasis on quality of life, the total healthcare spending in the PRC grew from RMB1,998.0 billion in 2010 to RMB3,531.2 billion in 2014, representing a CAGR of 15.3%, and is expected to further grow to RMB6,188.9 billion in 2020, according to the Frost & Sullivan Report.

In the PRC, the number of people aged over 65 is expected to account for 13.2% of the total population in 2020. In addition, unhealthy lifestyles and wide-spread pollution have led to increasing prevalence of chronic diseases. These factors result in increasing demand for healthcare services in the PRC. However, large public hospitals are generally highly concentrated in the centres of major cities, leaving many areas, including emerging urban and suburban areas, underserved in terms of healthcare resources. Therefore, private hospital has become the fastest growing segment in the overall hospital market in the PRC in light of the strong demand. If this trend of demand continues, it may have positive effect on our revenue growth and results of operations.

However, due to the fast growing number of private hospitals in the PRC, we may face enhanced competition. The number of Class III private hospitals grew from 26 in 2010 to 112 in 2014, representing a CAGR of 44.1%, according to the Frost & Sullivan Report. If we were not able to maintain our competitive edge, attract quality medical professionals and continue to offer high-end services to differentiate ourselves from our competitors, we may not be able to sustain a stable growth in our business and our results of operations may be adversely affected.

FINANCIAL INFORMATION

Regulatory policies and development

Our business is subject to a high level of regulation and supervision at the national, regional and local levels. In recent years, in line with the growth in demand for healthcare services in the PRC, the NHFPC and other PRC governmental authorities 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, resulting in considerable growth in both patient visits and average spending per visit. According to the Frost & Sullivan Report, PRC public medical insurance coverage for urban and rural residents combined reached over 1.3 billion people in 2014, and expenditures for medical insurance programs increased from RMB472.6 billion in 2010 to RMB1,102.4 billion in 2014.

The increasing coverage of public medical insurance and other favourable policies enacted by the government have driven the growth in our patient visits. From 2013 to 2015, our medical bills settled through social insurance programmes significantly increased from RMB207.5 million to RMB267.7 million, representing a CAGR of 13.6%, and from RMB82.5 million to RMB102.9 million from the four months ended 30 April 2015 to the four months ended 30 April 2016, representing an increase of 24.8%. The total patient visits for our hospitals increased from 1,610,331 in 2013, to 1,749,630 in 2014 and further to 1,826,058 in 2015. The total patient visit for our hospitals increased from 548,159 for the four months ended 30 April 2015 to 578,777 for the four months ended 30 April 2016.

Our Kanghua Hospital is subject to more stringent regulatory oversight 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 fulfil various levels of teaching, research, publication and social responsibilities. The Grade A Class III rating that has been attained by Kanghua Hospital carries significant competitive advantages, but also requires substantial efforts and on-going expenses to maintain, which may affect our results of operations. For more information of the Grade A Class III rating of Kanghua Hospital, please see the sections headed "*Business — Licenses, Permits and Certificates — Grade A Class III rating certificate of Kanghua Hospital*" and "*Risk Factors — Risks Relating to Our Business and Industry — The Grade A Class III rating of our Kanghua Hospital carries significant competitive advantages. If we are unable to maintain such rating in the future, our reputation and our ability to compete with other hospitals could be adversely affected*".

As we continue to grow our business, we expect to continue to rely on medical services and products covered by social insurance programmes and set the prices of such services and products at a level similar to public hospitals in order to remain competitive. 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 high-end healthcare services market, we plan to continue to scale up our healthcare offerings to meet the rapidly-growing market demand from patients who are under private medical insurance coverage or are otherwise able to pay for premium treatment costs out-of-pocket.

FINANCIAL INFORMATION

Our pricing

As advised by our PRC Legal Advisers, pursuant to applicable laws and regulations in the PRC, as a private for-profit hospital operator, we are generally entitled to set the prices for our services, pharmaceuticals and medical consumables at our own discretion subject to public display on the website of the Dongguan Development and Reform Bureau (東莞市發展和改革局).

However, in order to maintain our market position and competitive edge, for basic services, pharmaceuticals and medical consumables that are generally available at public or not-for-profit hospitals, we price them at a tariff similar to such hospitals providing services of comparable quality. We understand that pricing at public and non-profit hospitals in the PRC is primarily affected by regulatory pricing control, social insurance programmes and reimbursement limits. We routinely carry out market research and keep up to date on regulatory changes to ensure our pricing is maintained at a competitive level. Therefore, regulatory pricing control, social insurance programmes and reimbursement limits indirectly exert an influence on our pricing. Such basic services, pharmaceuticals and medical consumables normally have a relatively lower gross margin as they are targeted towards the mass market.

For services, pharmaceuticals and medical consumables that are generally limited in public and non-profit hospitals, such as our special services, we price them at a tariff based on an array of factors including the market position of the relevant services, complexity of treatment, products and equipment involved, experience of healthcare professionals involved, operating costs, market conditions, consumer spending power and competitors' pricing of similar services. Our special services are generally more expensive than basic medical services and normally command a relatively higher gross margin. Our ability to expand our special services portfolio and increase its contribution to our revenue mix may materially affect our probability.

Revenue mix

Our overall gross margin is affected by our revenue mix, due to considerable differences among the gross margins of our service offerings. We derive the majority of our revenue and gross profit from inpatient healthcare services, which generally have lower gross margins than our outpatient healthcare services and physical examination services. During the Track Record Period, we experienced variation in the gross profit margins of the different segments of our business, as well as in the different proportionate contributions of each segment to our total revenue. For example, from 2013 to 2014, our gross margin for inpatient healthcare services and gross margin for outpatient healthcare services increased from 15.2% and 27.6% to 15.9% and 28.6%, respectively, while that of our physical examination services decreased from 56.2% to 55.1%, resulting in an increase in our overall gross margin from 22.0% in 2013 to 22.7% in 2014. From 2014 to 2015, our gross margin for inpatient healthcare services decreased from 15.9% to 14.8%, while that of our outpatient healthcare services and physical examination services increased from 28.6% and 55.1% to 29.7% and 57.0%, respectively, resulting in a decrease in our overall gross margin from 22.7% in 2014 to 22.5% in 2015. From the four months ended 30 April 2015 to the four months ended 30 April 2016, our gross margin for inpatient healthcare services and gross margin for outpatient healthcare services increased from 14.1% and 25.0% to 14.3% and 29.8%, respectively, while that of our physical examination services decreased slightly from 50.0% to 49.9%, resulting in an increase in our overall gross margin from 19.4% in the four months ended 30 April 2015 to 21.1% in the four months ended 30 April 2016.

FINANCIAL INFORMATION

We plan to enhance our offerings of high-end services, such as VIP healthcare services, high-end reproductive medicine, advanced oncology offering, high-end preventive healthcare services and holistic elderly care, to attract high-end patients and further increase our overall gross margin. For example, we are currently expanding the capacity of our VIP inpatient facilities at Kanghua Hospital. 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, medical consumables and staff cost represented the three largest components of our cost of revenue. Pharmaceuticals accounted for 37.8%, 38.7%, 39.2%, 38.4% and 39.8% of our total cost of revenue in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively, while medical consumables represented 25.2%, 25.3%, 24.3%, 25.1% and 24.7% of our cost of revenue in the same periods. The use of pharmaceuticals and medical consumables forms a key aspect of many of our medical treatment procedures. The staff cost represented 23.1%, 23.8%, 24.6%, 24.8% and 24.0% of our cost of revenue in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively. Our staff cost is primarily attributable to our capacity to offer competitive wages and other benefits to recruit and retain high-calibre medical professionals.

Meanwhile, the staff cost also constituted the largest component of our administrative expenses, representing 36.0%, 36.2%, 41.4%, 40.3% and 45.4% of our administrative expenses in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively. The staff cost in our administrative expenses is primarily attributable to the compensations paid to our administrative staff.

As a result, we expect that costs and expenses relating to our pharmaceuticals, medical consumables and employees 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 services facilities. Our ability to effectively control such costs and expenses may materially affect our profitability.

Service capacity and efficiency of our hospitals

Our results of operations are primarily affected by the service capacity and efficiency of our hospitals.

The revenue generated from our inpatient healthcare services is highly dependent upon the number of inpatient visits, inpatient bed-days and average inpatient spending per visit. By increasing inpatient enrolment, we are able to achieve greater utilisation of our service capacity and increased operational scale. In 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, the utilisation rate, which represents the percentage of beds in operation occupied by inpatients, of Kanghua Hospital was 89.9%, 87.4%, 82.2%, 75.9% and 79.8%, respectively. The decreases in the utilisation rate of Kanghua Hospital from 2013 to 2015 were primarily because (i) from 2013 to 2014, the increase in service capacity outpaced the increase in inpatient bed-days, and (ii) from 2014 to 2015, the decrease in inpatient bed-days primarily attributable to our continued efforts in improving inpatient clinical efficiency with a view to achieving an optimal ALOS of approximately eight days, and the increase in service capacity. The increase in the utilization rate of Kanghua Hospital from the four months ended 30 April 2015 to the four months ended 30 April 2016 was primarily because the increase in inpatient bed-days outpaced the increase in service capacity. The utilisation rate of Renkang Hospital was 82.5%, 75.5%, 68.6%, 59.9% and 58.9%, respectively, in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016. The decreases

FINANCIAL INFORMATION

in the utilisation rate of Renkang Hospital were primarily due to an economic slowdown in the local community where Renkang Hospital primarily services. Kanghua Hospital is relatively less affected by such economic slowdown as it is positioned to service a wider geographic area and it receives more critical patients who require healthcare services regardless of economic conditions. Due to the impact of the Chinese new year, during which people tend to avoid visiting hospitals, the utilisation rate of our hospitals in the four months ended 30 April is generally lower than the full year utilisation rate. In the same period, average inpatient spending per visit experienced a general increase. The average inpatient spending per visit of Kanghua Hospital was RMB12,315, RMB13,088, RMB13,857, RMB14,475 and RMB15,305, respectively, in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016. The average inpatient spending per visit of Renkang Hospital was RMB6,081, RMB7,105, RMB7,903, RMB7,733 and RMB8,815, respectively, in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016.

The revenue generated from our outpatient healthcare services is highly dependent upon the number of outpatient visits and average outpatient spending per visit. The average outpatient spending per visit of Kanghua Hospital was RMB266, RMB297, RMB314, RMB317 and RMB338, respectively, in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016. The average outpatient spending per visit of Renkang Hospital was RMB162, RMB178, RMB202, RMB192 and RMB218, respectively, in 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016. The number of outpatient visits is primarily driven by, among other things, our reputation, specialisation of doctors, practising hours of doctors, our service offerings, economic and social conditions of local and regional community, and the competitive landscape of healthcare market in Guangdong Province. The number of outpatient visits increased from 1,208,389 in 2013 to 1,297,647 in 2014 and further to 1,319,184 in 2015. For the four months ended 30 April 2015 and 2016, the number of outpatient visits was 388,489 and 437,035, respectively.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in any material respect in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our consolidated financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 4 and 5 to the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for services provided in the normal course of business, net of discounts and related taxes.

Revenue is recognised when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably.

Revenue from the provision of inpatient healthcare services, outpatient healthcare services and physical examination services is recognised upon rendering of the relevant services and when it is probable that the economic benefits from the service rendered will flow to us and such benefit could be reliably measured.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to us and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment held for use in the provision of services, or for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with our accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

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

FINANCIAL INFORMATION

Impairment losses

At the end of each reporting period, we review the carrying amounts of our assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in our consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

FINANCIAL INFORMATION

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of our assets and liabilities.

Current and deferred tax is recognised in profit or loss.

Estimated allowance for inventories

Inventories are valued at the lower of cost and net realisable value. We regularly review our inventory levels in order to identify slow-moving and obsolete inventories. When we identify items of inventories which have a realisable value that is lower than its carrying amount, we estimate the amount of write-down of inventories as allowance for inventories. If the realisable value of our inventories becomes much lower than their carrying amount subsequently, additional allowance may be required. The carrying amounts of inventories were approximately RMB35.7 million, RMB33.7 million, RMB38.2 million and RMB44.3 million as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively. No impairment loss on the above amounts was recognised during the Track Record Period.

Estimated allowance for accounts receivables

Our management regularly review the recoverability of accounts receivables. Allowance for these receivables is made based on evaluation of collectability and on our management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required. The carrying amounts of accounts receivables were approximately RMB60.5 million, RMB54.3 million, RMB70.2 million and RMB84.8 million (net of allowance for doubtful debts of approximately RMB1.8 million, RMB2.8 million, RMB3.9 million and RMB4.3 million, respectively) as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively.

FINANCIAL INFORMATION

Provision for medical dispute claims

We may be subject to legal proceedings and claims in the ordinary course of business which primarily arise from medical dispute claims brought by patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each year/period of the Track Record Period, and primarily taking into account any judicial appraisal or court determination against us. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within our control.

Based on the assessment, the provisions for the certain medical dispute claims existed of approximately RMB0.2 million, RMB1.0 million, RMB2.4 million and RMB1.4 million had been provided and included in accounts and other payables by us as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively. The situation is closely monitored by our Directors and provision will be made as appropriate. Where the final actual claims are greater than expected, a material dispute claims expense may arise, which would be recognised in profit or loss for the period in which such a claim takes place.

DESCRIPTION OF SELECTED COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth our consolidated statements of profit or loss for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, which are derived from, and should be read in conjunction with, our consolidated financial statements, including the notes thereto, included in the Accountants' Report set forth in Appendix I to this prospectus.

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Revenue	858,874	100.0	985,108	100.0	1,063,702	100.0	310,593	100.0	380,121	100.0
Cost of revenue	(669,778)	(78.0)	(761,424)	(77.3)	(824,290)	(77.5)	(250,334)	(80.6)	(300,020)	(78.9)
Gross profit	189,096	22.0	223,684	22.7	239,412	22.5	60,259	19.4	80,101	21.1
Other income	66,338	7.7	70,492	7.2	64,301	6.0	24,783	8.0	10,097	2.7
Other expenses, gains and losses	(2,201)	(0.2)	(2,214)	(0.2)	(4,085)	(0.4)	(656)	(0.2)	(466)	(0.1)
Administrative expenses	(74,365)	(8.7)	(79,855)	(8.1)	(83,657)	(7.9)	(25,839)	(8.3)	(30,454)	(8.0)
Finance costs	(54,126)	(6.3)	(76,895)	(7.8)	(67,153)	(6.3)	(25,168)	(8.1)	(5,142)	(1.4)
Profit before taxation	124,742	14.5	135,212	13.7	148,818	14.0	33,379	10.7	54,136	14.2
Income tax expenses	(15,629)	(1.8)	(27,445)	(2.8)	(29,854)	(2.8)	(998)	(0.3)	(14,414)	(3.8)
Profit for the year/period	<u>109,113</u>	<u>12.7</u>	<u>107,767</u>	<u>10.9</u>	<u>118,964</u>	<u>11.2</u>	<u>32,381</u>	<u>10.4</u>	<u>39,722</u>	<u>10.4</u>

FINANCIAL INFORMATION

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Profit (loss) for the year/ period attributable to:										
- owners of the Company	107,309	12.5	102,237	10.4	118,847	11.2	33,839	10.9	40,063	10.5
- non-controlling interests	<u>1,804</u>	<u>0.2</u>	<u>5,530</u>	<u>0.6</u>	<u>117</u>	<u>0.0</u>	<u>(1,458)</u>	<u>(0.5)</u>	<u>(341)</u>	<u>(0.1)</u>
	<u>109,113</u>	<u>12.7</u>	<u>107,767</u>	<u>10.9</u>	<u>118,964</u>	<u>11.2</u>	<u>32,381</u>	<u>10.4</u>	<u>39,722</u>	<u>10.4</u>
Adjusted net profit⁽¹⁾	<u><u>54,325</u></u>	<u><u>6.3</u></u>	<u><u>47,886</u></u>	<u><u>4.9</u></u>	<u><u>66,117</u></u>	<u><u>6.2</u></u>	<u><u>10,005</u></u>	<u><u>3.2</u></u>	<u><u>32,631</u></u>	<u><u>8.6</u></u>

Note:

- (1) Adjusted net profit represents profit for the year/period excluding the imputed interest income arising from amount due from a shareholder. Adjusted net profit is not a measure of performance under IFRS. As a non-IFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of imputed interest income on our net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year/period. Please refer to “— *Non-IFRS Measure*”.

Revenue

We currently generate revenue from providing healthcare services through our two hospitals, namely Kanghua Hospital and Renkang Hospital. In terms of treatment processes, our services can be categorised into three segments: (i) inpatient healthcare services; (ii) outpatient healthcare services; and (iii) physical examination services. The revenue recorded represents the fair value of the consideration received or receivable for services provided by us in the normal course of business, net of discounts and related taxes. Our revenue was RMB858.9 million, RMB985.1 million, RMB1,063.7 million, RMB310.6 million and RMB380.1 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively.

Revenue by segment

The following table sets forth a breakdown of our revenue by segment for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Inpatient healthcare services	519,456	60.5	585,281	59.4	628,045	59.0	188,520	60.7	232,083	61.1
Outpatient healthcare services	282,696	32.9	338,282	34.3	373,265	35.1	109,404	35.2	134,361	35.3
Physical examination services	<u>56,722</u>	<u>6.6</u>	<u>61,545</u>	<u>6.3</u>	<u>62,392</u>	<u>5.9</u>	<u>12,669</u>	<u>4.1</u>	<u>13,677</u>	<u>3.6</u>
Total	<u><u>858,874</u></u>	<u><u>100.0</u></u>	<u><u>985,108</u></u>	<u><u>100.0</u></u>	<u><u>1,063,702</u></u>	<u><u>100.0</u></u>	<u><u>310,593</u></u>	<u><u>100.0</u></u>	<u><u>380,121</u></u>	<u><u>100.0</u></u>

FINANCIAL INFORMATION

The following table sets forth a breakdown of the number of patient visits by segment for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	number	%	number	%	number	%	number	%	number	%
Inpatient healthcare services .	49,556	3.1	51,608	2.9	51,299	2.8	14,897	2.7	16,859	2.9
Outpatient healthcare services	1,208,389	75.0	1,297,647	74.2	1,319,184	72.2	388,489	70.9	437,035	75.5
Physical examination services	352,386	21.9	400,375	22.9	455,575	24.9	144,773	26.4	124,883	21.6
Total	<u>1,610,331</u>	<u>100.0</u>	<u>1,749,630</u>	<u>100.0</u>	<u>1,826,058</u>	<u>100.0</u>	<u>548,159</u>	<u>100.0</u>	<u>578,777</u>	<u>100.0</u>

The following table sets forth a breakdown of the average patient spending per visit by segment for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB per visit				
Inpatient healthcare services . .	10,482	11,341	12,243	12,655	13,766
Outpatient healthcare services .	234	261	283	282	307
Physical examination services . .	<u>161</u>	<u>154</u>	<u>137</u>	<u>88</u>	<u>110</u>

Our services portfolio is divided into three segments: inpatient healthcare services, outpatient healthcare services and physical examination services.

Inpatient healthcare services. Inpatient healthcare services refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time, usually several days or weeks, subject to the patients' conditions and recovery, which accounts for a large majority of our revenue during the Track Record Period.

Outpatient healthcare services. Outpatient healthcare services refer to the treatment of patients who are hospitalised for less than 24 hours, which represent a growing portion of our revenue during the Track Record Period.

Physical examination services. Physical examination services refer to the clinical examination of individuals for signs of diseases and health advisory services. Individuals may seek such services for a number of reasons, including routine check-ups, pre-employment health check, driver's check-ups, school admission and travels.

FINANCIAL INFORMATION

Revenue by hospital

The following table sets forth a breakdown of our revenue by hospital for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Kanghua Hospital	705,093	82.1	802,666	81.5	874,801	82.2	256,805	82.7	319,481	84.0
Renkang Hospital	153,781	17.9	182,442	18.5	188,901	17.8	53,788	17.3	60,640	16.0
Total	<u>858,874</u>	<u>100.0</u>	<u>985,108</u>	<u>100.0</u>	<u>1,063,702</u>	<u>100.0</u>	<u>310,593</u>	<u>100.0</u>	<u>380,121</u>	<u>100.0</u>

The following table sets forth a breakdown of the number of patient visits by hospital for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	Number	%	Number	%	Number	%	Number	%	Number	%
Kanghua Hospital	959,279	59.6	1,037,831	59.3	1,103,469	60.4	312,186	57.0	363,789	62.9
Renkang Hospital	651,052	40.4	711,799	40.7	722,589	39.6	235,973	43.0	214,988	37.1
Total	<u>1,610,331</u>	<u>100.0</u>	<u>1,749,630</u>	<u>100.0</u>	<u>1,826,058</u>	<u>100.0</u>	<u>548,159</u>	<u>100.0</u>	<u>578,777</u>	<u>100.0</u>

Kanghua Hospital is a large scale full-service general hospital positioned to service a wide geographic region. It is our flagship hospital which generated the majority of our revenue during the Track Record Period. Renkang Hospital is a full-service general hospital with a focus on serving patients in the local community. Both of our hospitals had experienced revenue growth during the Track Record Period, which was primarily due to increases in the number of patient visits and in the average spending per visit for inpatients and outpatients.

Cost of revenue

Our cost of revenue consists of pharmaceuticals, medical consumables, staff cost, depreciation, service expenses, utilities expenses, rental expenses and other costs. Our cost of revenue was RMB669.8 million, RMB761.4 million, RMB824.3 million, RMB250.3 million and RMB300.0 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively. The table

FINANCIAL INFORMATION

below sets forth a breakdown of our cost of revenue in absolute amounts and as percentages of our total cost of revenue for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Pharmaceuticals	252,875	37.8	294,991	38.7	323,389	39.2	96,222	38.4	119,550	39.8
Medical consumables	168,536	25.2	193,007	25.4	199,992	24.3	62,933	25.1	74,200	24.7
Staff cost	154,687	23.1	180,822	23.7	202,942	24.6	62,032	24.8	72,016	24.0
Depreciation	34,439	5.1	33,264	4.4	32,489	3.9	10,914	4.4	11,022	3.7
Service expenses ⁽¹⁾	18,739	2.8	19,107	2.5	20,623	2.5	6,294	2.5	10,128	3.4
Utilities expenses.	17,461	2.6	19,316	2.5	20,335	2.5	4,849	1.9	5,392	1.8
Rental expenses	12,292	1.8	12,470	1.6	12,666	1.5	4,228	1.7	5,353	1.8
Others ⁽²⁾	10,749	1.6	8,447	1.1	11,854	1.4	2,862	1.1	2,359	0.8
Total	<u>669,778</u>	<u>100.0</u>	<u>761,424</u>	<u>100.0</u>	<u>824,290</u>	<u>100.0</u>	<u>250,334</u>	<u>100.0</u>	<u>300,020</u>	<u>100.0</u>

Notes:

- (1) Service expenses include the service fees paid in relation to the outsourcing services and repair and maintenance.
- (2) Others include research and development expenses, medical waste disposal fees, cleaning fees, vehicle expenses and etc.

Cost of revenue by segment

The following table sets forth a breakdown of our cost of revenue by segment for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Inpatient healthcare services .	440,325	65.7	492,242	64.6	534,967	64.9	161,956	64.7	198,886	66.3
Outpatient healthcare services	204,629	30.6	241,560	31.7	262,466	31.8	82,046	32.8	94,275	31.4
Physical examination services.	24,824	3.7	27,622	3.6	26,857	3.3	6,332	2.5	6,859	2.3
Total	<u>669,778</u>	<u>100.0</u>	<u>761,424</u>	<u>100.0</u>	<u>824,290</u>	<u>100.0</u>	<u>250,334</u>	<u>100.0</u>	<u>300,020</u>	<u>100.0</u>

The cost of revenue of our inpatient healthcare services accounted for a majority of our total cost of revenue during the Track Record Period, while the cost of revenue of our outpatient healthcare services represented a relatively small portion of our total cost of revenue during the Track Record Period. The cost of revenue of our physical examination services accounted for less than 5% of our total cost of revenue during the Track Record Period.

FINANCIAL INFORMATION

Cost of revenue by hospital

The following table sets forth a breakdown of our cost of revenue by hospital for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Kanghua Hospital	558,643	83.4	633,812	83.2	675,650	82.0	207,146	82.7	247,402	82.5
Renkang Hospital	111,135	16.6	127,612	16.8	148,640	18.0	43,188	17.3	52,618	17.5
Total	<u>669,778</u>	<u>100.0</u>	<u>761,424</u>	<u>100.0</u>	<u>824,290</u>	<u>100.0</u>	<u>250,334</u>	<u>100.0</u>	<u>300,020</u>	<u>100.0</u>

The cost of revenue of Kanghua Hospital accounted for a large majority of our total cost of revenue during the Track Record Period, while the cost of revenue of Renkang Hospital represented a small portion of our total cost of revenue during the Track Record Period.

Gross profit and gross profit margin

Gross profit represents revenue less cost of revenue. For the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, our gross profit was RMB189.1 million, RMB223.7 million, RMB239.4 million, RMB60.3 million and RMB80.1 million, respectively. Our gross profit margin increased from 22.0% in 2013 to 22.7% in 2014, and decreased to 22.5% in 2015. Our gross profit margin increased from 19.4% for the four months ended 30 April 2015 to 21.1% for the four months ended 30 April 2016.

Gross profit and gross profit margin by segment

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)
(In thousands, except percentages)										
(Unaudited)										
Inpatient healthcare services	79,131	15.2	93,039	15.9	93,078	14.8	26,564	14.1	33,197	14.3
Outpatient healthcare services	78,067	27.6	96,722	28.6	110,799	29.7	27,358	25.0	40,086	29.8
Physical examination services	31,898	56.2	33,923	55.1	35,535	57.0	6,337	50.0	6,818	49.9
Total	<u>189,096</u>	<u>22.0</u>	<u>223,684</u>	<u>22.7</u>	<u>239,412</u>	<u>22.5</u>	<u>60,259</u>	<u>19.4</u>	<u>80,101</u>	<u>21.1</u>

FINANCIAL INFORMATION

During the Track Record Period, our inpatient healthcare services generally had lower gross profit margins than our outpatient healthcare services and physical examination services.

Gross profit and gross profit margin by hospital

The following table sets forth a breakdown of our gross profit and gross profit margin by hospital for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)	Gross profit (RMB)	Gross margin (%)
(In thousands, except percentages)										
	(Unaudited)									
Kanghua Hospital	146,450	20.8	168,854	21.0	199,151	22.8	49,659	19.3	72,079	22.6
Renkang Hospital	42,646	27.7	54,830	30.1	40,261	21.3	10,600	19.7	8,022	13.2
Total	<u>189,096</u>	22.0	<u>223,684</u>	22.7	<u>239,412</u>	22.5	<u>60,259</u>	19.4	<u>80,101</u>	21.1

From 2013 to 2014, Kanghua Hospital generally had lower gross profit margin than Renkang Hospital, primarily because Kanghua Hospital is positioned to receive critically ill patients requiring complex treatment and care and a large majority of its revenue is from inpatient healthcare services, which generally has a lower gross margin. Renkang Hospital has a relatively more balanced revenue mix. However, the gross margin of Renkang Hospital decreased significantly in 2015, primarily due to the increased staff costs attributable to discretionary staff bonuses paid to motivate its staff in 2015.

Other income

Our other income primarily comprises imputed interest income arising from amount due from a shareholder, interest income from banks, government subsidies, rental income and others. For the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, our other income was RMB66.3 million, RMB70.5 million, RMB64.3 million, RMB24.8 million and RMB10.1 million, respectively.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Imputed interest income										
arising from amount due										
from a shareholder ⁽¹⁾	54,788	82.6	59,881	84.9	52,847	82.2	22,376	90.3	7,091	70.2
Interest income from banks	327	0.5	406	0.6	1,498	2.3	117	0.5	605	6.0
Government subsidies ⁽²⁾	7,290	11.0	4,699	6.7	3,153	4.9	537	2.2	—	—
Rental income	3,248	4.6	4,391	6.2	4,973	7.7	1,496	6.0	1,803	17.9
Others ⁽³⁾	685	1.2	1,115	1.6	1,830	2.8	257	1.0	598	5.9
Total	<u>66,338</u>	<u>100.0</u>	<u>70,492</u>	<u>100.0</u>	<u>64,301</u>	<u>100.0</u>	<u>24,783</u>	<u>100.0</u>	<u>10,097</u>	<u>100.0</u>

Notes:

- (1) Imputed interest income arose from an amount due from Kanghua Group, which had been fully repaid as at the Latest Practicable Date. Please see section headed “— *Related Party Transactions — Amount due from related parties*” for more details of the amount due from Kanghua Group. Such amount was measured at its fair value at initial recognition based on the best estimate of the expected repayments by Kanghua Group at the time of recognising the amount due from Kanghua Group. The differences between the amount due from Kanghua Group and the fair value at initial recognition were recognised in equity as deemed distribution to a shareholder, and the amount due from Kanghua Group was then carried at amortized cost using effective interest method. Subsequently, if we revise our estimate of the expected repayments by Kanghua Group, the carrying amount of such amount due from Kanghua Group will be adjusted to reflect the actual and revised estimated cash flow. The adjustments were also recognised in equity as deemed distribution to a shareholder. Due to the nature of the imputed interest income, it did not increase our cash flow during the Track Record Period.
- (2) The government subsidies mainly represented the subsidies on research and development, medical related seminars and forums costs incurred with no unfulfilled conditions attached. They also included the release of deferred income of RMB1.0 million, RMB1.0 million, RMB1.0 million, RMB0.3 million and nil for each of the three years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, which were recognised in profit or loss on a systematic basis over the useful life of the property, plant and equipment.
- (3) Others include internship fees, management fees, conference fee, handling fee and etc.

Other expenses, gains and losses

Our other expenses, gains and losses primarily comprise loss on disposal of property, plant and equipment, donations, impairment loss on accounts receivables and Listing related expenses. For the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, our other expenses, gains and losses were RMB2.2 million, RMB2.2 million, RMB4.1 million, RMB0.7 million and RMB0.5 million, respectively.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our other expenses, gains and losses for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Impairment loss on accounts receivables	(1,028)	(46.7)	(1,954)	(88.3)	(1,423)	(34.8)	(400)	(61.0)	(401)	(86.1)
Loss on disposal of property, plant and equipment	(673)	(30.6)	(260)	(11.7)	(1,383)	(33.9)	(256)	(39.0)	(65)	(13.9)
Donations	(500)	(22.7)	—	—	—	—	—	—	—	—
Professional fees	—	—	—	—	(1,279)	(31.3)	—	—	—	—
Total	<u>(2,201)</u>	<u>(100.0)</u>	<u>(2,214)</u>	<u>(100.0)</u>	<u>(4,085)</u>	<u>(100.0)</u>	<u>(656)</u>	<u>(100.0)</u>	<u>(466)</u>	<u>(100.0)</u>

Administrative expenses

Our administrative expenses primarily consist of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortization, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. Our administrative expenses were RMB74.4 million, RMB79.9 million, RMB83.7 million, RMB25.8 million and RMB30.5 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively.

The table below sets forth a breakdown our administrative expenses in absolute amounts and as percentages of our total administrative expenses for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(In thousands, except percentages)										
(Unaudited)										
Staff cost	26,759	36.0	28,872	36.2	34,624	41.4	10,402	40.3	13,831	45.4
Repair and maintenance	7,595	10.2	9,941	12.4	8,492	10.2	2,334	9.0	2,841	9.3
Office expenses	7,393	9.9	7,685	9.6	8,191	9.8	2,235	8.6	2,723	8.9
Depreciation and amortisation	5,549	7.5	4,382	5.5	6,463	7.7	1,382	5.3	2,637	8.7
Rental expenses	5,365	7.2	5,450	6.8	5,543	6.6	1,846	7.1	2,330	7.7
Utilities expenses	4,384	5.9	3,761	4.7	3,226	3.9	793	3.1	1,100	3.6
Entertainment and travel expenses	4,991	6.7	4,519	5.7	3,847	4.6	1,338	5.2	1,764	5.8
Others ⁽¹⁾	<u>12,329</u>	<u>16.6</u>	<u>15,245</u>	<u>19.1</u>	<u>13,271</u>	<u>15.9</u>	<u>5,509</u>	<u>21.3</u>	<u>3,228</u>	<u>10.6</u>
Total	<u>74,365</u>	<u>100.0</u>	<u>79,855</u>	<u>100.0</u>	<u>83,657</u>	<u>100.0</u>	<u>25,839</u>	<u>100.0</u>	<u>30,454</u>	<u>100.0</u>

Note:

(1) Others primarily include cleaning fee, insurance fee, office expenses, research and development expenses and training expenses.

FINANCIAL INFORMATION

Finance costs

Our finance costs consist of interest on bank borrowings wholly repayable within five years, interest on an amount due to a shareholder and amount due to a related party. Our finance costs were RMB54.1 million, RMB76.9 million, RMB67.2 million, RMB25.2 million and RMB5.1 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively.

Income tax expenses

Our income tax expenses mainly consist of PRC enterprise income tax. Our PRC subsidiaries are generally subject to income tax at a rate of 25% on their respective taxable income.

Our income tax expenses were RMB15.6 million, RMB27.4 million, RMB29.9 million, RMB1.0 million and RMB14.4 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively.

We have paid all relevant taxes in accordance with tax regulations and do not have any disputes or unresolved tax issues with the relevant tax authorities.

Profit and adjusted net profit for the period

Our profit was RMB109.1 million, RMB107.8 million, RMB119.0 million, RMB32.4 million and RMB39.7 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively. Our adjusted net profit was RMB54.3 million, RMB47.9 million, RMB66.1 million, RMB10.0 million and RMB32.6 million for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, respectively.

Sensitivity analysis

The table below sets forth an analysis of the sensitivity of our profit for the year/period to the hypothetical reasonable changes in our (i) pharmaceuticals, (ii) medical consumables and (iii) staff cost for the three years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2015 and 2016, which is hypothetical in nature and for illustrative purpose only. When preparing the sensitivity analysis, we assume that our profit before taxation is subject to income tax at a rate of 25% and all other variables remain constant. To illustrate the potential effect on our profitability, the sensitivity analysis below shows the potential impact on our profit for the year/period with a 5% and 10% increase or decrease in our pharmaceuticals, medical consumables and staff cost. While none of the hypothetical fluctuation ratios of 5% and 10% applied in the sensitivity analysis equals the historical fluctuations of our pharmaceuticals,

FINANCIAL INFORMATION

medical consumables and staff cost, we believe that the application of these hypothetical fluctuation ratios presents a meaningful analysis of the potential impact of changes in pharmaceuticals, medical consumables and staff cost on our profitability.

	For the year ended 31 December			For the four months ended 30 April	
	2013	2014	2015	2015	2016
	(In thousands of RMB)				
<i>Sensitivity analysis of pharmaceuticals</i>					
Pharmaceuticals					
(decrease)/increase by					
(10)%	18,966	22,124	24,254	7,217	8,966
(5)%	9,483	11,062	12,127	3,608	4,483
5%	(9,483)	(11,062)	(12,127)	(3,608)	(4,483)
10%	(18,966)	(22,124)	(24,254)	(7,217)	(8,966)
<i>Sensitivity analysis of medical consumables</i>					
Medical consumables					
(decrease)/increase by					
(10)%	12,640	14,476	14,999	4,720	5,565
(5)%	6,320	7,238	7,500	2,360	2,783
5%	(6,320)	(7,238)	(7,500)	(2,360)	(2,783)
10%	(12,640)	(14,476)	(14,999)	(4,720)	(5,565)
<i>Sensitivity analysis of staff cost</i>					
Staff cost (decrease)/increase by					
(10)%	13,608	15,727	17,817	5,433	6,439
(5)%	6,804	7,864	8,909	2,716	3,219
5%	(6,804)	(7,864)	(8,909)	(2,716)	(3,219)
10%	(13,608)	(15,727)	(17,817)	(5,433)	(6,439)

FINANCIAL INFORMATION

NON-IFRS MEASURE

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-IFRS measure provides additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted net profit

Adjusted net profit eliminates the effect of a non-cash item, namely imputed interest income arising from amount due from a shareholder. The term adjusted net profit is not defined under IFRS. As a non-IFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of imputed interest income on our net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our net profit for the relevant periods. The effects of imputed interest income arising from amount due from a shareholder that are eliminated from adjusted net profit are significant components in understanding and assessing our operating and financial performance.

In light of the foregoing limitations for adjusted net profit, when assessing our operating and financial performance, you should not view adjusted net profit in isolation or as a substitute for our profit for the year/period or any other operating performance measure that is calculated in accordance with IFRS. In addition, because this non-IFRS measure may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

FINANCIAL INFORMATION

The following table reconciles our adjusted net profit for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the period indicated:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	(In thousands of RMB)				
	(Unaudited)				
Profit for the year/period . . .	109,113	107,767	118,964	32,381	39,722
Less:					
Imputed interest income arising					
from amount due from a					
shareholder	<u>54,788</u>	<u>59,881</u>	<u>52,847</u>	<u>22,376</u>	<u>7,091</u>
Adjusted net profit	<u>54,325</u>	<u>47,886</u>	<u>66,117</u>	<u>10,005</u>	<u>32,631</u>

Imputed interest income arose from an amount due from Kanghua Group. Please see the section headed “— *Description of Selected Components of Our Consolidated Statements of Profit or Loss and Other Comprehensive Income — Other Income*”. Finance costs arose primarily from our bank loans. During the Track Record Period, amounts due from Kanghua Group and our amounts of bank loans had similar trend. Both amounts due from Kanghua Group and our amounts of bank loans increased from 31 December 2013 to 31 December 2014 and decreased from 31 December 2014 to 30 April 2016. Settlements of amount due from Kanghua Group would decrease our imputed interest income and settlements of our bank loans would decrease our finance costs. As at 31 December 2013, 2014 and 2015 and 30 April 2016, amount due from Kanghua Group amounted to approximately RMB1,355.4 million, RMB1,444.1 million, RMB490.1 million and RMB448.6 million, respectively. As at the Latest Practicable Date, such amount had been fully repaid by Kanghua Group. Going forward, we do not expect to have any imputed interest income arising from such amount. We have used the amount repaid by Kanghua Group to pay off our bank loans. As at 31 December 2013, 2014 and 2015 and 30 April 2016, our bank loan balance amounted to RMB748.0 million, RMB918.5 million, RMB341.8 million and RMB213.4 million. As at the Latest Practicable Date, we did not have any outstanding bank loan balance. During the Track Record Period, our finance costs primarily consisted of interest on bank loans, which amounted to RMB43.3 million, RMB66.6 million, RMB63.8 million and RMB5.1 million in the three years ended 31 December 2015 and the four months ended 30 April 2016, respectively. Therefore, the effect of decreasing imputed interest income would be substantially offset by a decrease in finance costs.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four months ended 30 April 2016 compared to four months ended 30 April 2015

Revenue

Our revenue increased by 22.4% from RMB310.6 million for the four months ended 30 April 2015 to RMB380.1 million for the four months ended 30 April 2016, primarily due to an increase in our revenue from our inpatient and outpatient healthcare services.

FINANCIAL INFORMATION

Revenue by segment

Revenue generated by our inpatient healthcare services increased by 23.1% from RMB188.5 million for the four months ended 30 April 2015 to RMB232.1 million for the four months ended 30 April 2016. The increase was primarily due to (i) an increase in inpatient visits from 14,897 for the four months ended 30 April 2015 to 16,859 for the four months ended 30 April 2016; and (ii) an increase in average inpatient spending per visit from RMB12,655 for the four months ended 30 April 2015 to RMB13,766 for the four months ended 30 April 2016 as a result of the strong growth in our special services offerings, which were generally priced higher than our normal medical services.

Revenue generated by our outpatient healthcare services increased by 22.9% from RMB109.4 million for the four months ended 30 April 2015 to RMB134.4 million for the four months ended 30 April 2016. The increase was primarily due to (i) an increase in number of outpatient visits from 388,489 for the four months ended 30 April 2015 to 437,035 for the four months ended 30 April 2016; and (ii) an increase in average outpatient spending per visit from RMB282 for the four months ended 30 April 2015 to RMB307 for the four months ended 30 April 2016 primarily because of the strong growth in our VIP outpatient services.

Revenue generated by our physical examination services increased by 8.0% from RMB12.7 million for the four months ended 30 April 2015 to RMB13.7 million for the four months ended 30 April 2016, primarily due to an increase in average patient spending per visit from RMB88 for the four months ended 30 April 2015 to RMB110 for the four months ended 30 April 2016 because of an increase in the proportion of individual customers who purchased more expensive physical examination services than those our corporate customers purchased during the period. Such revenue growth was partially offset by a decrease in patient visits from 144,773 for the four months ended 30 April 2015 to 124,883 for the four months ended 30 April 2016.

Revenue by hospital

Revenue recorded by Kanghua Hospital increased by 24.4% from RMB256.8 million for the four months ended 30 April 2015 to RMB319.5 million for the four months ended 30 April 2016, primarily due to an increase in the number of patient visits from 312,186 for the four months ended 30 April 2015 to 363,789 for the four months ended 30 April 2016, which was in turn driven in part by several renowned medical professionals joining Kanghua Hospital throughout 2015.

Revenue recorded by Renkang Hospital increased by 12.7% from RMB53.8 million for the four months ended 30 April 2015 to RMB60.6 million for the four months ended 30 April 2016, primarily due to the growth in revenue from its urology healthcare services.

Cost of revenue

Our cost of revenue increased by 19.8% from RMB250.3 million for the four months ended 30 April 2015 to RMB300.0 million for the four months ended 30 April 2016. The increase was primarily attributable to (i) an increase of RMB23.4 million in the cost of pharmaceuticals from RMB96.2 million for the four months ended 30 April 2015 to RMB119.6 million for the four months ended 30 April 2016, which was in line with our business growth; (ii) an increase of RMB11.3 million in the cost of medical consumables

FINANCIAL INFORMATION

from RMB62.9 million for the four months ended 30 April 2015 to RMB74.2 million for the four months ended 30 April 2016 in line with our business growth; and (iii) an increase of RMB10.0 million in staff costs from RMB62.0 million for the four months ended 30 April 2015 to RMB72.0 million for the four months ended 30 April 2016, due to increased compensation levels.

The cost of revenue of our inpatient healthcare services increased by 22.8% from RMB162.0 million for the four months ended 30 April 2015 to RMB198.9 million for the four months ended 30 April 2016. The cost of revenue of our outpatient healthcare services increased by 14.9% from RMB82.0 million for the four months ended 30 April 2015 to RMB94.3 million for the four months ended 30 April 2016. The cost of revenue of our physical examination services increased by 8.3% from RMB6.3 million for the four months ended 30 April 2015 to RMB6.9 million for the four months ended 30 April 2016. The increases were primarily attributable to the increased cost of pharmaceuticals and medical consumables and staff costs in line with our business growth.

The cost of revenue of Kanghua Hospital increased by 19.4% from RMB207.1 million for the four months ended 30 April 2015 to RMB247.4 million for the four months ended 30 April 2016, primarily due to the growth in the business of Kanghua Hospital. The cost of revenue of Renkang Hospital increased by 21.8% from RMB43.2 million for the four months ended 30 April 2015 to RMB52.6 million for the four months ended 30 April 2016, primarily due to the rapid growth in paediatrics and internal medicine healthcare services. By their nature, treatments under these disciplines are largely based on the use of pharmaceuticals as opposed to surgery.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 32.9% from RMB60.3 million for the four months ended 30 April 2015 to RMB80.1 million for the four months ended 30 April 2016, while our gross profit margin increased from 19.4% for the four months ended 30 April 2015 to 21.1% for the four months ended 30 April 2016. The improvement of our gross profit margin was primarily due to the strong performance of our special services that generally have higher gross margins as well as the increased number of patients who received complex surgeries and diagnosis that are generally more expensive than basic medical treatments.

The gross profit of our inpatient healthcare services increased by 25.0% from RMB26.6 million for the four months ended 30 April 2015 to RMB33.2 million for the four months ended 30 April 2016. The gross profit margin of our inpatient healthcare services remained stable as 14.1% for the four months ended 30 April 2015 and 14.3% for the four months ended 30 April 2016. The gross profit of our outpatient healthcare services increased by 46.5% from RMB27.4 million for the four months ended 30 April 2015 to RMB40.1 million for the four months ended 30 April 2016. The gross profit margin of our outpatient healthcare services increased from 25.0% for the four months ended 30 April 2015 to 29.8% for the four months ended 30 April 2016. The gross profit of our physical examination services increased by 7.6% from RMB6.3 million for the four months ended 30 April 2015 to RMB6.8 million for the four months ended 30 April 2016. The gross profit margin of our physical examination services decreased slightly from 50.0% for the four months ended 30 April 2015 to 49.9% for the four months ended 30 April 2016.

FINANCIAL INFORMATION

The gross profit of Kanghua Hospital increased by 45.1% from RMB49.7 million for the four months ended 30 April 2015 to RMB72.1 million for the four months ended 30 April 2016. The gross profit margin of Kanghua Hospital increased from 19.3% for the four months ended 30 April 2015 to 22.6% for the four months ended 30 April 2016, primarily due to the increased number of patients who received complex surgeries and diagnosis. The gross profit of Renkang Hospital decreased by 24.3% from RMB10.6 million for the four months ended 30 April 2015 to RMB8.0 million for the four months ended 30 April 2016. The gross profit margin of Renkang Hospital decreased from 19.7% for the four months ended 30 April 2015 to 13.2% for the four months ended 30 April 2016, primarily due to increases in its (i) pharmaceutical costs; and (ii) rental expenses because Renkang Hospital entered into a new lease agreement that provides for a higher, albeit market, rental rate for the land and buildings occupied by it for its operations.

Other income

Our other income decreased by 59.3% from RMB24.8 million for the four months ended 30 April 2015 to RMB10.1 million for the four months ended 30 April 2016, which primarily reflected (i) a decrease of RMB15.3 million in imputed interest income arising from amount due from a shareholder because of the repayment of amount due to us by Kanghua Group; and (ii) a decrease of RMB0.5 million in government subsidies because the deferred income was fully recognised as at 31 December 2015 and we did not recognise any deferred income in the four months ended 30 April 2016. The decreases were partially offset by an increase of RMB0.5 million in interest income from banks primarily due to the higher level of average bank balance we had in 2016.

Other expenses, gains and losses

Our other expenses, gains and losses decreased by 29.0% from RMB0.7 million for the four months ended 30 April 2015 to RMB0.5 million for the four months ended 30 April 2016, which primarily reflected a decrease of RMB0.2 million in loss on disposal of property, plant and equipment.

Administrative expenses

Our administrative expenses increased by 17.9% from RMB25.8 million for the four months ended 30 April 2015 to RMB30.5 million for the four months ended 30 April 2016. The increase was primarily attributable to (i) an increase of RMB3.4 million in staff costs mainly due to an increase in our staff headcount and increased compensation levels; and (ii) an increase of RMB1.3 million in depreciation and amortization because we purchased certain new office equipment for our Huaxin Building in 2015.

Finance costs

Our finance costs decreased by 79.6% from RMB25.2 million for the four months ended 30 April 2015 to RMB5.1 million for the four months ended 30 April 2016, primarily due to a decrease of RMB16.7 million in interest on bank borrowings wholly repayable within five years because of our lower bank borrowing level in the four months ended 30 April 2016 as compared to the four months ended 30 April 2015.

FINANCIAL INFORMATION

Income tax expense

Our income tax expenses increased from RMB1.0 million for the four months ended 30 April 2015, RMB14.4 million for the four months ended 30 April 2016. This change was primarily due to (i) a corresponding increase in our profit before tax in the four months ended 30 April 2016; and (ii) a decrease in non-taxable income in the four months ended 30 April 2016.

Profit for the period

As a result of the foregoing, our profit for the period increased by 22.7% from RMB32.4 million for the four months ended 30 April 2015 to RMB39.7 million for the four months ended 30 April 2016, and our adjusted net profit for the period increased by 226.1% from RMB10.0 million for the four months ended 30 April 2015 to RMB32.6 million for the four months ended 30 April 2016.

Year ended 31 December 2015 compared to year ended 31 December 2014

Revenue

Our revenue increased by 8.0% from RMB985.1 million in 2014 to RMB1,063.7 million in 2015, primarily due to increase in revenue from our inpatient and outpatient healthcare services.

Revenue by segment

Revenue generated by our inpatient healthcare services increased by 7.3% from RMB585.3 million in 2014 to RMB628.0 million in 2015, primarily due to an increase in average inpatient spending per visit from RMB11,341 in 2014 to RMB12,243 in 2015 as a result of the commencement of operations of the Huaxin Building in September 2015, which offers VIP services that are more expensive than basic inpatient services.

Revenue generated by our outpatient healthcare services increased by 10.3% from RMB338.3 million in 2014 to RMB373.3 million in 2015, primarily due to (i) an increase in number of outpatient visits from 1,297,647 in 2014 to 1,319,184 in 2015 as a result of the organic growth of our business and further brand recognition; (ii) strong growth in revenue from reproductive medicine services; and (iii) an increase in average outpatient spending per visit from RMB261 in 2014 to RMB283 in 2015.

Revenue generated by our physical examination services increased by 1.4% from RMB61.5 million in 2014 to RMB62.4 million in 2015, primarily due to an increase in patient visits from 400,375 in 2014 to 455,575 in 2015 as a result of the organic growth of our business.

Revenue by hospital

Revenue recorded by Kanghua Hospital increased by 9.0% from RMB802.7 million in 2014 to RMB874.8 million in 2015, primarily due to (i) an increase in number of patient visits from 1,037,831 in 2014 to 1,103,469 in 2015; (ii) recruitment of experienced medical professionals that enhanced the medical capability of Kanghua Hospital to provide more complex treatments; (iii) expansion of the operational capacity of Kanghua Hospital by putting Huaxin Building into operation in September 2015; and (iv) strong growth in revenue from reproductive medicine, cardiovascular and O&G services of Kanghua Hospital.

FINANCIAL INFORMATION

Revenue recorded by Renkang Hospital increased by 3.5% from RMB182.4 million in 2014 to RMB188.9 million in 2015, primarily due to (i) an increase in number of patient visits from 711,799 in 2014 to 722,589 in 2015; (ii) expansion of the medical professional team by recruiting an expert in urology in early 2015 resulting in a strong growth in revenue from the urology services of Renkang Hospital.

Cost of revenue

Our cost of revenue increased by 8.3% from RMB761.4 million in 2014 to RMB824.3 million in 2015. The increase was primarily attributable to (i) an increase of RMB28.4 million in pharmaceuticals from RMB295.0 million in 2014 to RMB323.4 million in 2015, which was in line with growth of our business; (ii) an increase of RMB22.1 million in staff costs from RMB180.8 million in 2014 to RMB202.9 million in 2015, due to an increase in headcount of our employees and increased compensation levels; (iii) an increase of RMB7.0 million in medical consumables costs from RMB193.0 million in 2014 to RMB200.0 million in 2015 primary due to the growth of our business; and (iv) an increase of RMB3.5 million in other cost of revenue from RMB8.4 million in 2014 to RMB11.9 million in 2015, mainly attributable to an increase in repair and maintenance costs due to the expansion of our current facilities.

The cost of revenue of our inpatient healthcare services increased by 8.7% from RMB492.2 million in 2014 to RMB535.0 million in 2015. The cost of revenue of our outpatient healthcare services increased by 8.7% from RMB241.6 million in 2014 to RMB262.5 million in 2015, primarily attributable to the increased cost of pharmaceuticals and medical consumables and staff cost in line with our business growth. The cost of revenue of our physical examination services slightly decreased by 2.8% from RMB27.6 million in 2014 to RMB26.9 million in 2015, primarily due to the enhanced operating efficiency of our physical examination treatment process.

The cost of revenue of Kanghua Hospital increased by 6.6% from RMB633.8 million in 2014 to RMB675.7 million in 2015, primarily due to the increased patient visits. The cost of revenue of Renkang Hospital increased by 16.5% from RMB127.6 million in 2014 to RMB148.6 million in 2015, primarily due to the increased staff cost attributable to the discretionary bonus paid to our employees in 2015.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 7.0% from RMB223.7 million in 2014 to RMB239.4 million in 2015, while our gross profit margin decreased slightly from 22.7% in 2014 to 22.5% in 2015. The decrease in our gross profit margin was primarily due to a decrease in gross profit margin of Renkang Hospital as a result of the increased staff costs attributable to discretionary staff bonuses paid to motivate its staff in 2015.

The gross profit of our inpatient healthcare services remained stable at RMB93.0 million in 2014 and RMB93.1 million in 2015. The gross profit margin of our inpatient healthcare services decreased from 15.9% in 2014 to 14.8% in 2015 primarily due to a decrease in inpatient bed-days of Kanghua Hospital in 2015. The gross profit of our outpatient healthcare services and physical examination services increased by 14.6% and 4.8%, respectively, from RMB96.7 million and RMB33.9 million in 2014 to RMB110.8 million and RMB35.5 million in 2015. The gross profit margin of our outpatient healthcare services and physical examination services increased from 28.6% and 55.1% in 2014 to 29.7% and 57.0% in 2015, respectively.

FINANCIAL INFORMATION

The gross profit of Kanghua Hospital increased by 17.9% from RMB168.9 million in 2014 to RMB199.2 million in 2015. The gross profit margin of Kanghua Hospital increased from 21.0% in 2014 to 22.8% in 2015 primarily due to the change to the revenue mix of Kanghua Hospital. The gross profit of Renkang Hospital decreased by 26.6% from RMB54.8 million in 2014 to RMB40.3 million in 2015. The gross profit margin of Renkang Hospital decreased from 30.1% in 2014 to 21.3% in 2015 due to increased staff costs attributable to discretionary bonuses paid to our employees in 2015.

Other income

Our other income decreased by 8.8% from RMB70.5 million in 2014 to RMB64.3 million in 2015, which primarily reflected (i) a decrease of RMB7.0 million in imputed interest income arising from amount due from a shareholder due to the partial repayment of the advance made by us to Kanghua Group in 2015; and (ii) a decrease of RMB1.5 million in government subsidies. The decrease in government subsidies was primarily because Renkang Hospital received RMB1.4 million as excess funding from social insurance fund in 2014 as the aggregate amount of reimbursements by patients covered under social insurance programmes in 2014 was less than the funding pre-determined by the relevant social insurance bureau for that year while no such excess occurred in 2015. Our interest income from the banks increased by RMB1.1 million primarily due to an increase in our average bank balances and cash.

Other expenses, gains and losses

Our other expenses, gains and losses increased by 84.5% from RMB2.2 million in 2014 to RMB4.1 million in 2015, which primarily reflected an increase of RMB1.3 million in professional expenses and an increase of RMB1.1 million in loss on disposal of property, plant and equipment due to the disposal of our obsolete furnitures in the ordinary course of business in 2015 to upgrade our facilities.

Administrative expenses

Our administrative expenses increased by 4.8% from RMB79.9 million in 2014 to RMB83.7 million in 2015. The increase was primarily attributable to (i) an increase of RMB5.8 million in staff costs mainly due to an increase in headcount of our employees and increased compensation levels; and (ii) an increase of RMB2.0 million in depreciation and amortization because Huaxin Building was put into operation in September 2015. These were partially offset by a decrease of RMB1.4 million in repair and maintenance and RMB1.8 million in expenses relating to general administrative affairs, primarily due to our improved operating efficiency.

Finance costs

Our finance costs decreased by 12.7% from RMB76.9 million in 2014 to RMB67.2 million in 2015, primarily due to an decrease of RMB2.8 million in interest on bank borrowings wholly repayable within five years because of our lower bank borrowing level in 2015 as compared to 2014.

Income tax expense

Our income tax expenses increased by 8.8% from RMB27.4 million in 2014 to RMB29.9 million in 2015 primarily due to an increase in our profit before taxation.

FINANCIAL INFORMATION

Profit for the year

As a result of the foregoing, our profit for the year increased by 10.4% from RMB107.8 million in 2014 to RMB119.0 million in 2015, and our adjusted net profit for the year increased by 38.1% from RMB47.9 million in 2014 to RMB66.1 million in 2015.

Year ended 31 December 2014 compared to year ended 31 December 2013

Revenue

Our revenue increased by 14.7% from RMB858.9 million in 2013 to RMB985.1 million in 2014, primarily due to increases in revenue from our inpatient and outpatient healthcare services.

Revenue by segment

Revenue generated by our inpatient healthcare services increased by 12.7% from RMB519.5 million in 2013 to RMB585.3 million in 2014, primarily due to (i) an increase in number of inpatient visits from 49,556 in 2013 to 51,608 in 2014; and (ii) an increase in average inpatient spending per visit from RMB10,482 in 2013 to RMB11,341 in 2014 as a result of strong performance of our oncology and haematology services that are more expensive than most of our inpatient services.

Revenue generated by our outpatient healthcare services increased by 19.7% from RMB282.7 million in 2013 to RMB338.3 million in 2014, primarily due to (i) an increase in number of outpatient visits from 1,208,389 in 2013 to 1,297,647 in 2014; (ii) strong growth in revenue from our reproductive medicine services; and (iii) an increase in average outpatient spending per visit from RMB234 in 2013 to RMB261 in 2014.

Revenue generated by our physical examination services increased by 8.5% from RMB56.7 million in 2013 to RMB61.5 million in 2014, primarily due to an increase in number of patient visits from 352,386 in 2013 to 400,375 in 2014.

Revenue by hospital

Revenue recorded by Kanghua Hospital increased by 13.8% from RMB705.1 million in 2013 to RMB802.7 million in 2014, primarily due to (i) an increase in number of patient visits from 959,279 in 2013 to 1,037,831 in 2014; and (ii) strong growth in revenue from the O&G, haematology and reproductive medicine services of Kanghua Hospital.

Revenue recorded by Renkang Hospital increased by 18.6% from RMB153.8 million in 2013 to RMB182.4 million in 2014, primarily due to (i) an increase in number of patient visits from 651,052 in 2013 to 711,799 in 2014; and (ii) strong growth in revenue from the O&G and hand and foot surgery services of Renkang Hospital.

Cost of revenue

Our cost of revenue increased by 13.7% from RMB669.8 million in 2013 to RMB761.4 million in 2014. The increase was primarily attributable to an increase of RMB42.1 million in pharmaceutical from RMB252.9 million in 2013 to RMB295.0 million in 2014 and an increase of RMB24.5 million in medical

FINANCIAL INFORMATION

consumables from RMB168.5 million in 2013 to RMB193.0 million in 2014, primarily due to increased surgeries performed and services offered under our O&G and cardiovascular disciplines. In addition, our staff cost also increased by RMB26.1 million from RMB154.7 million in 2013 to RMB180.8 million in 2014, due to an increase in headcount of our employees and increased compensation levels.

The cost of revenue of our inpatient healthcare services increased by 11.8% from RMB440.3 million in 2013 to RMB492.2 million in 2014. The cost of revenue of our outpatient healthcare services increased by 18.0% from RMB204.6 million in 2013 to RMB241.6 million in 2014. The increases in the cost of revenue of our inpatient and outpatient healthcare services were primarily attributable to the increased consumption of pharmaceuticals and medical consumables and staff costs in line with our business growth. The cost of revenue of our physical examination services increased by 11.3% from RMB24.8 million in 2013 to RMB27.6 million in 2014, primarily due to the increased patient visits.

The cost of revenue of Kanghua Hospital increased by 13.5% from RMB558.6 million in 2013 to RMB633.8 million in 2014. The cost of revenue of Renkang Hospital increased by 14.8% from RMB111.1 million in 2013 to RMB127.6 million in 2014. These increases were primarily due to the increased patient visits.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 18.3% from RMB189.1 million in 2013 to RMB223.7 million in 2014 and our gross profit margin increased from 22.0% in 2013 to 22.7% in 2014.

The gross profit of our inpatient healthcare services, outpatient healthcare services and physical examination increased by 17.6%, 23.9% and 6.3%, respectively, from RMB79.1 million, RMB78.1 million and RMB31.9 million in 2013 to RMB93.0 million, RMB96.7 million and RMB33.9 million in 2014. The gross profit margin of our inpatient healthcare services and outpatient healthcare services slightly increased from 15.2% and 27.6% in 2013 to 15.9% and 28.6% in 2014, respectively. The gross profit margin of our physical examination services remained relatively stable at 56.2% and 55.1% in 2013 and 2014, respectively.

The gross profit of Kanghua Hospital increased by 15.3% from RMB146.5 million in 2013 to RMB168.9 million in 2014. The gross profit margin of Kanghua Hospital remained stable at 20.8% in 2013 and 21.0% in 2014. The gross profit of Renkang Hospital increased by 28.6% from RMB42.6 million in 2013 to RMB54.8 million in 2014. The gross profit margin of Renkang Hospital increased from 27.7% in 2013 to 30.1% in 2014, primarily due to the strong growth in O&G services of Renkang Hospital, which have a relatively higher gross margin than services under other disciplines.

Other income

Our other income increased by 6.3% from RMB66.3 million in 2013 to RMB70.5 million in 2014, which was primarily due to an increase of RMB5.1 million in imputed interest income arising from amounts due from a shareholder due to a higher average balance of the amount due from Kanghua Group in 2014.

FINANCIAL INFORMATION

Other expenses, gains and losses

Our other expenses, gains and losses remained stable as RMB2.2 million in 2013 and 2014. The impairment loss on accounts receivables increased by RMB0.9 million primarily due to certain corporate physical examination customers who had experienced financial difficulties during the economic downturn. This increase was partially offset by a decrease of RMB0.4 million in loss on disposal of property, plant and equipment and a decrease of RMB0.5 million in donations.

Administrative expenses

Our administrative expenses increased by 7.4% from RMB74.4 million in 2013 to RMB79.9 million in 2014. The increase was primarily attributable to (i) an increase of RMB2.1 million in staff costs mainly due to an increase in headcount of our employees and increased compensation levels; and (ii) an increase of RMB2.3 million in repairs and maintenance, primarily due to the expansion of our facilities.

Finance costs

Our finance costs increased by 42.1% from RMB54.1 million in 2013 to RMB76.9 million in 2014, primarily attributable to an increase of RMB23.3 million in interest on bank borrowings wholly repayable within five years as a result of our higher bank borrowing level in 2014 as compared to 2013.

Income tax expense

Our income tax expenses increased by 75.6% from RMB15.6 million in 2013 to RMB27.4 million in 2014 due to the utilisation of unused tax losses in 2013.

Profit for the year

As a result of the foregoing, our profit for the year decreased by 1.2% from RMB109.1 million in 2013 to RMB107.8 million in 2014, and our adjusted net profit for the year decreased by 11.8% from RMB54.3 million in 2013 to RMB47.9 million in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, we funded our cash requirements principally from cash generated from our operation and external borrowings. We had cash and cash equivalents of RMB45.9 million, RMB37.3 million, RMB95.5 million, RMB58.0 million and RMB68.0 million as at 31 December 2013, 2014 and 2015 and 30 April 2015 and 2016, respectively. We generally deposit our excess cash in interest bearing bank accounts and current accounts.

During the Track Record Period, our principal use of cash was for the funding of required working capital and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of internally generated cash, proceeds from the Global Offering and external borrowings.

FINANCIAL INFORMATION

Cash flows

The following table sets forth our cash flows for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	(In thousands of RMB)				
	(Unaudited)				
Net cash from operating activities	213,634	205,951	198,902	108,707	58,801
Net cash (used in) from investing activities	(379,279)	(118,752)	872,760	89,503	56,377
Net cash from (used in) financing activities	179,118	(95,792)	(1,013,488)	(177,579)	(142,649)
Net increase (decrease) in cash and cash equivalents.	13,473	(8,593)	58,174	20,631	(27,471)
Cash and cash equivalents at the beginning of the year/period.	32,466	45,939	37,346	37,346	95,520
Cash and cash equivalents at the end of the year/period	<u>45,939</u>	<u>37,346</u>	<u>95,520</u>	<u>57,977</u>	<u>68,049</u>

Net cash from operating activities

During the Track Record Period, we derived our cash inflows from operating activities primarily from providing healthcare services through our hospitals. Our cash flows from operating activities can be significantly affected by factors such as the timing of receipt of accounts receivables and our payments of tax and trade payables to suppliers during the regular course of business.

In the four months ended 30 April 2016, our net cash generated from operating activities was RMB58.8 million, which was primarily attributable to our profit before tax of RMB54.1 million, as adjusted by (i) depreciation of property, plant and equipment of RMB13.7 million; (ii) finance costs of RMB5.1 million relating to our bank borrowings; (iii) imputed interest income arising from the amount due from a shareholder of RMB7.1 million, which amount had been fully repaid as at the Latest Practicable Date; and (iv) changes in working capitals, which consisted primarily of an increase in accounts and other receivables of RMB23.7 million and an increase in accounts and other payables of RMB34.2 million as a result of the growth in our business. We had further cash outflow of RMB11.2 million attributable to our income tax paid.

In 2015, our net cash generated from operating activities was RMB198.9 million, which was primarily attributable to our profit before tax of RMB148.8 million, as adjusted by (i) finance costs of RMB67.2 million relating to our bank borrowings; (ii) depreciation of property, plant and equipment of RMB39.0 million; (iii) imputed interest income arising from the amount due from a shareholder of RMB52.8 million, which amount has been fully repaid as at the Latest Practicable Date; and (iv) changes in working capitals, which consisted primarily of an increase in accounts and other receivables of RMB28.0 million as a result of patient visits and an increase in accounts and other payables of RMB41.5 million as a result of our business expansion. We had further cash outflow of RMB13.5 million attributable to our income tax paid.

FINANCIAL INFORMATION

In 2014, our net cash generated from operating activities was RMB206.0 million, which was primarily attributable to our profit before tax of RMB135.2 million, as adjusted by (i) finance costs of RMB76.9 million relating to our bank borrowings; (ii) depreciation of property, plant and equipment of RMB37.6 million; (iii) imputed interest income arising from the amount due from a shareholder of RMB59.9 million, which amount has been fully repaid as at the Latest Practicable Date; and (iv) changes in working capitals, which consisted primarily of an increase in accounts and other payables of RMB3.9 million as a result of the growth in our business and a decrease in accounts and other receivables of RMB8.3 million because the average settlement period of social insurance in 2014 is relatively short.

In 2013, our net cash generated from operating activities was RMB213.6 million, which was primarily attributable to our profit before tax of RMB124.7 million, as adjusted by (i) finance costs of RMB54.1 million relating to our bank borrowings; (ii) depreciation of property, plant and equipment of RMB40.0 million; (iii) imputed interest expenses arising from the amount due from a shareholder of RMB54.8 million, which amount has been fully repaid as at the Latest Practicable Date; and (iv) changes in working capitals, which consisted primarily of an increase in accounts and other payables of RMB53.2 million as a result of our construction services as well as salaries and wages accrued in 2013 but not yet settled.

Net cash from investing activities

In the four months ended 30 April 2016, our net cash generated from investing activities was RMB56.4 million, of which (i) RMB166.0 million was repayment received from Kanghua Group; (ii) RMB117.4 million was advances provided to Kanghua Group and Xinye Group; (iii) RMB25.0 million was cash withdrawal from our pledged bank deposit because the security for our certain bank deposit was released as a result of our repayments of bank loans; and (iv) RMB14.7 million was used to purchase property, plant and equipment.

In 2015, our net cash generated from investing activities was RMB872.8 million, of which (i) RMB1,023.7 million was repayment received from Kanghua Group and Xingye Group; (ii) RMB26.6 million was advances provided to Kanghua Group and Xingye Group; (iii) RMB86.0 million was used for purchases of property, plant and equipment; and (iv) RMB50.0 million was placed as pledged bank deposit as security of our new bank borrowings in 2015.

In 2014, our net cash used in investing activities was RMB118.8 million, of which (i) RMB512.9 million was repayment received from Kanghua Group and Xingye Group; (ii) RMB585.1 million was advances provided to Kanghua Group and Xingye Group; (iii) RMB18.2 million was used for purchases of property, plant and equipment; and (iv) RMB15.2 million was used to provide advances to related parties.

In 2013, our net cash used in investing activities was RMB379.3 million, of which (i) RMB279.4 million was repayment received from Kanghua Group and Xingye Group; (ii) RMB620.6 million was advances provided to Kanghua Group and Xingye Group; and (iii) RMB34.6 million was used for purchases of property, plant and equipment.

FINANCIAL INFORMATION

Net cash from financing activities

In the four months ended 30 April 2016, our net cash used in financing activities was RMB142.6 million, of which (i) RMB218.4 million was used for repayments of bank borrowings; (ii) RMB8.4 million was used for repayments to Xingye Group; and (iii) RMB5.9 million was used to pay interest on our bank borrowings. We raised RMB90.0 million in new bank borrowings to refinance our existing indebtedness in the four months ended 30 April 2016.

In 2015, our net cash used in financing activities was RMB1,013.5 million, of which (i) RMB1,509.0 million was used for repayments of bank borrowings; (ii) RMB363.1 million was used for repayments to Xingye Group; (iii) RMB68.4 million was used to pay interest on our bank borrowings and interest on amount due to our shareholders and amount due to related parties; and (iv) RMB246.7 million was paid in relation to the Reorganization. We raised RMB932.3 million new bank borrowings to refinance our existing indebtedness and received RMB246.7 million as capital injection from our Controlling Shareholders in 2015.

In 2014, our net cash used in financing activities was RMB95.8 million, of which (i) RMB654.0 million was used for repayments of bank borrowings; (ii) RMB117.3 million was used for repayments to Xingye Group and Kanghua Group; (iii) RMB76.9 million was used to pay interest on our bank borrowings and interest on amount due to our shareholders and amount due to related parties; and (iv) RMB73.0 million was repayments to related parties. We also raised RMB824.5 million new bank borrowings in 2014 to refinance our existing indebtedness.

In 2013, our net cash generated from financing activities was RMB179.1 million, which primarily comprised of our new bank borrowings of RMB733.0 million in 2013 for existing indebtedness refinancing purpose. We used RMB486.0 million for repayments of bank borrowings, RMB37.4 million for repayments to related parties and RMB53.7 million to pay interest on our bank borrowings and interest on amount due to our shareholders and amount due to related parties.

FINANCIAL INFORMATION

SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net Current Liabilities

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2013	2014	2015	2016	2016
	(In thousands of RMB)				
	(Unaudited)				
Current assets					
Inventories	35,721	33,672	38,195	44,339	43,526
Accounts and other receivables . . .	69,607	59,357	88,217	111,502	122,665
Amounts due from shareholders . . .	512,875	507,138	490,117	448,552	—
Amount due from a related party . .	—	15,205	4,162	5,928	—
Loan receivable	—	—	—	—	50,000
Other financial asset	—	—	—	—	100,000
Pledged bank deposits	—	—	50,000	25,000	—
Restricted bank balances	7,572	12,098	8,904	3,456	6,788
Bank balances and cash	45,939	37,346	95,520	68,049	57,288
Total current assets	<u>671,714</u>	<u>664,816</u>	<u>775,115</u>	<u>706,826</u>	<u>380,267</u>
Current liabilities					
Accounts and other payables	327,808	347,988	393,008	425,673	365,858
Amounts due to shareholders	584,928	467,678	104,541	96,161	—
Amounts due to related parties . . .	77,414	5,241	—	—	—
Bank borrowings	748,000	918,500	341,800	213,400	—
Tax payables	—	7,249	19,823	22,163	25,799
Total current liabilities	<u>1,738,150</u>	<u>1,746,656</u>	<u>859,172</u>	<u>757,397</u>	<u>391,657</u>
Net current liabilities	<u>(1,066,436)</u>	<u>(1,081,840)</u>	<u>(84,057)</u>	<u>(50,571)</u>	<u>(11,390)</u>

We had net current liabilities of RMB11.4 million as at 31 August 2016, representing a 77.5% decrease from our net current liabilities of RMB50.6 million as at 30 April 2016. The decrease was primarily due to (i) a decrease of RMB96.2 million in amounts due to shareholders; (ii) a decrease of RMB59.8 million in accounts and other payables; and (iii) a decrease of RMB213.4 million in bank borrowings due to our repayments to the banks as part of our measures to improve our capital structure. The decrease was partially offset by a decrease of RMB448.6 million in amounts due from shareholders as a result of the repayments from Kanghua Group.

We had net current liabilities of RMB50.6 million as at 30 April 2016, representing a 39.8% decrease from our net current liabilities of RMB84.5 million as at 31 December 2015. The decrease was primarily due to a decrease of RMB128.4 million in bank borrowings, a decrease of RMB8.4 million in amounts due to

FINANCIAL INFORMATION

shareholders, an increase of RMB23.3 million in accounts and other receivables, partially offset by a decrease of RMB41.6 million in amounts due from shareholders, a decrease of RMB27.5 million in bank balances and cash and a decrease of RMB25.0 million in pledged bank deposit.

We had net current liabilities of RMB84.5 million as at 31 December 2015, representing a 92.2% decrease from our net current liabilities of RMB1,081.8 million as at 31 December 2014. The decrease was primarily due to a decrease of RMB576.7 million in bank borrowings, a decrease of RMB363.1 million in amounts due to shareholders, an increase of RMB58.2 million in bank balances and cash and an increase of RMB50.0 million in pledged bank deposit, partially offset by a decrease of RMB17.0 million in amounts due from shareholders and a decrease of RMB11.0 million in amount due from a related party.

We had net current liabilities of RMB1,081.8 million as at 31 December 2014, representing a 1.4% increase from our net current liabilities of RMB1,066.4 million as at 31 December 2013. The increase was primarily due to an increase of RMB170.5 million in bank borrowings and an increase of RMB20.2 million in accounts and other payables, partially offset by a decrease of RMB117.3 million in amounts due to shareholders, a decrease of RMB72.2 million in accounts due to related parties and an increase of RMB15.2 million due from a related party.

We had net current liabilities of RMB1,066.4 million, RMB1,081.8 million, RMB84.5 million, RMB50.6 million and RMB11.4 million as at 31 December 2013, 2014 and 2015, 30 April 2016 and 31 August 2016, respectively, primarily resulted from our external borrowings from commercial banks. As at 31 December 2013, 2014 and 2015, 30 April 2016 and 31 August 2016, a portion of our bank borrowings, amounting to RMB236.0 million, RMB173.0 million, nil, RMB23.4 million and nil, respectively, were repayable over one year. These portions were classified as current liabilities because they contain a repayable-on-demand clause. We are confident that we will have sufficient financial resources including our bank balances and cash, stable positive cash flow generated from our operations and unutilised committed banking facilities for us to meet our anticipated cash needs, including working capital requirements, capital expenditure, repayment of our future indebtedness, if any, when it falls due and various contractual obligations, for at least the next 12 months. After due consideration and discussion with our management and based on the above, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

During the Track Record Period and as at the Latest Practicable Date, we did not have any material defaults in payment of trade and other payables, loans and borrowings or other financing obligations.

FINANCIAL INFORMATION

Inventories

Our inventories consist of pharmaceutical products, medical consumables and others. We actively monitor the sales performance and inventory level, and make our sales and purchase plans accordingly every month, to minimise the risk of inventory shortage or accumulation. We have also established an inventory management system that monitors each stage of the warehousing process. We did not experience any material shortage or accumulation of inventory during the Track Record Period.

The table below sets forth our inventory balances as at the dates indicated and the average inventory turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	(In thousands of RMB)			
Pharmaceutical products	26,954	25,752	29,286	32,754
Consumables and others	8,767	7,920	8,909	11,585
Total	<u>35,721</u>	<u>33,672</u>	<u>38,195</u>	<u>44,339</u>

Our inventories amounted to RMB35.7 million, RMB33.7 million, RMB38.2 million and RMB44.3 million as at 31 December 2013, 2014 and 2015 and 30 April 2016, respectively. The decrease from 31 December 2013 to 31 December 2014 was primarily due to more effective inventory control policies. The increase in our inventories from 31 December 2014 to 31 December 2015 and further to 30 April 2016 was primarily due to the growth in our business and increased estimated consumption of the inventories of the following months.

The table below sets forth our inventory turnover days for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Average inventory turnover days ⁽¹⁾	17.9	16.6	15.9	16.5

Note:

(1) Average inventory turnover days for a period is the arithmetic mean of the beginning and ending balances of inventories for the relevant period divided by cost of revenue for the relevant period and multiplied by 365 days (for the full-year periods) or 120 days (for the four months).

In 2013, 2014, 2015 and the four months ended 30 April 2016, our inventory turnover days remained relatively stable at 17.9 days, 16.6 days, 15.9 days and 16.5 days, respectively.

As of 31 August 2016, all of our inventories as of 30 April 2016 had been subsequently utilised/sold.

FINANCIAL INFORMATION

We aim to maintain low average inventory turnover days in order to more efficiently control our cash requirements. The modest decrease in our average inventory turnover days over the Track Record Period primarily reflects the improvement in our inventory management and centralisation of our procurement source. Going forward, we expect our inventory procurement to increase in line with the expansion of our business, while maintaining low average inventories days to optimise our procurement efficiency. We regularly assess our inventories for impairment and charge any write-downs to our cost of revenue.

Accounts and other receivables

Our accounts receivables primarily represent the balances due from the social insurance fund, certain corporate clients and individual patients. Our patients usually settle payments by cash, credit cards or through social insurance programmes. For credit card payments, the banks will normally settle the amounts a few days after the trade date. Payments settled through social insurance programmes will normally take 30 to 90 days to process. Payments made by our corporate clients will normally be settled within 90 days after the transaction dates.

The table below sets forth our accounts and other receivables as at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 April 2016
(In thousands of RMB)				
Accounts receivables	60,452	54,339	70,223	84,757
Other receivables				
- Prepayments to suppliers	2,905	1,958	3,288	9,291
- Deferred listing expenses	—	400	5,642	7,103
- Others	6,250	2,660	9,064	10,351
Total	<u>69,607</u>	<u>59,357</u>	<u>88,217</u>	<u>111,502</u>

Our accounts and other receivables balances as at 31 December 2013, 2014 and 2015 and 30 April 2016 were RMB69.6 million, RMB59.4 million, RMB88.2 million and RMB111.5 million, respectively. The decrease from 31 December 2013 to 31 December 2014 was primarily because we had relatively more inpatients at the end of the 2013 that increased our accounts receivables and the average settlement period of social insurance programmes in 2014 was shorter than that in 2013. The increase from 31 December 2014 to 31 December 2015 and further to 30 April 2016 was primarily due to the increased patient visits.

FINANCIAL INFORMATION

The table below sets forth our accounts receivables turnover days for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
	Average accounts receivables turnover days ⁽¹⁾ . . .	22.3	21.3	21.4

Note:

- (1) Average accounts receivables turnover days for a period is the arithmetic mean of the beginning and ending balances of accounts receivables for the relevant period divided by revenue for the relevant period and multiplied by 365 days (for the full-year periods) or 120 days (for the four months).

In 2013, 2014 and 2015, our accounts receivables remained relatively stable at 22.3 days, 21.3 days and 21.4 days, respectively. Our accounts receivables increased to 24.5 days in the four months ended 30 April 2016 primarily due to the increased patient visits.

Our management closely monitors the creditor quality of accounts receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that were neither past due nor impaired related to the customers for whom there was no history of default.

In determining impairment losses, we conduct regular reviews of ageing analysis and evaluate collectibles on an individual basis. Our provision for impairment of account receivables for each of the three years ended 31 December 2015 and the four months ended 30 April 2016 was RMB1.0 million, RMB2.0 million, RMB1.4 million and RMB0.4 million, respectively.

As at 31 December 2013, 2014 and 2015 and 30 April 2016, accounts receivables of RMB19.4 million, RMB13.8 million, RMB8.5 million and RMB16.1 million, respectively, were past due but has not been provided for impairment loss.

An ageing analysis of the accounts receivables, net of allowance for doubtful debts, presented based on the revenue recognition date, which is the invoice date, as at the end of each period indicated, is as follows:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	(In thousands of RMB)			
Within 30 days	30,378	32,079	58,802	59,355
31 to 90 days	10,713	8,506	2,912	9,315
91 to 180 days	8,991	5,631	3,365	7,577
181 to 365 days	5,465	3,872	2,112	5,516
Over 365 days	4,905	4,251	3,032	2,994
Total	60,452	54,339	70,223	84,757

FINANCIAL INFORMATION

As of 31 August 2016, RMB82.3 million, or 97.1%, of our accounts receivables as of 30 April 2016 had been subsequently settled.

Accounts and other payables

Our accounts and other payables primarily consist of accounts payables, accrued expenses, other tax payables, receipt in advance, interest payables, other payables and etc. The credit period of accounts payables is normally from 30 to 90 days from the invoice dates. Our trading terms with suppliers vary depending on a number of factors, including, the type of products, market practice and our relationships with suppliers.

The table below sets forth the total amounts of our accounts and other payables as at the dates indicated:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	(In thousands of RMB)			
Accounts payables	230,858	266,208	296,883	329,676
Accrued expenses	31,243	34,766	42,328	31,292
Construction payables	30,566	14,338	11,894	12,663
Receipt in advance	22,116	21,640	29,112	42,238
Other tax payables	2,867	2,098	2,265	1,896
Interest payables	1,231	1,257	2,320	1,593
Provision for medical dispute claims	215	983	2,365	1,376
Others	8,712	6,698	5,841	4,939
Total	327,808	347,988	393,008	425,673

Our accounts and other payables balances as at 31 December 2013, 2014 and 2015 and 30 April 2016 were RMB327.8 million, RMB348.0 million, RMB393.0 million and RMB425.7 million, respectively. The increases were generally in line with our business expansion and the increase in our inventories. The trade payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

The table below sets forth our accounts payables turnover days for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2013	2014	2015	2016
Average accounts payables turnover days ⁽¹⁾	116.4	119.1	124.7	125.3

Note:

- (1) Average accounts payables turnover days for a period is the arithmetic mean of the beginning and ending balances of accounts payables for the relevant period divided by cost of revenue for the relevant period and multiplied by 365 days (for the full-year periods) or 120 days (for the four-month period).

FINANCIAL INFORMATION

In 2013, 2014, 2015 and the four months ended 30 April 2016, our accounts payables remained relatively stable at 116.4 days, 119.1 days, 124.7 days and 125.3 days, respectively.

An ageing analysis of the accounts payables, based on the invoice date, as at the end of each period indicated, is as follows:

	As at 31 December			As at
				30 April
	2013	2014	2015	2016
	(In thousands of RMB)			
Within 30 days	71,524	55,019	95,664	111,538
31 to 90 days	67,854	76,756	80,588	81,635
91 to 180 days	52,691	86,336	85,647	102,356
181 to 365 days	15,295	28,038	14,560	17,319
Over 365 days	23,494	20,059	20,424	16,828
Total	<u>230,858</u>	<u>266,208</u>	<u>296,883</u>	<u>329,676</u>

WORKING CAPITAL

We recorded an accumulated net loss of approximately RMB280.7 million as at 1 January 2013 due to significant costs and expenses incurred during our initial stage of operations. However, our accumulated loss position improved significantly during the Track Record Period, from an accumulated loss of approximately RMB280.7 million at 1 January 2013 to an accumulated loss of approximately RMB31.8 million at 30 April 2016.

We had a high gearing ratio of 74.5% as at 30 April 2016, which was primarily because of our bank loans of RMB213.4 million as at 30 April 2016. We used the amount repaid by Kanghua Group to pay off our bank loans during the Track Record Period as part of our efforts to lower our debt level. Our gearing ratio had been greatly improved during the Track Record Period and we expect to continue to lower our gearing ratio. As at the Latest Practicable Date, the amount due from Kanghua Group had been fully repaid to us and our bank loans had been further reduced to nil. As at 31 August 2016, the Company had RMB64.1 million in cash, RMB100.0 million in short term investment products and RMB90.0 million of unutilized bank loan facilities. Considering our cash balance of approximately RMB57.5 million as at the Latest Practicable Date, the fact that we have been accumulating net profits since the beginning of the Track Record Period, together with the expected net proceeds from the Global Offering, we believe we have and will have sufficient funds to support our working capital needs.

We had the net current liabilities position during the Track Record Period primarily resulted from our bank loans. A portion of our bank loans repayable over one year were classified as current liabilities because they contain a repayable-on-demand clause. As at the Latest Practicable Date, our bank loans had been decreased to nil and all amounts due to our shareholders and related parties had been fully settled by us. Hence, we believe our net current liabilities position had significantly improved.

FINANCIAL INFORMATION

Although we recorded declining net operating cash flows during the Track Record Period, we had increasing operating cash flows before movements in working capital during the Track Record Period. The decrease in net operating cash flow from RMB213.6 million in 2013 to RMB206.0 million in 2014 was primarily because we settled certain payables primarily relating to medical equipment and leasehold improvements. The decrease in net operating cash from RMB206.0 million in 2014 to RMB198.9 million in 2015 was primarily because (i) we had income tax cash outflows of RMB13.5 million in 2015, while we did not have any income tax cash outflows in 2014 due to our utilization of accumulated tax losses; and (ii) we had settled certain payables relating to the Listing in 2015. The decrease in net operating cash from RMB108.7 million for the four months ended 30 April 2015 to RMB58.8 million for the four months ended 30 April 2016 was primarily because nil income tax cash outflow in the four months ended 30 April 2015 due to our utilization of accumulated tax losses. As at the Latest Practicable Date, we had used up our tax losses previously recognised. We therefore expect our net operating cash flow going forward to be generally in line with our business growth.

We intend to continue to finance our working capital with cash generated from our operations and by the net proceeds from the Global Offering and external borrowings. We have closely monitored the level of our working capital and will continue to do so, particularly in view of our strategy to expand our operational capacity and service capabilities. Our chief financial officer, Mr. Wong Wai Hang Ricky, is mainly responsible for ensuring that our working capital requirements are met. Our working capital requirements are affected by a range of factors, including the size of our hospital network, the cost of maintaining, renovating and upgrading existing hospital facilities, rent for additional premises, and staff costs.

Taking into account expected cash from operating activities and the estimated net proceeds from the Global Offering, our Directors believe that we will have sufficient funds to meet our present and anticipated working capital requirements and financial requirements for capital expenditure for at least the next 12 months from the date of this prospectus.

After due consideration and discussion with our management and based on the above, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

CAPITAL EXPENDITURE

We regularly make capital expenditures to expand our operations, maintain our medical facilities and increase our operating efficiency. Our capital expenditure for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2016 was RMB32.6 million, RMB41.2 million, RMB96.2 million and RMB16.8 million, respectively, which represents purchases of property, plant and equipment. The significant increase in 2015 was primarily due to the purchase of additional equipment due to commencement of operation of our Huaxin Building.

FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS

Operating lease commitments

Our operating lease commitments are attributable to the underlying properties for our facilities that we lease from Kanghua Group. These leases are negotiated for terms ranging from three to ten years with a 7% annual increase on rental per square meter. The table below sets forth, as at the dates indicated, the future aggregate minimum lease payments under non-cancellable operating leases:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
(In thousands of RMB)				
Operating lease commitments:				
Within one year	2,901	3,191	—	5,528
In the second to fifth years inclusive	3,191	—	—	29,087
Over five years	—	—	—	30,189
Total	<u>6,092</u>	<u>3,191</u>	<u>—</u>	<u>64,804</u>

Capital commitments

Our capital commitment primarily consists of the construction cost relating to the expansion and renovation of existing facilities of our hospitals. The table below sets forth, as at the dates indicated, a breakdown of our capital commitments:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
(In thousands of RMB)				
Capital commitment in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements.	21,721	67,895	59,952	87,459
Total	<u>21,721</u>	<u>67,895</u>	<u>59,952</u>	<u>87,459</u>

Other than disclosed above and elsewhere in this prospectus, we did not have any capital commitments as at 31 December 2013, 2014 and 2015 and 30 April 2016.

FINANCIAL INFORMATION

INDEBTEDNESS

As at 31 August 2016, the latest practicable date for the purpose of the indebtedness statement below, we had nil indebtedness. The table below sets forth the breakdown of our indebtedness as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2013	2014	2015	2016	2016
(In thousands of RMB)					
(Unaudited)					
Bank loans and other indebtedness:					
Bank loans - secured:					
Fixed-rate	462,000	565,500	341,800	213,400	—
variable-rate	286,000	353,000	—	—	—
Total	<u>748,000</u>	<u>918,500</u>	<u>341,800</u>	<u>213,400</u>	<u>—</u>
Other indebtedness - unsecured:					
Amounts due to shareholders . . .	584,928	467,678	104,541	96,161	—
Amounts due to related parties . .	77,414	5,241	—	—	—
Total	<u>662,342</u>	<u>472,919</u>	<u>104,541</u>	<u>96,161</u>	<u>—</u>
Total Indebtedness	<u>1,410,342</u>	<u>1,391,419</u>	<u>446,341</u>	<u>309,561</u>	<u>—</u>
Carrying amounts repayable:					
Bank loans:					
Within one year	512,000	745,500	341,800	190,000	—
On demand	236,000	173,000	—	23,400	—
Total	<u>748,000</u>	<u>918,500</u>	<u>341,800</u>	<u>213,400</u>	<u>—</u>
Other indebtedness:					
On demand	662,342	472,919	104,541	96,161	—
Total	<u>662,342</u>	<u>472,919</u>	<u>104,541</u>	<u>96,161</u>	<u>—</u>
Total Indebtedness	<u>1,410,342</u>	<u>1,391,419</u>	<u>446,341</u>	<u>309,561</u>	<u>—</u>

FINANCIAL INFORMATION

The table below sets forth the ranges of effective interest rates on our bank loans as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2013	2014	2015	2016	2016
Effective interest rates:					
Variable-rate					
borrowings . . .	6.30%-6.88%	6.30%-9.60%	—	—	—
Fixed-rate					
borrowings . . .	<u>6.10%-7.65%</u>	<u>6.15%-12.00%</u>	<u>5.29%-9.60%</u>	<u>5.29%-9.00%</u>	<u>—</u>

We recorded bank loans of RMB748.0 million, RMB918.5 million, RMB341.8 million, RMB213.4 million and nil as at 31 December 2013, 2014 and 2015, 30 April 2016 and 31 August 2016. Our bank loans during the Track Record Period were primarily used to (i) supplement our working capital; and (ii) provide advances to certain of our Controlling Shareholders. Please see “ — *Related Party Transactions — Amount due from related parties*”. All our bank loans during the Track Record Period were, as the case may be, secured over our pledged bank deposit, certain equity interests of one of our subsidiaries, properties and land use rights of Kanghua Group or Tongli Enterprise, and/or guaranteed by our Controlling Shareholders, certain Directors, certain close family members of our Controlling Shareholders, and certain affiliates of our Controlling Shareholders. All of these securities, pledges and guarantees had been released as at 31 August 2016 as we had repaid in full our bank loans as at 31 August 2016. For more information of the securities, pledges and guarantees relating to our bank loans during the Track Record Period, please refer to note 24 to the Accountants’ Report in Appendix I to this prospectus. As at 31 August 2016, we had unutilised banking facilities of approximately RMB90.0 million.

The loan agreements of the bank loans generally contain customary covenants and restrictions for facilities of this kind in the PRC, such as restrictions on material assets transfer, capital reduction, split up, merger and other actions may materially affect the lender’s right. Our Directors confirm that as at the Latest Practicable Date, there were no material covenants on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date.

We may be subject to legal proceedings and claims in the ordinary course of business, which primarily arise from medical dispute claims brought by patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding as at the end of each year/period of the Track Record Period, and primarily taking into account any judicial appraisal or court determination against us. As at 31 August 2016, the total stated claim amount of our ongoing medical disputes was approximately RMB8.3 million and there are certain medical disputes without claims amount stated. Based on our assessment, as at 31 August 2016, approximately RMB0.5 million had been provided and included in accounts and other payables by us.

FINANCIAL INFORMATION

Our management believes that the final results of claims not provided for as at 31 August 2016 will not have a material impact on our financial position or operations and the amount of the outflow, if any, cannot be determined with sufficient reliability prior to judicial appraisals. Accordingly, no provision is made in this regard.

As at 31 August 2016, except as disclosed above, we did not have significant contingent liabilities.

Except as aforesaid and apart from intra-group liabilities, we did not have, as at the Latest Practicable Date, any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptances credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

KEY FINANCIAL RATIOS

The table below sets forth the key financial ratios of our Group for the periods or as at the dates indicated:

	Year ended 31 December			Four months ended
	2013	2014	2015	30 April 2016
Return on total assets ⁽¹⁾	6.6%	5.8%	8.0%	11.1%
Return on equity ⁽²⁾	213.8%	103.7%	67.0%	47.8%
Current ratio ⁽³⁾	0.39	0.38	0.90	0.93
Gearing ratio ⁽⁴⁾	896.4%	663.8%	138.5%	74.5%

Notes:

- (1) Return on total assets equals profit for the period divided by the arithmetic mean of the total assets as at the beginning and the end of the period and multiplied by 100%. Return on total assets for the four months ended 30 April 2016 was calculated using the profit for the four months ended 30 April 2016 adjusted on an annual basis.
- (2) Return on equity equals profit for the period attributable to equity shareholders of our Company divided by the arithmetic mean of the total equity attributable to equity shareholders of our Company as at the beginning and the end of the period and multiplied by 100%. Return on equity for the four months ended 30 April 2016 was calculated using the profit for the four months ended 30 April 2016 adjusted on an annual basis.
- (3) Current ratio equals current assets divided by current liabilities as at the end of the period.
- (4) Gearing ratio equals total interest-bearing bank loans divided by total equity as at the end of the period and multiplied by 100%.

Return on total assets

Our return on total assets decreased from 6.6% for the year ended 31 December 2013 to 5.8% for the year ended 31 December 2014 primarily due to a decrease in our profit. Our return on total assets further increased to 8.0% for the year ended 31 December 2015 and 11.1% for the four months ended 30 April 2016, primarily because Kanghua Group repaid cash to us and we use such cash repayment to pay off part of our bank borrowings in 2015 and first quarter of 2016.

FINANCIAL INFORMATION

Return on equity

Our return on equity decreased from 213.8% for the year ended 31 December 2013 to 103.7% for the year ended 31 December 2014 and further to 67.0% for the year ended 31 December 2015 and 47.8% for the four months ended 30 April 2016, primarily due to increases in total equity as a result of decreases in our accumulated loss during the Track Record Period.

Current ratio

Our current ratio remained stable as 0.39 in 2013 and 0.38 in 2014. Our current ratio increased to 0.90 in 2014 and 0.93 for the four month ended 30 April 2016, primarily due to the decreases in our bank borrowings.

Gearing ratio

Our gearing ratio decreased from 896.4% for the year ended 31 December 2013 to 663.8% for the year ended 31 December 2014, and further decreased to 138.5% for the year ended 31 December 2015 and 74.5% for the four months ended 30 April 2016, primarily due to a decrease in our bank borrowings as a result of our repayment of our bank loans and an increase in our total equity as a result of decreases in our accumulated loss during the Track Record Period.

RELATED PARTY TRANSACTIONS

Details of our transactions with related parties during the Track Record Period are set out in Note 30 to the Accountants' Report included in Appendix I to this prospectus.

Transactions with related parties

Lease of land and buildings

The land and buildings underlying Kanghua Hospital are leased to us from Kanghua Group. Kanghua Group is one of our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the rent amounted to approximately RMB15.0 million, RMB15.0 million, RMB15.0 million and RMB6.6 million, respectively. We entered into the Kanghua Hospital Lease Agreement with Kanghua Group to secure the continued use of the land and buildings.

The land and buildings underlying Renkang Hospital are leased to us from Tongli Enterprise. Tongli Enterprise is a company controlled by our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the rent amounted to RMB2.6 million, RMB2.9 million, RMB3.2 million and RMB1.1 million, respectively. We entered into the Renkang Hospital Lease Agreement with Tongli Enterprise to secure the continued use of the land and buildings.

For more details of the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement, see "*Connected Transactions*" of this prospectus.

Purchase of pharmaceuticals, medical consumables and medical equipment

During the Track Record Period, we had purchased pharmaceuticals, medical consumables and medical equipment from Dongguan Yuheng Pharmaceuticals Co., Ltd. (東莞市裕恒醫藥有限公司) ("**Yuheng**"). During the Track Record Period and up to September 2015, Xingda Property had a controlling interest in

FINANCIAL INFORMATION

Yuheng. In September 2015, our Controlling Shareholders disposed all of their interest in Yuheng to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the distribution of pharmaceuticals, medical consumables and medical equipment is not a core part of our operations. Thereafter, Yuheng became an Independent Third Party. For the year ended 31 December 2013 and 2014 and the period from 1 January 2015 to 15 September 2015, the purchase price amounted to approximately RMB191.3 million, RMB218.2 million and RMB131.8 million, respectively.

Purchase of computer equipment

During the Track Record Period, we purchased certain computer equipment from Tianting Cloud Computing Technology (Shanghai) Co., Ltd. (天霆雲計算科技(上海)有限公司) (“**Tianting**”) for our operations. Mr. Wong Wai Hung Simon (王偉雄), our executive Director and vice chairman, has a more than 30% interest in Tianting. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the purchase price amounted to approximately nil, RMB0.6 million, nil and nil, respectively. As at the Latest Practicable Date, we had no immediate plan to purchase computer equipment from Tianting after the Listing. Where appropriate, we will comply with Chapter 14A of the Listing Rules in the event that we decide to enter into any transaction with Tianting after the Listing.

Landscape engineering and maintenance services

During the Track Record Period, we had engaged Dongguan Haiyue Construction and Development Co., Ltd. (東莞市海月建設發展有限公司) (“**Haiyue**”) for the provision of landscape engineering services to Kanghua Hospital on a project basis, including plantation, lawn renovation, road pavement, installation of electrical, water and lighting systems and setting up more carpark spaces. Haiyue is controlled by Kanghua Group, one of our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the service fee amounted to approximately nil, nil, RMB1.2 million and RMB2.7 million, respectively. As at the Latest Practicable Date, we had no immediate plan to engage Haiyue for landscape engineering services after the Listing. Where appropriate, we will comply with Chapter 14A of the Listing Rules in the event that we decide to enter into any transaction with Haiyue after the Listing.

During the Track Record Period, we engaged Dongguan Jingsheng Landscape Engineering Co., Ltd. (東莞菁盛園林工程有限公司) (“**Dongguan Jingsheng**”), for the provision of landscape maintenance services to Kanghua Hospital, including lawn trimming, irrigation, soil fertilisation, weeding, pest control and shrubs and indoor plants management. Dongguan Jingsheng is wholly-owned by Xingye Group, one of our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the service fee amounted to approximately RMB13,000, RMB1.1 million, RMB0.6 million and RMB0.2 million, respectively. As at the Latest Practicable Date, we had no immediate plan to engage Dongguan Jingsheng for landscape maintenance services after the Listing. Where appropriate, we will comply with Chapter 14A of the Listing Rules in the event that we decide to enter into any transaction with Dongguan Jingsheng after the Listing.

FINANCIAL INFORMATION

Renovation work and purchase of construction materials

During the Track Record Period, we had engaged Dongguan Lisheng Decoration Engineering Co., Ltd. (東莞力盛裝飾工程有限公司) (“**Lisheng**”) for the provision of renovation and maintenance services for the buildings occupied by Kanghua Hospital. During the Track Record Period and until December 2015, Xingda Property and Kanghua Group had a controlling interest in Lisheng. In December 2015, they disposed all of their interest in Lisheng to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the provision of engineering and renovation services is not a core part of our operations. Thereafter, Lisheng became an Independent Third Party. For each of the three years ended 31 December 2015, the service fee amounted to approximately RMB1.9 million, RMB4.0 million and RMB24.9 million, respectively.

During the Track Record Period, we had purchased construction materials from Dongguan Dongcheng Stone Co., Ltd. (東莞市東成石材有限公司) (“**Dongcheng**”) for renovating and refitting certain buildings occupied by our hospitals. Dongcheng is owned by Xingye Group, one of our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the purchase price amounted to approximately nil, RMB 0.1 million, RMB 12.2 million and nil, respectively. As at the Latest Practicable Date, we had no immediate plan to purchase construction materials from Dongcheng after the Listing. Where appropriate, we will comply with Chapter 14A of the Listing Rules in the event that we decide to enter into any transaction with Dongcheng after the Listing.

Management and consultancy services

During the Track Record Period, we had engaged Kanghua Group for the provision of certain consultancy services relating to financial and operation management and internal audits of Kanghua Hospital, including assigning certain staff to Kanghua Hospital to supervise and oversee its operations from time to time. Kanghua Group is one of our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the consultancy fee amounted to approximately RMB0.4 million, RMB2.2 million, RMB0.8 million and nil, respectively. We do not expect to continue to engage Kanghua Group for the provision of consultancy services after the Listing.

During the Track Record Period, we had engaged Tongli Enterprise for the provision of certain consultancy services relating to financial and operation management and internal audits of Renkang Hospital, including assigning certain staff to Renkang Hospital to supervise and oversee its operations from time to time. Tongli Enterprise is a company controlled by our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the consultancy fee amounted to approximately RMB0.4 million, RMB0.6 million, RMB0.6 million and RMB0.2 million, respectively. We do not expect to continue to engage Tongli Enterprise for the provision of consultancy services after the Listing.

During the Track Record Period, we had engaged Dongguan Zhuozhong Property Management Co., Ltd. (東莞市卓眾物業管理有限公司) (“**Zhuozhong**”) for the provision of certain non-healthcare related ancillary management services, including security, logistics arrangement for staff and guests, traffic control, dormitory management, waste management and general cleaning services to our hospitals. During

FINANCIAL INFORMATION

the Track Record Period, Zhuozhong had been controlled by Kanghua Group, one of our Controlling Shareholders. In May 2016, Kanghua Group disposed all of its equity interest in Zhuozhong to an Independent Third Party, instead of injecting it into our Group, with a view to aligning and rationalising our business objectives and the interests of our Controlling Shareholders, as the provision of non-healthcare related ancillary services is not a core part of our operations. Thereafter, Zhuozhong became an Independent Third Party. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the management fee amounted to approximately RMB10.8 million, RMB12.0 million, RMB10.0 million and RMB6.4 million, respectively. We expect to continue to engage Zhuozhong for the provision of non-healthcare related ancillary management services after the Listing.

Healthcare services

During the Track Record Period, we had provided staff healthcare services to companies controlled by our Controlling Shareholders. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, the aggregate service fees amounted to approximately RMB91,000, RMB75,000, RMB73,000, and RMB13,000, respectively. We expect to continue to provide staff healthcare services to companies controlled by our Controlling Shareholders from time to time in the ordinary course of business after the Listing. We have entered into the Healthcare Services Framework Agreement with our Controlling Shareholders to govern the terms of the services. See “*Connected Transactions*” of this prospectus for more details.

Amount due to related parties

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had RMB14.0 million, nil, nil and nil, respectively, due to Kanghua Group. The RMB14.0 million due to Kanghua Group as at 31 December 2013 was the balance of the short term loan from Kanghua Group to supplement our working capital.

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had RMB570.9 million, RMB467.7 million, RMB104.5 million and RMB96.2 million due to Xingye Group, which was the balance of advances provided to us by Xingye Group to supplement our working capital.

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had RMB77.4 million, RMB5.2 million, nil and nil due to our related parties other than our Shareholders, mainly consisting of advances provided by such related parties to supplement our working capital.

As at the Latest Practicable Date, all amounts due to our related parties had been fully settled by us.

Amount due from related parties

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had RMB1,355.4 million, RMB1,444.1 million, RMB490.1 million and RMB448.6 million, respectively, due from Kanghua Group, which was primarily arising from (i) unsecured, interest-free and repayable on demand advances to Kanghua Group; and (ii) the construction of the buildings occupied by Kanghua Hospital.

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had RMB10.3 million, RMB0.9 million, nil and nil due from Xingye Group, which arose from the unsecured, interest-free and repayable on demand advance that we provided to Xingye Group.

FINANCIAL INFORMATION

As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had nil, RMB15.2 million, RMB4.2 million and RMB5.9 million due from Tongli Enterprise, which arose from the unsecured, interest-free and repayable on demand advance that we provided to Tongli Enterprise. Tongli Enterprise is an affiliate of our Controlling Shareholders.

As at the Latest Practicable Date, all amounts due from our related parties had been fully repaid to us.

Save as discussed above, our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm's length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance.

MARKET RISK DISCLOSURE

We are exposed to a variety of financial risks, including credit risk, liquidity risk and interest rate risk, as set out below. We regularly monitor our exposure to these risks and as at the Latest Practicable Date, did not hedge or consider necessary to hedge any of these risks.

Interest rate risk

We are primarily exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings due to the fluctuation of the prevailing market interest rate. It is our policy to keep our borrowings at a floating interest rate so as to minimise the fair value interest rate risk. Save as disclosed above, we currently do not have a policy on hedging interest rate risk. However, our management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

We are also exposed to fair value interest rate risk in relation to the pledged bank deposits, restricted bank balances, fixed-rate bank borrowings and amount due to immediate holding companies. However, our management considers the fair value interest rate risk is insignificant as they are relatively short-term.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances, amount due from immediate holding companies and variable-rate bank borrowings. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of each period indicated were outstanding for the whole year. 50 basis point increase or decrease represents our management's assessment of the reasonable possible change in interest rates of bank deposits and bank borrowings, respectively.

If the interest rates had been 50 basis points higher/lower and all other variables were held constant, the potential effect on our pre-tax profit for the Track Record Period is as follows:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	(In thousands of RMB)			
(Decrease) increase in profit for the year/period				
- as a result of increase in interest rate	(1,221)	(1,590)	466	330
- as a result of decrease in interest rate	1,221	1,590	(466)	(330)

FINANCIAL INFORMATION

Credit risk

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

Our Directors believe that the credit risk on amounts due from Shareholders and amount due from related parties is limited because we regularly monitor the financial position of these related parties through involvement in either their management or operations, and in the case of individuals, we have a good understanding of their financial background and ability to repay the debt. In addition, advances are only made to related parties having a good financial standing. The amounts due from shareholders and amount due from related parties had been fully repaid as at the Latest Practicable Date.

We, as a provider of healthcare services to patients, have a highly diversified customer base. For each of the three years ended 31 December 2015 and the four months ended 30 April 2016, payments from the Dongguan Social Insurance Bureau (東莞社會保障局) contributed to approximately 24.2%, 26.5%, 25.2% and 27.1% of our revenue, respectively. The Dongguan Social Insurance Bureau is a government body responsible for the administration of the social insurance programmes in Dongguan. Payments from the Dongguan Social Insurance Bureau represented reimbursements for our healthcare services provided to patients covered under social insurance programmes in Dongguan. Since the Dongguan Social Insurance Bureau is a government administration, our management considers that its credit risk is low. Therefore, we do not have concentration of credit risk in relation to our accounts receivables. Other than the concentration of credit risk on liquid funds that are deposited with several banks with high credit ratings and amounts due from shareholders and amount due from related parties, we do not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

In order to minimise credit risk, our management has delegated a team responsible for credit limits determination, credit approvals and other monitoring procedures over the customers to collect overdue debts. In addition, we review the recoverable amount of each individual debt at the end of each year to make adequate impairment losses for irrecoverable amounts. In this regard, our Directors are of the view that our credit risk is significantly reduced.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with our management, which has built an appropriate liquidity risk management framework for the management of our short, medium and long-term funding and liquidity management requirements. Our policy is to manage liquidity risk by maintaining adequate reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at 31 December 2013, 2014 and 2015 and 30 April 2016, we had available unutilised short-term bank loan facilities of approximately RMB168.0 million, RMB247.5 million, RMB266.0 million and RMB266.0 million, respectively. As at the Latest Practicable Date, we had unutilized bank loan facilities of approximately RMB90.0 million.

We had net current liabilities of RMB50.6 million as at 30 April 2016. In view of the net current liabilities position, our Directors have given careful consideration of the future liquidity and performance of the Group and our available sources of finance in assessing whether we will have sufficient financial resources

FINANCIAL INFORMATION

to continue as a going concern. Based on the cash flow projections and the unutilised banking facilities in the total amount of RMB90.0 million available as at the Latest Practicable Date and with the funds expected to be generated internally from operations, our Directors are of the view that we are able to meet in full our financial obligations as they fall due for the next 12 months.

The following tables detail our remaining contractual maturity for our non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which we can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the period indicated.

	Weighted average interest rate (%)	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amounts
(In thousands of RMB, except percentages)							
At 31 December 2013							
Accounts and other payables	—	283,845	—	—	—	283,845	283,845
Amounts due to shareholders							
- non-interest bearing	—	570,928	—	—	—	570,928	570,928
- interest bearing	6.72	14,000	—	—	—	14,000	14,000
Amounts due to a related party							
- non-interest bearing	—	172	—	—	—	172	172
- interest bearing	6.88	77,242	—	—	—	77,242	77,242
Bank borrowings							
- variable-rate	6.64	286,000	—	—	—	286,000	286,000
- fixed-rate	6.90	462,000	—	—	—	462,000	462,000
		<u>1,694,187</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,694,187</u>	<u>1,694,187</u>
At 31 December 2014							
Accounts and other payables	—	299,181	—	—	—	299,181	299,181
Amounts due to shareholders	—	467,678	—	—	—	467,678	467,678
Amounts due to a related party							
- non-interest bearing	—	1,009	—	—	—	1,009	1,009
- interest bearing	6.60	4,232	—	—	—	4,232	4,232
Bank borrowings							
- variable-rate	7.27	353,000	—	—	—	353,000	353,000
- fixed-rate	7.32	505,500	—	64,458	—	569,958	565,500
		<u>1,630,600</u>	<u>—</u>	<u>64,458</u>	<u>—</u>	<u>1,695,058</u>	<u>1,690,600</u>

FINANCIAL INFORMATION

	Weighted average interest rate (%)	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flows	Carrying amounts
(In thousands of RMB, except percentages)							
At 31 December 2015							
Accounts and other payables .	—	338,285	—	—	—	338,285	338,285
Amounts due to shareholders .	—	104,541	—	—	—	104,541	104,541
Bank borrowings							
- fixed-rate.	7.18	295,000	—	50,160	—	345,160	341,800
		<u>737,826</u>	<u>—</u>	<u>50,160</u>	<u>—</u>	<u>787,986</u>	<u>784,626</u>
At 30 April 2016							
Accounts and other payables .	—	382,424	—	—	—	382,424	382,424
Amounts due to shareholders	—	96,161	—	—	—	96,161	96,161
Bank borrowings							
- fixed-rate.	7.02	213,400	—	—	—	213,400	213,400
		<u>691,985</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>691,985</u>	<u>691,985</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each period indicated.

The bank loans with a repayment on a demand clause are also included in the “on demand or less than 1 month” time band in the above maturity analysis. As at 31 December 2013, 2014 and 2015 and 30 April 2016, the aggregate undiscounted principal amounts of these bank loans amounted to RMB798.5 million, RMB986.4 million, RMB366.5 million and RMB228.9 million, respectively. Taking into account our financial position, our Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

DIVIDENDS

No dividend was proposed or paid during each of the three years ended 31 December 2015 and the four months ended 30 April 2016. We do not currently have a formal dividend policy or a fixed dividend distribution ratio.

Future dividend payments will depend on the availability of dividends received from our subsidiary companies in the PRC. 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 the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiary companies may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiary companies may enter into in the future.

FINANCIAL INFORMATION

The amount of any dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and may be subject to approval of our Shareholders. Our Board has an absolute discretion to recommend any dividend for any year. There is no assurance that dividends of any amount will be declared or distributed in any year.

As at the Latest Practicable Date, we had no immediate plans to distribute the retained earnings of the PRC subsidiaries of the Company and no provision for withholding tax had been made.

RECENT DEVELOPMENTS

In June 2016, we entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases under development in Chongqing and our first managed hospital and our first presence outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear our “Kanghua” brand and is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. It is expected to become operational by the end of 2016. Following arm’s length negotiations with Zhonglian Cardiovascular Hospital, we provided a loan in the amount of RMB50.0 million to Zhonglian Cardiovascular Hospital with a view to supporting its launch preparations and operating cash flow during its ramp-up period. The principal amount of the loan is repayable at the expiry of one year and carries a monthly interest rate of 0.42% to be settled monthly in arrears. The interest rate is in line with the prevailing lending rate of major commercial banks in the PRC as it was determined with reference to the benchmark lending rate (貸款基準利率) of the PBOC. As advised by our PRC Legal Advisers, the provision of such loan does not violate mandatory laws and regulations, and the terms of such loan are binding upon both parties. However, our PRC Legal Advisers are of the view that the provision of such loan contravenes the General Lending Provisions (貸款通則), which are not mandatory laws and regulations but guidelines promulgated by the PBOC, and the risk that the PBOC will impose any penalty on us is negligible (see “*Business — Our Hospitals — Our management arrangement with Zhonglian Cardiovascular Hospital*”).

In June 2016, as part of our cash management, we invested in an investment product (the “**Investment Product**”) with principal amount of RMB100.0 million and a term of 91 days, which was issued by a reputable PRC commercial bank. The underlying financial instruments of the Investment Product may include various notes, bond funds, assets-backed securities, interbank deposit, money market funds, trust assets, receivables, structured investment products and etc. The Investment Product is not principal-protected. It is classified as “low risk” by the issuing bank but has not been formally rated by any credit rating agency. In September 2016, our investment in the Investment Product referred to above reached maturity and we received the principal amount of RMB100.0 million and a financial gain of approximately RMB1.1 million; in view of our excess cash position, we re-invested in the Investment Product with a principal amount of RMB100.0 million and a term of 89 days with other material terms of the Investment Product remaining the same.

Our Directors confirm that there has been no material adverse change in our business, financial, operating or trading condition since 30 April 2016, being the most recent date of our audited financial statements, and up to the date of this prospectus.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As at 30 April 2016, we did not have any distributable reserves.

LISTING-RELATED EXPENSE INCURRED AND TO BE INCURRED

The total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately RMB79.6 million, assuming the Over-allotment Option is not exercised and based on the mid-point of our Offer Price range of HK\$11.60 to HK\$14.50 per Offer Share. These listing expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the Underwriters, for their services rendered in relation to the Listing and the Global Offering.

As at 30 April 2016, the listing expenses (excluding underwriting commissions) incurred by our Company in relation to the Listing were approximately RMB7.1 million, which was capitalised as prepayment. We estimate that additional listing expenses of RMB72.5 million (including underwriting commissions of RMB28.6 million, assuming the Over-allotment Option is not exercised and based on the mid-point of our Offer Price range of HK\$11.60 to HK\$14.50 per Offer Share) will be incurred by our Company, of which approximately RMB6.5 million is expected to be charged to our consolidated statements of profit or loss and approximately RMB73.1 million is expected to be charged, against equity upon the Listing.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group as if the Global Offering had taken place on 30 April 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group 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 30 April 2016 or at any future dates following the Global Offering. The following unaudited pro forma statement of adjusted consolidated net tangible

FINANCIAL INFORMATION

assets of the Group is prepared based on the audited consolidated net assets of the Group as at 30 April 2016 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 30 April 2016	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	(note 1)	(note 2)		(note 3)	(note 3)
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$11.60 per Share.	<u>271,610</u>	<u>768,328</u>	<u>1,039,938</u>	<u>3.11</u>	<u>3.59</u>
Based on an Offer Price of HK\$14.50 per Share	<u>271,610</u>	<u>975,048</u>	<u>1,246,658</u>	<u>3.73</u>	<u>4.30</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 30 April 2016 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 30 April 2016 of RMB271,610,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$11.60 and HK\$14.50 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 be issued upon the exercise of Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the General Mandate. For the purpose of this unaudited pro forma statement, the estimated net proceed is converted from Hong Kong dollars into Renminbi at the rate of HK\$1.00 to RMB0.86847, which was the rate prevailing on 17 October 2016. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate or at all.
- (3) The unaudited pro forma adjusted consolidated 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 334,000,000 Shares in issue assuming that the Global Offering has been completed on 30 April 2016, but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Options or any Share which may be issued or repurchased by the Company pursuant to the General Mandate.
- (4) For the purpose of this unaudited pro forma statement of adjusted consolidated net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.86847, which was the rate prevailing on 17 October 2016. No representation is made that Renminbi amounts have been, could have been or could be converted to Hong Kong dollar at that rate or at any other rate or at all.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2016.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial, operational or trading positions or prospects since 30 April 2016, being the date of our consolidated financial statements as set out in the Accountants' Report included in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of eight Directors, comprising four executive Directors, one non-executive Director, and three independent non-executive Directors. The functions and duties of our Board include meeting our Company's objectives and managing the business of our Company, developing and reviewing our Company's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of our Directors and senior management, reviewing and monitoring our Company's policies and practices on compliance with applicable legal and regulatory requirements, developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to our employees and Directors, reviewing our Company's compliance with the code and disclosure in the Corporate Governance Report set out in Appendix 14 to the Listing Rules, and doing any such things to enable our Board to discharge its obligations and responsibilities. In addition, our Board is responsible for exercising other powers, functions, and duties in accordance with the Articles of Association.

The following table sets out the information regarding our Directors:

Name	Age	Position/Title	Responsibilities	Date of joining our Group	Date of appointment	Relationship with other Directors, Supervisors and senior management
<i>Executive Directors</i>						
Mr. WANG Junyang (王君揚)	33	Executive Director and chairman	Overall business operation and strategic planning of our Group	August 2007	December 2015	Cousin of Mr. Wong Wai Hung Simon and nephew of Mr. Chen Wangzhi and Ms. Wang Aiqin
Mr. CHEN Wangzhi (陳旺枝)	45	Executive Director and chief executive officer	Overall hospital operations and management of our Group	August 2005	December 2015	Uncle-in-law of Mr. Wang Junyang and spouse of Ms. Wang Aiqin
Mr. WONG Wai Hung Simon (王偉雄)	28	Executive Director and vice chairman	Overall business operation and strategic planning of our Group	July 2010	December 2015	Cousin of Mr. Wang Junyang and nephew of Mr. Chen Wangzhi and Ms. Wong Aiqin
Ms. WANG Aiqin (王愛勤)	45	Executive Director	Overall financial management and capital investment of our Group	August 2005	December 2015	Aunt of Mr. Wang Junyang and spouse of Mr. Chen Wangzhi
<i>Non-executive Director</i>						
Mr. LV Yubo (呂玉波)	66	Non-executive Director	Overseeing the corporate development and strategic planning of our Company	June 2016	June 2016	N/A

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Responsibilities	Date of joining our Group	Date of appointment	Relationship with other Directors, Supervisors and senior management
<i>Independent Non-executive Directors</i>						
Mr. YEUNG Ming Lai (楊銘灃)	68	Independent Non-executive Director	Supervising and providing independent judgment to our Board	June 2016	June 2016	N/A
Dr. CHEN Keji (陳可冀)	86	Independent Non-executive Director	Supervising and providing independent judgment to our Board	June 2016	June 2016	N/A
Mr. CHAN Sing Nun (陳星能)	42	Independent Non-executive Director	Supervising and providing independent judgment to our Board	December 2015 ⁽¹⁾	June 2016 ⁽¹⁾	N/A

Note:

- (1) Mr. Chan Sing Nun was appointed as our Director in December 2015 when our Company was converted into a joint stock limited company under the PRC Company Law. At that time, it was contemplated that Mr. Chan would serve as our independent non-executive Director for the purpose of the Listing. His appointment as our independent non-executive Director was officially confirmed in June 2016.

EXECUTIVE DIRECTORS

Mr. WANG Junyang (王君揚), aged 33, is our executive Director and chairman of our Board. He is primarily responsible for the overall business operation and strategic planning of our Group. Mr. Wang has approximately 10 years of industry and management experience, and is familiar with modern enterprise management, capital operations and marketing. Mr. Wang joined Kanghua Hospital in August 2007 and has held various positions since then, including assistant to general manager responsible for hospital operations from August 2007 to July 2009, manager of the business department responsible for business development from August 2009 to November 2012 and vice general manager of the business department responsible for business management and overall strategic development of the hospital since December 2012. Mr. Wang has also served as director and general manager responsible for business management and overall strategic development of Kanghua Group since August 2007 and Xingye Group since December 2008. Mr. Wang has served on the fourth council of Dongguan City Houjie Chamber of Commerce (東莞市厚街商會第四屆理事會理事) since December 2009. In 2012, Mr. Wang served as the president of the fifth council of Dongguan Young Entrepreneurs Association (東莞市青年企業家協會第五屆理事會會長). In June 2014, Mr. Wang was awarded Outstanding Young Dongguan Businessman (優秀青年莞商) by the World Dongguan Entrepreneurs Convention Organising Committee (世界莞商大會組織委員會). Mr. Wang graduated with a high school diploma from Chatsworth International School in Singapore in June 2004.

Mr. CHEN Wangzhi (陳旺枝), aged 45, is our executive Director and chief executive officer. Mr. Chen is primarily responsible for the overall hospital operations and management of our Group. Mr. Chen has over 10 years of experience in the healthcare industry. Mr. Chen joined Renkang Hospital in August 2005 when it was established as a limited liability company in the PRC and has since served as the chairman responsible for hospital operations and development. Mr. Chen joined Kanghua Hospital in September 2005 when it was established as a limited liability company in the PRC and has since served

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

as the chairman and general manager responsible for hospital operations and development. He was principally responsible for supervising the construction and development of Kanghua Hospital and Renkang Hospital from which he had gained extensive experience in hospital management and development. Under the leadership of Mr. Chen, Kanghua Hospital and Renkang Hospital have developed a management style reflective of the values and characteristics of the “Kanghua” brand and obtained many prestigious accreditations and recognitions. Mr. Chen also serves as a tutor at Guangzhou University of Chinese Medicine (廣州中醫藥大學) for graduate students in social medicine and healthcare services management (社會醫學與衛生事業管理專業).

Mr. Chen obtained an executive master’s degree in business administration (高級管理人員工商管理) from Sun Yat-sen University (中山大學) in December 2014.

Mr. WONG Wai Hung Simon (王偉雄), aged 28, is our executive Director and vice chairman of our Board. He is primarily responsible for the overall business operations and strategic planning of our Group. Mr. Wong has approximately six years of hospital management experience. Mr. Wong joined Kanghua Hospital in July 2010 and has since served various roles, including assistant to chairman responsible for implementing and executing chairman’s decisions from July 2010 to April 2012, manager of the finance department responsible for the overall supervision of the financial affairs of the hospital from May 2012 to June 2013, and vice general manager of the business department responsible for hospital administration management since July 2013. Mr. Wong actively participates in the business communities in Dongguan. He has served as the vice chairman of the Hong Kong Houjie Clansmen Association (香港厚街同鄉會) since January 2016.

Mr. Wong obtained a bachelor’s degree in management from the California State University, Northridge in December 2010.

Ms. WANG Aiqin (王愛勤), aged 45, is our executive Director. Ms. Wang is primarily responsible for the overall financial management and capital investment of our Group. Ms. Wang has approximately 19 years of group management experience, in particular group financial management. Ms. Wang joined Renkang Hospital in August 2005 when it was established as a limited liability company in the PRC and has since served as a supervisor and a vice general manager of the finance department responsible for financial management. Ms. Wang joined Kanghua Hospital in September 2005 when it was established as a limited liability company in the PRC and has since served as a vice general manager of the finance department responsible for financial management. She was also substantially involved in the construction and development of Kanghua Hospital and Renkang Hospital. Ms. Wang has also served as a director and vice general manager of Kanghua Group since June 2002 and Xingye Group since June 1997, and has obtained significant experience in implementing and executing group control systems in financial management, human resources management, risk management, audit management and cultural management. Ms. Wang graduated with a high school diploma from Dongguan Houjie High School (東莞市厚街中學) in the PRC in July 1989.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. LV Yubo (呂玉波), aged 66, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of our Group. Mr. Lv has more than 40 years of extensive experience in hospital management. Since October 1974, Mr. Lv has played an instrumental role in the development of Guangdong Provincial Hospital of Traditional Chinese Medicine (廣東省中醫院), which has now become one of the largest hospitals of traditional Chinese medicine in the PRC. Mr. Lv is currently a lifetime honorary director (終身名譽院長) of Guangdong Provincial Hospital of Traditional Chinese Medicine. Before such appointment, Mr. Lv had served numerous managerial roles at Guangdong Provincial Hospital of Traditional Chinese Medicine, including vice director (副院長) and director (院長). Mr. Lv has served in a number of healthcare associations in the PRC, including deputy chairman (副會長) of the China Hospital Association (中國醫院協會) since February 2006, chairman (會長) of the Guangdong Provincial Association of Chinese Medicine (廣東省中醫藥學會) since August 2010 and chairman (主任委員) of the Chinese Medicine Hospital Division of the China Hospital Association (中國醫院協會中醫醫院分會) since August 2015. Mr. Lv is well regarded in the medical profession in the PRC and has received numerous awards, including Outstanding Contribution to Chinese Hospitals (中國醫院突出貢獻) from the China Hospital Association (中國醫院協會) in 2006, National Outstanding Director of the Chinese Medicine Hospital (全國中醫醫院優秀院長) from the China Association of Chinese Medicine (中華中醫藥學會) in September 2007, Outstanding Management Personnel (優秀管理人才) from the China Association of Chinese Medicine (中華中醫藥學會) in 2014 and the First Class Sci-Tech Advancement Award of Guangdong Province (廣東省科技進步一等獎) from the People's Government of Guangdong Province (廣東省人民政府) in 2015.

Mr. Lv graduated from Guangdong Provincial University of Continuing Technology Education (廣東業餘科技大學) in July 1981 majoring in English, and Guangdong Economics Management Cadre College (廣東省經濟管理幹部學院) in July 1988 majoring in organisation management (組織管理). Mr. Lv obtained an executive master's degree in business administration (高級管理人員工商管理) from Lingnan (University) College of Sun Yat-sen University (中山大學嶺南學院) in December 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YEUNG Ming Lai (楊銘灃), aged 68, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to the Board. Mr. Yeung has approximately 32 years of hospital operation experience, particularly in financial management, personnel management, human relations and marketing. He dedicated much of his career to the Adventist Hospitals in Hong Kong. Mr. Yeung started as an assistant accountant at Hong Kong Adventist Hospital (香港港安醫院) in July 1968. He became the vice president for finance of Hong Kong Adventist Hospital in April 1977. He left Hong Kong in October 1979 to pursue advanced training in hospital administration under sponsorship from the Hong Kong Adventist Hospital. Mr. Yeung had also served as an administrative residency at hospital administration at the Kettering Medical Center in Kettering, Ohio, the United States from March 1981 to March 1982. He returned to Hong Kong and became senior vice president of both Hong Kong Adventist Hospital and Tsuen Wan Adventist Hospital (荃灣港安醫院) in April 1982. Shortly after, Mr. Yeung was appointed as president of Tsuen Wan Adventist Hospital in July 1983. Under the leadership of Mr. Yeung, Tsuen Wan Adventist Hospital developed into a modern healthcare institution providing advanced multi-disciplinary healthcare services. He left the hospital in April 1992 and later emigrated to Canada to pursue other interests. Mr. Yeung returned to Hong Kong and had served as president and chief executive officer of both Adventist Hospitals from January 2006 to December 2015.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the period, Mr. Yeung had devoted his efforts to upgrading the clinical quality and service offerings of both Adventist Hospitals. In particular, both hospitals became accredited by the Joint Commission International in 2006, which is considered the gold standard in global healthcare. Mr. Yeung left his positions at both Adventist Hospitals in December 2015.

Mr. Yeung obtained a diploma in business administration from the South China Union College in Hong Kong in June 1979 and a master's degree in hospital administration from Loma Linda University in California, the United States in March 1982. In recognition of his remarkable contributions to the Adventist Hospitals in Hong Kong, the Adventist University of Philippines bestowed a doctorate degree in humanities upon Mr. Yeung in March 2009.

Dr. CHEN Keji (陳可冀), aged 86, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to the Board. Dr. Chen is a renowned cardiologist in the PRC with over 60 years of experience in the medical industry. Dr. Chen has played a pivotal role in the development of the Xiyuan Hospital of China Academy of Chinese Medical Sciences (中國中醫科學院西苑醫院), where he currently serves as chief researcher (首席研究員) and the lifetime researcher (終身研究員) of the China Academy of Traditional Chinese Medicine (中國中醫研究院). Dr. Chen has worked at the Chinese Medical Science Xiyuan Hospital (中國科學院西苑醫院) since April 1956, and has served various roles, including resident doctor (住院醫師), attending doctor (主治醫師), associate chief doctor (副主任醫師), associate researcher (副研究員), department head (科室主任), chief doctor (主任醫師), researcher (研究員), tutor for doctor of philosophy students (博士生導師) and vice director (副院長). Dr. Chen has made significant contributions to the medical profession in the PRC. He was elected as the fellow of Chinese Academy of Sciences (中國科學院院士) in 1991. He received the First Lifu Academic Award (第一屆立夫中醫藥學術獎) for Chinese Medicine from the Lifu Medical Research Foundation (立夫醫藥研究文教基金會) in Taiwan in 1994. He was awarded the Wu Jieping Medicine Prize (吳階平醫學獎) by the Wu Jieping Medicine Prize Committee (吳階平醫學獎評審委員會) in 2009. He received a First Class National Science and Technology Progress Award (國家科技進步獎一等獎) from the State Council (國務院) in 2004. He also received an honorary doctorate of science from Hong Kong Baptist University in 2004, and an honorary doctorate of medicine (榮譽博士) from the Macau University of Science and Technology in 2010. He received a Lifetime Achievement Award (終身成就獎) from the China Association of Chinese Medicine (中華中醫藥學會) in 2014 for his contribution to the academic development of TCM. He became the honorary president (名譽會長) of the Hong Kong Association for Integration of Chinese-Western Medicine (香港中西醫結合醫師會) in 2009, the honorary academic advisor (榮譽學術顧問) of the Hong Kong Association of Traditional Chinese Medicine (香港中醫學會) in 2011, and the director of the academic committee (學術委員會主任) of the State Key Laboratories of Quality Research in Chinese Medicines (中藥質量研究國家重點實驗室) of the University of Macau (澳門大學) and the Macau University of Science and Technology (澳門科技大學) in 2011 and the honorary president (名譽會長) of the Chinese Association of Integrative Medicine (中國中西醫結合學會) in 2015.

Dr. Chen graduated from Fujian Medical University (福建醫科大學) (formerly Fujian Medical College (福建醫學院)) in July 1954, majoring in medicine (醫療系).

Mr. CHAN Sing Nun (陳星能), aged 42, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to the Board. Mr. Chan has approximately 18 years of experience in auditing, accounting and financial management. From 1998 to 2002, Mr. Chan was a senior audit associate at K.L. Wong & Co., an audit firm. Since January 2003, Mr. Chan has been

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

the financial manager of Brandwell Limited, a consulting services company. Since September 2009, Mr. Chan has been the audit principal of Qing Lan C.P.A. Limited, mainly responsible for audit planning and supervision, internal control assessment, tax advisory, corporate secretarial services and business development. Mr. Chan has served as an independent non-executive director of Differ Group Holding Company Limited (a company formerly listed on the GEM board with stock code 8056 and currently listed on the Main Board of the Hong Kong Stock Exchange with stock code 6878) since November 2013, and is the sole director and shareholder of Victory Logistic Company Limited, a company principally engaged in providing logistic services. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Mr. Chan graduated from the City University of Hong Kong in 1998, and obtained a higher diploma in professional accounting.

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 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 our 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 prospectus. As at the Latest Practicable Date, other than Mr. Wang Junyang, Mr. Chen Wangzhi and Ms. Wang Aiqin, none of our Directors had any interest in our H Shares or our Domestic Shares within the meaning of Part XV of the SFO.

BOARD OF SUPERVISORS

The following table sets out the information about our Supervisors:

Name	Age	Position/Title	Responsibilities	Date of joining our Group	Date of appointment	Relationship with other Directors, Supervisors and senior management
Mr. CHEN Shaoming (陳少明)	38	Chairman of the Board of Supervisors	Supervising our daily operations and management	September 2005	December 2015	N/A
Mr. WANG Shaofeng (王少鋒)	32	Employee representative Supervisor	Supervising our daily operations and management	October 2006	December 2015	N/A
Mr. WANG Bingzhi (王炳枝)	53	Supervisor	Monitoring our compliance with laws and regulations	December 2015	December 2015	N/A

Mr. CHEN Shaoming (陳少明), aged 38, is the chairman of our Board of Supervisors. He is primarily responsible for supervising the daily operations and management of our Group. Mr. Chen has more than 10 years of financial management experience in the healthcare industry. Mr. Chen joined Kanghua Hospital in September 2005 when it was established as a limited liability company in the PRC and has since served various roles, including manager of the finance department from September 2005 to April 2007, financial controller of the finance department from May 2007 to December 2013 and supervisor since March 2013.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen participated in the construction and development of Kanghua Hospital from which he gained valuable hospital management experience. Mr. Chen has also served as a supervisor of Dongguan Houjie Huaye Village Bank (東莞厚街華業村鎮銀行) since March 2012 and a financial controller of the finance department of Kanghua Group since November 2012.

Mr. Chen graduated from Guangdong Economic Management College (廣東省經濟管理幹部學院) and obtained a diploma in accounting in July 2003.

Mr. WANG Shaofeng (王少鋒), aged 32, is our Supervisor. He is primarily responsible for supervising the daily operations and management of our Group. Mr. Wang has approximately nine years of human resources experience in the healthcare industry. Mr. Wang joined Renkang Hospital in October 2006. From October 2006 to February 2007, Mr. Wang worked at Renkang Hospital as a network engineer in the information department. From March 2007 to August 2007, Mr. Wang was seconded to Kanghua Hospital to receive on-the-job training in the procurement department and the human resources department. In September 2007, Mr. Wang became formally employed by Kanghua Hospital and has since served as head of the human resources department responsible for recruitment, payroll, performance, training and employee relations.

Mr. Wang graduated from Dongguan University of Technology (東莞理工學院) with a bachelor's degree in computer science and technology in June 2006.

Mr. WANG Bingzhi (王炳枝), aged 53, is our Supervisor. He is primarily responsible for monitoring the compliance with laws and regulations of our Group. Mr. Wang has approximately 19 years of financial experience. Mr. Wang joined Xingye Group in April 1997 as an accountant and has served as a financial controller since June 2006. Mr. Wang has also served as a financial consultant of Kanghua Group since July 2012.

Mr. Wang graduated from Jiangmen Advanced Accounting Vocational School (江門市前進會計職業技術學校) with a diploma in accounting in March 1991.

None of our Supervisors has any relationship with our other Supervisors, our Directors, senior management, or the Controlling Shareholders of our Company.

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 directorships 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 prospectus. As at the Latest Practicable Date, none of our Supervisors had any interest in our H Shares or our Domestic Shares within the meaning of Part XV of the SFO.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets out the information on the members of our senior management.

Name	Age	Position/Title	Responsibilities	Date of joining our Group	Date of appointment	Relationship with other Directors, Supervisors and senior management
Ms. WANG Yingda (王櫻達)	42	Secretary to our Board	Overseeing public affairs, administrative and daily operations	June 2006	December 2015	N/A
Dr. TIAN Kege (田可歌)	61	Clinical vice general manager	Overseeing clinical operations of our hospitals	January 2008	June 2016	N/A
Dr. JIA Guoliang (賈國良)	73	Clinical vice general manager	Overseeing clinical operations of our hospitals	March 2008	June 2016	N/A
Dr. LI Zhiwei (李志偉)	49	Clinical vice general manager	Overseeing clinical operations of our hospitals	February 2006	June 2016	N/A
Ms. LIN Yan (林岩)	54	Clinical vice general manager	Handling nursing works of our hospitals	September 2010	June 2016	N/A
Mr. WANG Baizhi (王柏枝)	40	Operation vice general manager	Overseeing administrative and ancillary operations of our hospitals	August 2005	June 2016	N/A
Ms. CHEN Li (陳莉)	45	Financial controller	Overseeing overall financial management of our hospitals	September 2005	June 2016	N/A
Mr. WONG Wai Hang Ricky (黃偉恒)	37	Chief financial officer and joint company secretary	Overseeing overall financial management, capital investment, investor relations, and corporate finance of our Group	December 2015	December 2015	N/A

Ms. WANG Yingda (王櫻達), aged 42, is the secretary to our Board. She is primarily responsible for overseeing public affairs, administrative and daily operations of our Group. Ms. Wang has 12 years of management experience in the medical industry, particularly in financial management, hospital administration, support and assurances, service excellence, brand promotion and corporate culture. Ms. Wang joined Kanghua Hospital in June 2006, served as a senior manager of the finance department and currently serves as an assistant to chairman responsible for operation control, external and internal liaisons, implementation of action plans, monitoring key performance indicators, assessing patient satisfaction levels and organising hospital branding events. Ms. Wang had worked as a manager of the finance department of Kanghua Group primarily responsible for financial and audit matters from February 2004 to May 2006, during which she had been involved in the construction and development of Kanghua Hospital from which she gained valuable hospital management experience. Ms. Wang currently serves as a standing committee member (常務委員) of the Guangdong Provincial Health Economics Association (廣東省衛生經濟學會委員會) and the deputy chairman (副會長) of the Dongguan Hospital Association (東莞市醫院協會).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Wang graduated from Xi'an Technological University (西安工業大學) and obtained a diploma in financial accounting in July 1995. Ms. Wang obtained the qualification of accountant in the PRC in May 2002. Ms. Wang obtained a master's degree in business administration from Northwest University (西北大學) in the PRC in December 2013.

Dr. TIAN Kege (田可歌), aged 61, is our clinical vice general manager. She is primarily responsible for overseeing the clinical operations of our hospitals. Dr. Tian has more than 25 years of experience in the medical industry. Dr. Tian joined Kanghua Hospital in January 2008 and headed the development of its O&G practice, in particular endoscopic techniques, minimally invasive procedures, standardised treatment of malignant tumours, management of high-risk pregnancies and newborn deliveries and reproductive medicine. Dr. Tian currently serves as a vice director of Kanghua Hospital and the head of the O&G Medical Center of Kanghua Hospital. Before joining our Group, from May 1991 to January 2008, Dr. Tian had worked at the 301 Military Hospital (301醫院) as an attending doctor (主治醫師), associate chief doctor (副主任醫師) and chief doctor (主任醫師) with a focus on O&G practice. Dr. Tian has made significant contributions to the development of O&G practice in the PRC. She was awarded two Third Class Prizes for outstanding contributions in medical care (醫療護理傑出貢獻三等獎) by the 301 Military Hospital in 1993 for successfully rescuing a patient from HELLP syndrome with multiple organ failure (HELLP's綜合症併發多器官功能衰竭一例搶救成功) and resuscitating 37 newborns with asphyxia (新生兒窒息復蘇成功37例), respectively. She received a certificate of appreciation (感謝狀) from the Guangdong Medical Association (廣東省醫學會) in 2013 for her contributions in the O&G practice (婦產科事業) in Guangdong Province. She was appointed as the vice chairman (副主任委員) of the Expert Committee of Cervical Cancer Prevention of Guangdong Provincial Female Doctors Association (廣東省女醫師協會宮頸癌防治專家委員會) in 2012. She was appointed as a committee member (委員會委員) of the O&G medical doctor branch of the Guangdong Medical Doctor Association (廣東省醫師協會婦產科醫師分會) in 2013. She was also appointed as an expert in health science (健康科普專家) by the Guangdong Provincial Health Education Centre (廣東省健康教育中心) in May 2015. She was awarded as "Heroic and Excellent Doctor in Southern Guangdong" (南粵巾幗好醫師) by the Guangdong Provincial Female Doctors Association (廣東省女醫師協會) in 2015.

Dr. Tian graduated from the Second Military Medical University (第二軍醫大學) and obtained a bachelor's degree in medicine in August 1983, and a master's degree in medicine in July 1998. She obtained the chief doctor qualification in O&G in September 2005.

Dr. JIA Guoliang (賈國良), aged 73, is our clinical vice general manager. He is primarily responsible for overseeing the clinical operations of our hospitals. Dr. Jia is a renowned cardiologist in the PRC with more than 47 years of experience in the medical industry. He joined Kanghua Hospital in March 2008 and currently serves as a vice director of Kanghua Hospital and the head of the Cardiovascular Center. Before joining our Group, from August 1968 to December 1974, Dr. Jia had worked at the Xinjiang Military Region Sixth Division Hospital (新疆軍區六師醫院) as a military surgeon. From January 1975 to October 2005, Dr. Jia had worked at the First Affiliated Hospital of the Fourth Military Medical University (第四軍醫大學附屬一院) as an attending physician in cardiology (心內科主治醫生), associate director (副主任) and director (主任), where he undertook clinical, teaching and operational responsibilities. From October 2005 to February 2008, Dr. Jia had worked at the Cardiovascular Hospital of Xi An No. 1 Hospital as a director (院長). Dr. Jia has made substantial contributions to cardiovascular healthcare, particularly in military medicine, in the PRC. He has served as a committee member of numerous medical associations and editorial board of medical journals. In addition to a Third Class Prize in Technology Improvement

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(三等科技進步獎) awarded by the National Commission for Scientific and Technological Research (國家科學技術委員會) in December 1996, Dr. Jia had received more than 18 awards from the General Logistics Department of the Chinese People's Liberation Army (中國人民解放軍總後勤部) for the contribution of his research projects in military medicine (軍隊醫學). Dr. Jia received a Life-time Award in Interventional Cardiology in the PRC (中國介入心臟病學終生成就獎) and a Distinctive Contribution Award (特別貢獻獎) from the Chinese Medical Association (中華醫學會), respectively, in March 2005. Dr. Jia continues to actively pursue his endeavours in cardiovascular healthcare. His recent appointments include consultant for the interventional cardiovascular diseases branch of the Chinese Medical Association (中華醫學會心血管病學分會) in 2013, committee member for the cardiologist branch of the Chinese Medical Doctor Association (中國醫師協會心血管內科醫師分會) in 2014 and consultant for the editorial board of Chinese Journal of Geriatric Heart Brain and Vessel Diseases (中華老年心腦血管病雜誌) in 2016.

Dr. Jia possesses the chief doctor qualification.

Dr. LI Zhiwei (李志偉), aged 49, is our clinical vice general manager. He is primarily responsible for overseeing the clinical operations of our hospitals. Dr. Li is an industry leading general surgeon in the PRC with more than 25 years of experience in the medical industry. He joined Kanghua Hospital in February 2006 and currently serves as a vice director of Kanghua Hospital and the head of the Department of Hepatobiliary and Pancreatic Surgery. Dr. Li also participated in managing the development and operation of Kanghua Hospital from which he gained valuable hospital management experience. Before joining our Group, from August 1990 to December 2005, Dr. Li had focused his practice on hepatobiliary surgery at the 301 Military Hospital (301醫院), where he had served various roles, including resident doctor (住院醫師), chief resident doctor (總住院醫師), attending doctor (主治醫師), ward inspection chief attending doctor (查房總主治醫師) and associate chief doctor (副主任醫師). Dr. Li is substantially involved in the development of general surgery and medical associations in the PRC. He was complimented to be an advanced teaching individual (先進工作個人) twice by the PLA Postgraduate Medical School (軍醫進修學院) in 1997 and 2001, respectively, for his outstanding performance in teaching and teaching management. Dr. Li is actively involved in medical associations. He was appointed as a committee member of the parenteral and enteral nutrition branch of the Guangdong Provincial Medical Association (廣東省醫學會腸內腸外營養學分會) in 2009. He was appointed as a member of the editorial board (編輯委員會) for the peer-reviewed Chinese Journal of Hepatobiliary Surgery (中華肝膽外科雜誌) by the Chinese Medical Association (中華醫學會) in 2010, and was appointed as a guest editor (特邀編委) of Lingnan Modern Clinics in Surgery (嶺南現代臨床外科) in 2012. He has been a committee member of the hepatobiliary and pancreatic surgery branch of the Guangdong Provincial Medical Association (廣東省醫學會肝膽胰外科學分會) since 2009. He has been a standing committee member of the professional committee of liver failure and artificial liver branch of the Guangdong Provincial Liver Disease Association (廣東省肝臟病學會肝衰竭及人工肝專業委員會) since 2011 and is currently serving as vice chairman (副主任委員). He became a chief committee member (主任委員) of the Hepatobiliary and Pancreatic Surgery Professional Committee of the Dongguan Medical Association (東莞市醫學會肝膽胰外科學專業委員會) in 2012. In 2013, he was appointed as a medical appraisal expert member (醫學鑒定專家庫成員) by the Guangdong Provincial Medical Association (廣東省醫學會), a member of the oncology branch of the Guangdong Provincial Medical Association (廣東省醫學會腫瘤科分會), a committee member of the professional committee of hepatobiliary and pancreatic disease of the Guangdong Provincial Health Management Association (廣東省健康管理學會肝膽胰病學專業委員會) and a committee member of the professional liver cancer committee of the Guangdong Provincial Cancer

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Association (廣東省抗癌協會肝癌專業委員會). He became vice president (副會長) of the Dongguan Medical Doctor Association (東莞市醫師協會) in 2015. He became a standing committee member (常務委員) of the Hepatobiliary Surgeons Sub-Association of the Guangdong Medical Doctor Association (廣東省醫師協會肝膽外科醫師分會) in 2016.

Dr. Li graduated from First Military Medical University (第一軍醫大學) with a medical bachelor's degree in July 1990. He obtained a master's degree in general surgery and doctoral degree in clinical medicine from the postgraduate medical school (軍醫進修學院) of 301 Military Hospital (301醫院) in July 1995 and July 2003, respectively. Dr. Li obtained the chief doctor qualification in hepatobiliary surgery in January 2009.

Ms. LIN Yan (林岩), aged 54, is our clinical vice general manager. She is primarily responsible for the overall management of the nursing work of our hospitals. Ms. Lin is a highly experienced nurse with more than 32 years of experience in the medical industry. Ms. Lin joined Kanghua Hospital in September 2010 and has since served as the head of the Nursing Department. Before joining our Group, from July 1983 to October 2010, Ms. Lin had served various roles at Second Affiliated Hospital of Sun Yat-sen University (中山大學附屬第二醫院), including nurse, head nurse of operating theatre, head of nursing department and deputy head of outpatient office. Ms. Lin has made distinguished contributions in the nursing profession in the PRC, with far-reaching influence in the field of operating room nursing within the PRC, in particular Guangdong Province. She participated in the publication of many professional practice guides in nursing, including main editor (主編) for Practical Surgical Nursing (實用手術護理學) published by the Sun Yat-sen University Press (中山大學出版社), which received a First Class Prize in Outstanding Teaching Materials (優秀教材一等獎) in Southern China universities from the China University Presses Association (中國大學出版協會), participating editor (參編) for Guide on Improving the Core Competence of Professional Nurse (專業護士核心能力建設指南) published by the Guangdong Provincial Publishing Group (廣東省出版集團), and participating editor (參編) for Clinical Care Document Specifications (臨床護理文書規範) published by the Guangdong Provincial Publishing Group. Ms. Lin has also been a member of the editorial board (編輯委員會) for the Journal of Nursing (護理學報) since 2007. Ms. Lin is actively involved in nursing associations. Some of her key appointments include associate director (副主任) of the Guangdong Provincial Operating Room Quality Control Centre (廣東省手術室質量控制中心) since 2006, an executive council member (常務理事) of the Guangdong Provincial Nursing Association (廣東省護理學會) since 2007, associate director (副主任) of the Operating Room Nursing Professional Committee of the Guangdong Provincial Nursing Association (廣東省護理學會手術室護理專業委員會) in 2012, vice president (副理事長) of the Dongguan Nursing Association (東莞市護理學會) in 2013, committee member of the hospital nursing management branch of the Guangdong Provincial Hospital Association (廣東省醫院協會醫院護理管理分會) in 2014, associate director committee member (副主任委員) of the Nursing Quality Management Professional Committee of the Medical Management Branch of the Dongguan Hospital Association (東莞市醫院協會醫療管理分會護理質量管理專業委員會) in 2014 and vice chairman (副主委) of the nursing branch of the Guangdong Provincial Family Doctors Association (廣東省家庭醫生協會護理分會) in 2015.

Ms. Lin obtained a diploma in advanced nursing from the Evening School of Sun Yat-sen University Zhongshan School of Medicine (中山醫科大學夜大學) in June 1989. Ms. Lin graduated from the Hunan University of Chinese Medicine (湖南中醫藥大學) in January 2010. She obtained the chief nurse qualification (主任護理師) in December 2007.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. WANG Baizhi (王柏枝), aged 40, is our operation vice general manager. He is responsible for the overall administrative and ancillary operations of our hospitals as well as overseeing our hospital management business. Mr. Wang has approximately 11 years of hospital management experience. Mr. Wang joined Renkang Hospital in August 2005 when it was established as a limited liability company in the PRC and has since served as the vice general manager of Renkang Hospital, and as the general manager of Renkang Hospital since November 2015, primarily responsible for the hospital's administrative and ancillary operations. Mr. Wang also participated in the construction and development of Renkang Hospital. Before joining our Group, from March 1998 to July 2003, Mr. Wang had worked at China Construction Bank responsible for auditing and loan management.

Mr. Wang obtained a diploma in mechanical manufacturing engineering and design from the Dongguan University of Technology (東莞理工學院) in June 1998.

Ms. CHEN Li (陳莉), aged 45, is our financial controller. She is primarily responsible for the overall financial management of our hospitals. Ms. Chen has more than 23 years of experience in financial management. Ms. Chen joined Kanghua Hospital in September 2005 when it was established as a limited liability company in the PRC and is currently serving as financial controller in the finance department. Ms. Chen also participated in managing the financial operations of Kanghua Hospital during its construction and development phase from which she gained valuable hospital financial management experience. Before joining our Group, from September 1992 to March 2004, she had served various roles at Dongguan City Guangcai Hotel (東莞市廣彩城酒店), a subsidiary of Guangdong Fortune Colour Picture Tube Co., Ltd. (廣東福地彩色顯像管公司), including accountant, accounting supervisor, cost supervisor and project manager. She has also served as the vice chairman (副會長) of the Dongguan Social Insurance Association (東莞市社會保險協會) since January 2016.

Ms. Chen obtained a diploma in financial accounting from Changsha University of Workers (長沙職工大學) in June 1992. She graduated from Dongguan Party School (東莞黨校) in December 1998.

Mr. WONG Wai Hang Ricky (黃偉恒), aged 37, is our chief financial officer and one of our joint company secretaries. Mr. Wong has more than 13 years of experience in accounting and finance. He is primarily responsible for the overall financial management, capital investment, investor relations and corporate finance of our Group. Mr. Wong joined our Company as chief financial officer in December 2015. Before joining our Group, from December 2002 to November 2015, Mr. Wong had worked at Deloitte Touche Tohmatsu, where he was responsible for leading, managing and supervising audits for listed and multi-national companies. Mr. Wong has also cultivated transactional experience in his previous roles, including acquisitions, debt offerings and initial public offerings. Mr. Wong was a senior manager at Deloitte Touche Tohmatsu before he joined our Group. Mr. Wong is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

Mr. Wong obtained a bachelor's degree of commerce majoring in accounting and finance with merit from the University of New South Wales in April 2000, and a master's degree of commerce majoring in advanced information systems and management from the University of New South Wales in May 2003.

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 senior management members that need to be brought to the attention of our Shareholders and none of our senior

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

management members held any directorship 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 prospectus. As at the Latest Practicable Date, none of our senior management members had any interest in our H Shares or our Domestic Shares within the meaning of Part XV of the SFO.

JOINT COMPANY SECRETARIES

Mr. WONG Wai Hang Ricky (黃偉恒), 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. CHAU Hing Ling (周慶齡) was appointed as our joint company secretary on 27 June 2016. She has served as a director of Corporate Services of Vistra Corporate Services (HK) Limited since June 2013, where she leads a team of professional staff to provide a full range of company secretary services. Ms. Chau has over 15 years of experience in the corporate services industry.

She is currently the company secretary of Keen Ocean International Holding Limited, a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange (stock code: 8070) and the company secretary of Rici Healthcare Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1526). Ms. Chau received a master of laws majoring in corporate and finance law from the University of Hong Kong in November 2007. She has been a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since May 2013.

BOARD COMMITTEES

Audit Committee

We have established the audit committee with written terms of reference adopted on 20 June 2016 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of our audit committee are to supervise our risk management, internal control systems, financial information disclosure and financial reporting matters, which include, among other things:

- proposing appointment, re-appointment or removal of external auditors;
- reviewing and monitoring the external auditors’ independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewing the financial information of our Company;
- overseeing the financial reporting system of our Company;
- reviewing the risk management and internal control systems of our Company;
- enhancing the communication between internal auditors and external auditors; and
- reviewing arrangements which our Group’s employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The audit committee comprises of three Directors: Mr. Chan Sing Nun, Mr. Chen Keji and Mr. Yeung Ming Lai. Mr. Chan Sing Nun currently serves as the chairman of the audit committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration Committee

We have established the remuneration committee with written terms of reference adopted on 20 June 2016, in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of our remuneration committee include, among others, the following:

- researching and recommending to our Board on our Company's remuneration structure and policy for all our Directors, Supervisors and senior management;
- determining, with delegated responsibility from our Board, or recommending to our Board the remuneration packages of individual executive Directors and members of the senior management;
- recommending to our Board on the remuneration of our non-executive Directors;
- reviewing and approving compensation arrangements relating to dismissal or removal of our Directors for misconduct; and
- monitoring the implementation of remuneration policies of our Directors, Supervisors and senior management.

The remuneration committee comprises of three Directors: Mr. Chan Sing Nun, Ms. Wang Ai Qin and Mr. Yeung Ming Lai. Mr. Chan Sing Nun currently serves as the chairman of the remuneration committee.

Nomination Committee

We have established the nomination committee with written terms of reference adopted on 20 June 2016 in compliance with paragraph A.5 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of our nomination committee include, among others, the following:

- reviewing the structure, size and composition of the Board annually and making recommendations on any proposed changes to the Board to complement our Company's corporate strategy;
- identifying individuals suitably qualified to become Directors, selecting or recommending to the Board on the selection of individuals nominated for directorships or providing advice to the Board in respect thereof; and
- making recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors.

The nomination committee comprises of three Directors: Mr. Wang Junyang, Dr. Chen Keji and Mr. Yeung Ming Lai. Mr. Wang Junyang currently serves as the chairman of the nomination committee.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of our Directors and Supervisors (including fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, as well as other benefits in kind) for each of the three years ended 31 December 2015 and the four months ended 30 April 2016 were RMB461,000, RMB496,000, RMB869,000 and RMB176,000, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The aggregate amount of fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, as well as other benefits in kind paid to our five highest paid individuals of our Company for each of the three years ended 31 December 2015 and the four months ended 30 April 2016 were approximately RMB2,862,000, RMB4,440,000, RMB2,876,000 and RMB1,310,000, respectively.

We have not paid any remuneration to our Directors or Supervisors or the five highest paid individuals as an inducement to join us or as compensation for loss of office in respect of Track Record Period. Furthermore, none of our Directors or Supervisors had waived any remuneration during the same period.

According to the arrangements in force on the Latest Practicable Date, we expect that the total remuneration to be paid and granted to our Directors and Supervisors for the year 2016 will be approximately RMB748,000. According to such arrangements, (i) with respect to our executive Directors, each of Mr. Wang Junyang, Mr. Wong Wai Hung Simon and Ms. Wang Aiqin will be entitled to an annual director's fee of RMB360,000 upon the Listing and Mr. Chen Wangzhi is entitled to an annual salary and other benefits of RMB396,000 and will be entitled to an annual director's fee of RMB360,000 upon the Listing; (ii) with respect to our non-executive Director, Mr Lv Yubo (呂玉波) has waived emoluments in acting as our non-executive Director; (iii) with respect to our independent non-executive Directors, each of Mr. Yeung Ming Lai (楊銘禮), Dr. Chen Keji (陳可冀) and Mr. Chan Sing Nun (陳星能) will be entitled to an annual director's fee of RMB200,000 upon the Listing; and (iv) with respect to our Supervisors, each of Mr. Chen Shaoming (陳少明), Mr. Wang Shaofeng (王少鋒) and Mr. Wang Bingzhi (王炳枝) will be entitled to an annual supervisor's fee of RMB24,000 upon the Listing.

Save as disclosed above, there was no other amount paid or payable to our Directors or Supervisors by our Company or any of our subsidiaries during the Track Record Period.

COMPLIANCE ADVISER

We have appointed TC Capital International Limited as our compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in 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 (as defined under the Listing Rules), is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner apart from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our H Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date, and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

As at the Latest Practicable Date, the registered capital of our Company was RMB250 million, comprising 250,000,000 Domestic Shares, representing 100% of the total share capital of our Company, and particulars of our Company's shareholdings are as follows:

Shareholder	Number of Shares	Approximate percentage of total share capital
Kanghua Group	197,500,000	79%
Xingye Group	25,000,000	10%
Xingda Property	27,500,000	11%
Total	<u>250,000,000</u>	<u>100%</u>

Immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised, the registered capital of our Company will be RMB334,000,000, comprising 84,000,000 H Shares and 250,000,000 Domestic Shares, representing approximately 25.15% and 74.85%, respectively, of the total share capital of our Company, and particulars of our Company's shareholdings will be as follows:

Shareholder	Class	Number of Shares	Approximate percentage of total share capital
Kanghua Group	Domestic	197,500,000	59.13%
Xingye Group	Domestic	25,000,000	7.49%
Xingda Property	Domestic	27,500,000	8.23%
H Shares issued pursuant to the Global Offering . .	H Shares	<u>84,000,000</u>	<u>25.15%</u>
Total		<u>334,000,000</u>	<u>100%</u>

Immediately following completion of the Global Offering, assuming the Over-allotment Option is exercised in full, the registered capital of our Company will be RMB346,600,000, comprising 96,600,000 H Shares and 250,000,000 Domestic Shares, representing approximately 27.87% and 72.13%, respectively, of the total share capital of our Company, and particulars of our Company's shareholdings will be as follows:

Shareholder	Class	Number of Shares	Approximate percentage of total share capital
Kanghua Group	Domestic	197,500,000	56.98%
Xingye Group	Domestic	25,000,000	7.21%
Xingda Property	Domestic	27,500,000	7.93%
H Shares issued pursuant to the Global Offering . .	H Shares	<u>96,600,000</u>	<u>27.87%</u>
Total		<u>346,600,000</u>	<u>100%</u>

SHARE CAPITAL

OUR SHARES

The H Shares in issue following the completion of the Global Offering and Domestic Shares are ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, H Shares generally may not be subscribed for by, or traded between, legal or natural persons of the PRC. On the other hand, Domestic Shares may only be subscribed for by, and traded between, legal or natural persons of the PRC, certain qualified foreign institution investors and qualified foreign strategic investors. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi.

Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association. The differences between Domestic Shares and H Shares, and the provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of Share transfer, appointment of dividend receiving agents and circumstances under which general meeting and class meeting are required are set out in our Articles of Association and summarised in “*Appendix V — Summary of Articles of Association*”. Under our Articles of Association, the rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the affected Shareholders at a separate meeting. The circumstances deemed to be a variation or abrogation of the rights of class Shareholders are listed in “*Appendix V — Summary of Articles of Association*”. However, the procedures for approval by separate classes of Shareholders do not apply (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, Shares representing no more than 20% of each of the existing issued Domestic Shares and H Shares; (ii) where our plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval of the securities regulatory authorities of the State Council; or (iii) where the conversion of Domestic Shares for listing and trading on the Hong Kong Stock Exchange as H Shares has been approved by securities regulatory authorities of the State Council.

Our Promoters hold all of our existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, such promoter shares may not be sold within a period of one year from 30 December 2015, on which we were incorporated as a joint stock limited liability company. This lock-up period will expire on 31 December 2016. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange. Therefore, our Promoters would be subject to a lock-up period of one year after the Listing.

RANKING

Except for the differences set out in “— *Our Shares*” above, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. In addition to cash, dividends may be distributed in the form of Shares. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

SHARE CAPITAL

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

According to the regulations by the securities regulatory authorities of the State Council and our Articles of Association, the Domestic Shares may be converted into H Shares, and such converted Shares may be listed and traded on an overseas stock exchange provided that the conversion, listing and trading of such converted Shares have been approved by the securities regulatory authorities of the State Council. In addition, such conversion, trading and listing shall complete any requisite internal approval process and comply with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. To the best of the Directors' knowledge, as at the Latest Practicable Date, the holders of the Domestic Shares did not have any intention to convert their Domestic Shares into H Shares.

If any of the Domestic Shares are to be converted, listed and traded as H Shares on the Hong Kong Stock Exchange, such conversion, listing and trading will need the approval of the relevant PRC regulatory authorities, including the CSRC, and the approval of the Hong Kong Stock Exchange. Based on the procedures for the conversion of Domestic Shares into H Shares as described below, we may apply for the listing of all or any portion of the Domestic Shares on the Hong Kong 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 Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. Class shareholder voting is not required for the conversion of such Shares or the listing and trading of such converted Shares on an overseas stock exchange.

The relevant procedural requirements for the conversion of Domestic Shares into H Shares are as follows:

- The holder of Domestic Shares shall obtain the requisite approval of the CSRC or the authorised securities regulatory authorities of the State Council for the conversion of all or part of its Domestic Shares into H Shares.
- The holder of Domestic Shares shall issue to us a removal request in respect of a specified number of Shares attaching the relevant documents of title.
- Subject to our Company being satisfied with the authenticity of the documents and with the approval of our Board, we would then issue a notice to our H Share Registrar with instructions that, with effect from a specified date, our H Share Registrar is to issue the relevant holders with H Share certificates for such specified number of Shares.
- The relevant Domestic Shares will be withdrawn from the Domestic Shares register and re-registered on our H Share register maintained in Hong Kong on the condition that:
 - our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant Shares on the H Share register and the due dispatch of Share certificates; and
 - the admission of the H Shares (converted from the Domestic Shares) to trade in Hong Kong will comply with the Listing Rules and the General Rules of CCASS and CCASS Operational Procedures in force from time to time.

SHARE CAPITAL

- Upon completion of the conversion, the shareholding of the relevant holder of Domestic Shares in our Domestic Share register will be reduced by such number of Domestic Shares converted and the number of H Shares in the H Share register will correspondingly increase by the same number of Shares.
- We will comply with the Listing Rules to inform Shareholders and the public by way of an announcement of such fact not less than three days prior to the proposed effective date.

REGISTRATION OF SHARES NOT LISTED ON THE OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised 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 business days after listing and provide a written report to the CSRC regarding the centralised registration and deposit of its non-overseas listed shares as well as the current offering and listing of shares.

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of our Directors, the following persons will, immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the Shares or underlying shares which are 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 the rights to vote in all circumstances at the general meetings of our Company:

(a) **Interest in the Shares of our Company**

Shareholder	Number of Shares held immediately following the Global Offering	Nature of interest	Approximate percentage of interest in the relevant class of Shares of our Company immediately following the Global Offering of our Company as at the date of this prospectus	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering (assuming Over-allotment Option is not exercised) ⁽¹⁾	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering (assuming Over-allotment Option is not exercised) ⁽²⁾	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering (assuming Over-allotment Option is fully exercised) ⁽²⁾
Mr. Wang Junyang ⁽³⁾⁽⁴⁾⁽⁵⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company; interest in a controlled corporation	100%	100%	74.85%	72.13%
Ms. Wang Aici ⁽³⁾⁽⁵⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company;	100%	100%	74.85%	72.13%
Kanghua Group ⁽⁴⁾	197,500,000 Domestic Shares (Long position)	Beneficial owner	79%	79%	59.13%	56.98%
Xingye Group ⁽⁵⁾	25,000,000 Domestic Shares (Long position)	Beneficial owner	10%	10%	7.49%	7.21%
Mr. Chen Wangzhi ⁽³⁾⁽⁶⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company; interest in a controlled corporation; family interest of spouse	100%	100%	74.85%	72.13%
Ms. Wang Aiqin ⁽³⁾⁽⁶⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company; interest in a controlled corporation; family interest of spouse	100%	100%	74.85%	72.13%

SUBSTANTIAL SHAREHOLDERS

Shareholder	Number of Shares held immediately following the Global Offering	Nature of interest	Approximate percentage of interest in the relevant class of Shares of our Company immediately following the Global Offering (assuming Over-allotment of this Option is not exercised) ⁽¹⁾	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering (assuming Over-allotment of this Option is not exercised) ⁽¹⁾	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering (assuming Over-allotment of this Option is not exercised) ⁽²⁾	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering (assuming Over-allotment of this Option is not exercised) ⁽²⁾
Xingda Property ⁽⁷⁾ . . .	27,500,000 Domestic Shares (Long position)	Beneficial owner	11%	11%	8.23%	7.93%
Mr. Xie Zhikun (解直錕) ⁽⁸⁾ . . .	17,836,000 H Shares (Long position)	Interest in a controlled corporation	—	21.23%	5.34%	5.15%
Huzhou Zhongze Taifu Investment Co., Ltd. (湖州中澤泰富投資有限公司) ⁽⁸⁾	17,836,000 H Shares (Long position)	Interest in a controlled corporation	—	21.23%	5.34%	5.15%
Rise Eagle Limited (升鵬有限公司) ⁽⁸⁾	17,836,000 H Shares (Long position)	Beneficial owner	—	21.23%	5.34%	5.15%

Notes:

- (1) the calculation is based on the percentage of shareholding in Domestic Shares or H Shares of our Company after the Global Offering.
- (2) the calculation is based on the total number of 334,000,000 Shares (assuming the Over-allotment Option is not exercised) or 346,600,000 Shares (assuming the Over-allotment Option is fully exercised) in issue after the Global Offering.
- (3) Immediately following completion of the Global Offering (but without taking into account any H Shares which may be allotted and used upon exercise of the Over-allotment Option), our Company will be held as to approximately 59.13% by Kanghua Group (see also note (4) below), as to approximately 7.49% by Xingye Group (see also note (5) below) and as to approximately 8.23% by Xingda Property (see also note (6) below), respectively. Pursuant to the Concert Party Agreement, each of Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin has agreed to jointly control their respective interests in our Company and the decisions as to the business and operations of our Group shall be in accordance with the unanimous consent of all of them. Therefore, each of them is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
- (4) Kanghua Group is held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici. As Mr. Wang Junyang controls more than one third of the voting power at the general meeting of Kanghua Group, Mr. Wang Junyang is deemed to be interested in the same number of Shares in which Kanghua Group is interested by virtue of the SFO.
- (5) Xingye Group is held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici. As Mr. Wang Junyang controls more than one third of the voting power at the general meeting of Xingye Group, Mr. Wang Junyang is deemed to be interested in the same number of Shares in which Xingye Group is interested by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS

- (6) As Mr. Chen Wangzhi and Ms. Wang Ai Qin are husband and wife, each of them is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
- (7) Xingda Property is held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Ai Qin. As each of Mr. Chen Wangzhi and Ms. Wang Ai Qin controls more than one third of the voting power at the general meeting of Xingda Property, each of Mr. Chen Wangzhi and Ms. Wang Ai Qin is deemed to be interested in the same number of Shares in which Xingda Property is interested by virtue of the SFO.
- (8) Rise Eagle Limited (升鵬有限公司) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$30 million. Assuming an Offer Price of HK\$13.05, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H Shares to be subscribed for by Rise Eagle Limited (升鵬有限公司) would be 17,836,000, representing 21.23% of the Offer Shares and 5.34% of our total issued share capital immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Rise Eagle Limited (升鵬有限公司) is a wholly-owned subsidiary of Huzhou Zhongze Taifu Investment Co., Ltd. (湖州中澤泰富投資有限公司), which is ultimately wholly-owned by Mr. Xie Zhikun (解直錕). Each of Huzhou Zhongze Taifu Investment Co., Ltd. (湖州中澤泰富投資有限公司) and Mr. Xie Zhikun (解直錕) is deemed to be interested in the same number of Shares in which Rise Eagle Limited (升鵬有限公司) is interested in by virtue of the SFO.

(b) Substantial shareholders of other members of our Group

Name of shareholder	Name of member of our Group	Nature of interest	Approximate percentage interest held by the substantial shareholders
Kangdi Enterprise ^{(1) (2)}	Renkang Hospital	Beneficial owner	15%
Ms. Zhang Dandan (張丹丹) ^{(1) (3)}	Renkang Hospital	Beneficial owner	15%
Ms. Wang Aier (王愛兒) ^{(1) (4)}	Renkang Hospital	Beneficial owner	13%

Notes:

- (1) Pursuant to the Renkang Entrusted Management Agreement, each of Kangdi Enterprise, Ms. Zhang Dandan (張丹丹) and Ms. Wang Aier (王愛兒) shall irrevocably vest its/her entire voting power at any general meeting of Renkang Hospital to our Company such that our Company may exercise such voting power in its absolute discretion for a renewable term of five years.
- (2) Kangdi Enterprise is held as to 50% by Mr. Wang Zhengren (王政仁) and as to 50% by Ms. Wang Keying (王可瑩), respectively, all of whom are members of the Wang Family and cousins of Mr. Wang Junyang.
- (3) Ms. Zhang Dandan (張丹丹) is a member of the Wang Family and the aunt-in-law of Mr. Wang Junyang.
- (4) Ms. Wang Aier (王愛兒) is a member of the Wang Family and an aunt of Mr. Wang Junyang.

Save as disclosed herein, our Directors are not aware of any other person who will, immediately following the Global Offering, have an interest or short position in the Shares or underlying shares which are 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 the rights to vote in all circumstances at the general meetings of our Company.

We are not aware of any arrangement which may result in any change of control of our Company in the future.

CORNERSTONE INVESTOR

THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement with the following investor (the “**Cornerstone Investor**”), who has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$30 million (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) (the “**Cornerstone Investment Agreement**”).

Assuming an Offer Price of HK\$11.60, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of H Shares to be subscribed by the Cornerstone Investor would be 20,065,600 H Shares, representing approximately 23.89% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 6.01% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$13.05, being the mid-point of the indicative Offer Price range set out in this Prospectus, the total number of H Shares to be subscribed by the Cornerstone Investor would be 17,836,000 H Shares, representing approximately 21.23% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 5.34% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$14.50, being the high-end of the indicative Offer Price range set out in this Prospectus, the total number of H Shares to be subscribed by the Cornerstone Investor would be 16,052,400 H Shares, representing approximately 19.11% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 4.81% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The cornerstone placing will form part of the International Offering, and the Cornerstone Investor will not subscribe for any H Share under the Global Offering (other than pursuant to the Cornerstone Investment Agreement). The H Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respect with the fully paid H Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules. Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any Board representation in our Company, nor will it become a substantial shareholder of the Company. Details of allocation to the Cornerstone Investor will be disclosed in the announcement of allotment results of our Company to be published on or about Monday, 7 November 2016.

To the best knowledge of our Company and the Cornerstone Investor, the Cornerstone Investor and its beneficial owners and/or associates are not existing Shareholders or a connected persons of our Company or an associate thereof. The Cornerstone Investment Agreement shall not constitute a “connected transaction” or result in the Cornerstone Investor and/or its beneficial owners or associates becoming connected persons of our Company or, immediately after the completion of the Global Offering, not being independent of or acting in concert with (as defined in the Hong Kong Code on Takeovers and Mergers) any connected person in relation to the control of our Company or any acquisition, disposal, voting or any other disposition of securities in our Company.

CORNERSTONE INVESTOR

The H Shares to be subscribed by the Cornerstone Investor will not be affected by any reallocation of the H Shares between the International Offering and the Hong Kong Public Offering as described in the section headed “*Structure of the Global Offering*” in this prospectus.

THE CORNERSTONE INVESTOR

The information in respect of the Cornerstone Investor set forth below has been provided by the Cornerstone Investor in connection with the cornerstone placing.

Rise Eagle Limited (升鵬有限公司) (“**Rise Eagle**”) is a limited liability company incorporated in Hong Kong and is primarily engaged in asset management, investment management, investment consulting and economic and trade advisory services. Rise Eagle is a wholly-owned subsidiary of Huzhou Zhongze Taifu Investment Co., Ltd. (湖州中澤泰富投資有限公司), which is ultimately wholly-owned by Mr. Xie Zhikun (解直錕先生).

CLOSING CONDITIONS

The subscription of the Cornerstone Investor is subject to, among other things, the following closing conditions:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
- (ii) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (iii) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares (including the H Shares to be subscribed by the Cornerstone Investor as well as other applicable waivers and approvals) and that such waiver, approval or permission not having been revoked;
- (iv) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the Cornerstone Investment Agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transaction; and
- (v) the representations, warranties, undertakings and confirmations of the Cornerstone Investor under the Cornerstone Investment Agreement are and will be (as of the closing of the Cornerstone Investment Agreement) accurate and true in all respects and not misleading and that there is no material breach of the Cornerstone Investment Agreement.

CORNERSTONE INVESTOR

RESTRICTIONS ON THE CORNERSTONE INVESTOR'S INVESTMENT

The Cornerstone Investor has agreed that, without the prior written consent of the Company and CICC, it will not, and will cause its affiliates not to, whether directly or indirectly, at any time during the period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the Cornerstone Investment Agreement) any of the H Shares subscribed for by it. The Cornerstone Investor may transfer the H Shares so subscribed in certain limited circumstances, such as transfer to a wholly-owned subsidiary of the Cornerstone Investor, provided that such wholly-owned subsidiary undertakes in writing to, and the Cornerstone Investor undertakes to procure such wholly-owned subsidiary will, be bound by the obligations of the Cornerstone Investor under the Cornerstone Investment Agreement, including, without limitation, the restrictions on disposals of H Shares imposed on the Cornerstone Investor, as if such wholly-owned subsidiary were itself subject to the same obligations and restrictions.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), (i) Mr. Wang Junyang (our executive Director and Chairman) and Ms. Wang Aici (an aunt of Mr. Wang Junyang) will be interested in approximately 66.62% of the total share capital of our Company through their interests in Kanghua Group (which is in turn held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici) and Xingye Group (which is in turn held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici); and (ii) Mr. Chen Wangzhi (our executive Director and chief executive officer) and Ms. Wang Aiqin (our executive Director) will be interested in approximately 8.23% of the total share capital of our Company through their interests in Xingda Property (which is in turn held as to 50% by Mr. Chen Wangzhi and as to 50% by Ms. Wang Aiqin). Pursuant to the Concert Party Agreement, Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin, through their respective interests in Kanghua Group, Xingye Group or Xingda Property (as the case maybe), will be jointly entitled to exercise or control the exercise of approximately 74.85% of the voting power of our Company immediately upon the Listing (assuming the Over-allotment Option is not exercised). Therefore, Mr. Wang Junyang, Ms. Wang Aici, Kanghua Group, Xingye Group, Mr. Chen Wangzhi, Ms. Wang Aiqin and Xingda Property will be acting as a group of Controlling Shareholders after the Listing. Please refer to “*Directors, Supervisors and Senior Management*” for details of Mr. Wang Junyang, Mr. Chen Wangzhi and Ms. Wang Aiqin.

Tongli Enterprise is held as to 43% by Ms. Wang Aiqin and as to 29% by Ms. Wang Aici. Pursuant to a nominee arrangement among the Wang Family, (i) Ms. Wang Aici (an aunt of Mr. Wang Junyang) agreed to hold 16% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang; (ii) Ms. Wang Aiqin (an aunt of Mr. Wang Junyang and the spouse of Mr. Chen Wangzhi) agreed to hold 15% and 6.5% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Junyang and Mr. Chen Wangzhi, respectively; and (iii) Ms. Wang Aiqin (a sister of Mr. Wang Wencheng (王文成)) agreed to hold 15% of her equity interest in Tongli Enterprise on behalf of Mr. Wang Wencheng (王文成). As such, Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin, being our Controlling Shareholders acting as a group, control more than 30% of equity interest in Tongli Enterprise. Accordingly, Tongli Enterprise is a close associate of our Controlling Shareholders under the Listing Rules. Tongli Enterprise is principally engaged in investment holding.

NON-COMPETITION

Non-Competition Undertaking

Our Controlling Shareholders provided a Non-Competition Undertaking in favour of us, pursuant to which our Controlling Shareholders undertook not to, and to procure their respective close associate(s) (as appropriate) (other than our Group) not to, either directly or indirectly, compete with our principal business (which is primarily to provide hospital services, the “**Principal Business**”) and granted our Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

Our Controlling Shareholders have further irrevocably undertaken in the Non-Competition Undertaking that, during the term of the Non-Competition Undertaking, they will not, and will also procure their 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 Undertaking.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The foregoing restrictions do not apply to (i) the purchase by our Controlling Shareholders or their respective close associate(s) (as appropriate) (other than our Group) for investment purposes of not more than 10% equity interests in aggregate in other listed companies whose business competes or is likely to compete with our Principal Business; or (ii) the holding by our Controlling Shareholders or their respective close associate(s) (as appropriate) (other than our Group) 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 (i) and (ii)). For the avoidance of doubt, the exceptions above do not apply to such Invested Companies that our Controlling Shareholders or their respective close associate(s) (as appropriate) (other than our Group) are able to control the respective board of directors of notwithstanding the fact that not more than 10% of the equity interests of such Invested Companies are held by them or their respective close associate(s) (as appropriate) (other than our Group).

Options for new business opportunities

Our Controlling Shareholders have undertaken in the Non-Competition Undertaking that, during the term of the Non-Competition Undertaking, if our Controlling Shareholders become aware of a business opportunity that competes, or may compete, directly or indirectly, with our Principal Business, our Controlling Shareholders will notify us in writing immediately and provide us with all information that is reasonably necessary for us to consider whether or not to engage in such business opportunity (the “**Offer Notice**”). Our 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.

Our Controlling Shareholders will 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 Undertaking.

Our Controlling Shareholders and/or their respective close associate(s) (as appropriate) (other than our Group) may operate such new business opportunity on their own if (i) we decide not to take up the new business opportunity for any reason; or (ii) we do not respond to our Controlling Shareholders within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period to 60 business days) and are therefore deemed to have decided not to take up such new business opportunity.

Option for acquisitions

In relation to any new business opportunity referred to in the Non-Competition Undertaking, which has been offered to, but has not been taken up by our Company and has been retained by our Controlling Shareholders that competes, or is likely to compete, directly or indirectly, with our Principal Business, our Controlling Shareholders have undertaken to grant us the option 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, without limitation, entrusted operation, lease or contracting operation, subject to applicable laws and regulations. The option for acquisitions is exercisable by us at any time during the term of the Non-Competition Undertaking. However, if a third party has a

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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, our Controlling Shareholders shall use their best efforts to procure the third party to waive its pre-emptive right.

Our Controlling Shareholders shall use their best efforts to procure their respective close associate(s) (as appropriate) (other than our Group) to grant the option for acquisitions to us as described above.

Pre-emptive rights

Our Controlling Shareholders have undertaken that, during the term of the Non-Competition Undertaking, if they intend to transfer, sell, lease, license to a third party, or otherwise permit a third party to use, any new business opportunity of our Controlling Shareholders referred to in the Non-Competition Undertaking, which has been offered to, but has not been taken up by, our Company and has been retained by our Controlling Shareholders, which competes, or is likely to compete, directly or indirectly, with our Principal Business, our 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 that may be reasonably required by our Company. We shall reply to our Controlling Shareholders within 30 business days after receiving the Selling Notice (subject to our request to extend the notice period to 60 business days). Our Controlling Shareholders have undertaken that until they receive a reply from us, they shall not notify any third party of their intention to transfer, sell, lease or license the business. If our Company decides not to exercise its pre-emptive right or 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 our Controlling Shareholders a written notice within the agreed time period stating acceptable conditions which, however, are not acceptable to our Controlling Shareholders following negotiation between the parties under fair and reasonable principle, our Controlling Shareholders are entitled to transfer, sell, lease, license the business to a third party or permit a third party to use such business pursuant to terms not more favourable than those stipulated in the Selling Notice. However, if a third party has a 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, our Controlling Shareholders shall use their best efforts to procure such third party to waive its pre-emptive right.

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

Review by our independent non-executive Directors

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the option for new business opportunity, the option for acquisitions and our pre-emptive rights. In assessing whether or not to exercise such option(s) or pre-emptive rights, our 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 our Shareholders and our Company as a whole. Where necessary, our independent non-executive Directors will consider engaging an independent third party valuer to conduct an evaluation. Our independent non-executive Directors are also entitled to engage a financial adviser, at the cost of our Company, in this regard.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Term of the Non-Competition Undertaking

The Non-Competition Undertaking will become effective upon the Listing and remain in full force and be terminated upon the earlier of:

- (i) our Controlling Shareholders and their respective close associate(s) (as appropriate) (other than our Group), directly and/or indirectly, in aggregate, holding less than 30% of our total issued share capital; or
- (ii) our H Shares no longer being listed on the Stock Exchange (except for being suspended for any reason whatsoever).

Our Controlling Shareholders' further undertakings

Our Controlling Shareholders have further undertaken that:

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

Our PRC legal advisers are of the view that the Non-Competition Undertaking does not violate any applicable PRC laws, and are valid and binding obligations of our Controlling Shareholders under PRC laws after the Non-Competition Undertaking takes effect, and may be enforced by us in the courts of the PRC thereafter.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Delineation of Business and Non-competition

As at the Latest Practicable Date, Kanghua Group held a 66% interest in Shanghai Kanghua Investment (Group) Co., Ltd. (上海康華投資(集團)有限公司) (an investment holding company), which in turn held certain non-hospital healthcare related businesses in Shanghai, namely, Shanghai Taiheng Health Management Consulting Co., Ltd. (上海泰衡健康管理諮詢有限公司) (“**SH Taiheng Health**”), Shanghai Yunmei Health Management Consulting Co., Ltd (上海韻美健康管理諮詢有限公司) (“**SH Yunmei**”) and Shanghai Taiheng Traditional Chinese Medicine Outpatient Co., Ltd. (上海泰衡中醫門診部有限公司) (“**SH Taiheng TCM**”).

SH Taiheng Health and SH Yunmei operate non-clinical wellness businesses in Shanghai offering general health advisory services on lifestyle, nutrition, exercise, pregnancy and post-partum care. SH Taiheng TCM primarily offers post-partum services to mothers and infants (母嬰月子服務), such as maternity care, newborn care, recovery regiments and preparation of post-partum meals. It also has a small traditional Chinese medical (“**TCM**”) operation that offers basic TCM services, such as TCM health assessment, TCM wellness regiments, TCM massages (推拿), cupping (拔罐), cooking medicine and health management. SH Taiheng TCM does not and is not expected to operate any hospital facilities. It employs only a few TCM practitioners and has a very limited clinical capability in, and does not focus on, the diagnosis and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

treatment of diseases as compared to a typical hospital facility. Therefore, if a particular customer requests more sophisticated TCM services, SH Taiheng TCM has to invite an external TCM specialist with the appropriate capability. SH Taiheng TCM charges a booking and appointment fee and merely provides a venue for the visit. The fee of the external TCM specialist is borne by the customer and is not accounted for in the revenue of SH Taiheng TCM. This is in contrast to our hospital operations that provide a wide range of complex clinical activities, including sophisticated disease diagnosis and treatments. Furthermore, each of SH Taiheng Health, SH Yunmei and SH Taiheng TCM has a relatively immaterial scale of operation, in particular: (i) with respect to SH Taiheng Health, it has a registered capital of RMB5 million and according to its audited financial information, its revenue for the three years ended 31 December 2015 were approximately RMB1.3 million, RMB0.1 million and RMB0.1 million, respectively, and its profit / loss for the three years ended 31 December 2015 were approximately RMB0.2 million (profit), RMB1.2 million (loss) and RMB1.2 million (loss), respectively; (ii) with respect to SH Yunmei, it has a registered capital of RMB1 million with no audited financial information as it was only incorporated in April 2016; and (iii) with respect to SH Taiheng TCM, it has a registered capital of RMB1 million and according to its audited financial information, its revenue for the three years ended 31 December 2015 were approximately RMB3.5 million, RMB12.2 million and RMB14.3 million, respectively, and its loss for the three years ended 31 December 2015 were approximately RMB2.3 million, RMB0.9 million and RMB0.7 million, respectively.

In view of their immaterial scale and limited nature of healthcare services, we consider that SH Taiheng Health, SH Yunmei and SH Taiheng TCM operate businesses fundamentally different to those operated by us and belong to a very different market segment. They are clearly delineated from, and do not and will not compete with, our principal business of hospital operations. Furthermore, these businesses operate in Shanghai, which is very remote from the hospitals we operate, and given their relative immateriality, it would be a disproportionate use of our management time if they were included in our Group.

Save and except for the interests of our Controlling Shareholders in our Group, neither our Controlling Shareholders (and their respective close associates) nor any of our Directors is, as at the Latest Practicable Date, interested in any business, other than the business of our Group, which, competes or is likely to compete, either directly or indirectly, with our Group's business, which would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Operational Independence

Our Company makes business decisions independently. We have established our own organisational structure with independent departments, and each department is assigned to specific areas of responsibilities. We maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. Our operational functions, such as clinical services delivery, cash and accounting management, invoicing and billing, are operated independently of our Controlling Shareholders and their respective close associates. We have independent access to suppliers and customers and are not dependent on our Controlling Shareholders and their respective close associates with respect to supplies for our business operations. We are also in possession of all relevant licenses necessary to carry out and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Although during the Track Record Period, there had been transactions between us and our related parties, details of which are set out in Note 30 in the Accountants' Report, our Directors have confirmed that these related party transactions, if trade related, were conducted on normal commercial terms or better to us. Save as disclosed in the section headed "*Connected Transactions*" of this prospectus, none of the historical related party transactions with the connected persons as defined in the Listing Rules are expected to continue after the Listing.

We have secured long-term lease of lands and buildings from (i) Kanghua Group, as landlord, for the operation of Kanghua Hospital pursuant to the Kanghua Hospital Lease Agreement; and (ii) Tongli Enterprise, as landlord, for the operation of Renkang Hospital pursuant to the Renkang Hospital Lease Agreement, details of which are set out in the section headed "*Connected Transactions*" of this prospectus. Each of the Kanghua Hospital Lease Agreement and Renkang Hospital Lease Agreement was entered into on terms that our Directors (including our independent non-executive Directors) consider to be fair and reasonable after arm's length negotiations and are for a term of 10 years. With a view to minimising the effect of our reliance on our Controlling Shareholders or their close associates on our Group with respect to these lease agreements, the following terms were incorporated:

- if either Kanghua Group or Tongli Enterprise chooses not to renew their respective relevant leases, it must give us no less than one year advance notice prior to expiry in order for us to prepare for relocation. In addition, each of Kanghua Group or Tongli Enterprise shall (i) assist us in locating an alternative site and provide all reasonable assistance required for our relocation; (ii) compensate us for economic losses (including loss of revenue) and the necessary expenses as a result of our relocation; and (iii) allow us to occupy and use the relevant land and buildings until our relocation is completed and the day-to-day operation of the hospital at the new premises has commenced. In the event that Kanghua Hospital or Renkang Hospital is required to move from the current premises, we believe one year is sufficient time for the systematic relocation of the hospital on an accelerated basis provided the target location is readily identified and construction of the buildings is substantially complete, and the associated economic loss and relocation expenses will be adequately covered by the compensation payable by Kanghua Group or Tongli Enterprise (as the case may be). With the respective undertakings from Kanghua Group and Tongli Enterprise to locate an alternative site, provide assistance in connection with the relocation and allow us to use the land and buildings until we have completed our relocation, we believe we will be able to implement systematic relocation of Kanghua Hospital or Renkang Hospital in a carefully planned manner without material disruption to our operations; and
- during the period of the leases, if either Kanghua Group or Tongli Enterprise decides to dispose of the land and/or buildings subject to the relevant lease, it shall give us advance notice. We shall have a first right of refusal to purchase the relevant land and/or buildings under the same conditions at the prevailing market price (or such amount to be determined by a jointly appointed independent third party valuer).

For the foregoing reasons, we believe the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement do not place us in a position of undue reliance on our Controlling Shareholders and their respective close associates, as we have appropriate arrangements in place to ensure the continuation of our business operations in the least disruptive manner in the event that any relocation of our hospitals becomes necessary.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Furthermore, with a view to securing our long term continued use of the land and buildings underlying our hospital operations, we have sought various irrevocable undertakings from our Controlling Shareholders. Please refer to the section headed “*Business — Properties*” for further details.

In addition to the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement, we have entered into a continuing connected transaction with Mr. Wang Junyang, our executive Director and Chairman, pursuant to which we may provide employee healthcare services (such as physical examination and work injuries related services) to companies controlled by Mr. Wang Junyang on normal commercial terms, which are expected to contribute to an insignificant portion of our revenue.

Accordingly, our Directors are satisfied that we will be able to function and operate independently from our Controlling Shareholders and their respective close associates.

Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. Three of our Controlling Shareholders hold directorships in our Company: (i) Mr. Wang Junyang, who is also our chairman and executive Director; (ii) Mr. Chen Wangzhi, who is also our chief executive officer and executive Director; and (iii) Ms. Wang Aiqin, who is also our executive Director. Save for Mr. Wang Junyang, Mr. Chen Wangzhi and Ms. Wang Aiqin, no Controlling Shareholder holds any directorship in our Company.

Our managerial decision makers are empowered to provide input into and have final approval of development of corporate strategy and performance objectives. Their managerial roles include, among others, independently reviewing, ratifying and monitoring systems of risk management, internal control and legal compliance. Our Directors and senior management are familiar with the fundamentals of our business and operations and are informed about our activities.

Our Group has established an (i) audit committee; (ii) remuneration committee; and (iii) nomination committee. Each committee includes independent non-executive Directors to monitor the operation of our Group. We believe that our independent non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinion and professional advice in the decision-making process of our Board to protect the interests of our Shareholders. In addition, our Board of Supervisors is governed by terms of reference formulated in accordance with PRC Company Law, other relevant laws and regulations and the Articles of Association, so as to enhance a regulated and effective corporate governance structure.

Each Director understands that he/she owes primary duties to our Company and is aware of his/her fiduciary duties as a Director which requires, among others, that he/she must act for the benefit of and in the best interests of our Company and shall avoid any conflict between his/her personal interests and those of our Company. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) and their respective associate(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.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Company has also established internal control mechanism to identify connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions. Other than those set out in the section headed “*Connected Transactions*” of this prospectus and the service agreements between our Company and those Directors who are also our Controlling Shareholders, our Directors do not expect that there will be any transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

Since all of our executive Directors have substantial experience in the industry in which our Group is operating, we believe that they will be able to make business decisions that are in the best interests of our Group. In addition, the business of our Group had been operated under substantially the same management throughout the Track Record Period and up to the Latest Practicable Date. Further, our Board acts collectively by majority decision in accordance with the Articles of Association and applicable laws, and no single Director has any decision-making power unless otherwise duly authorised by our Board.

Having considered the above factors, our Directors are satisfied that our Board as a whole together with our senior management team are able to make independent managerial decisions having regard to their own knowledge of our Group and their experience and skills.

Financial Independence

Our Group has established an independent financial department with a team of independent financial staff, as well as a sound and independent financial system and makes financial decisions according to our Group’s own business needs. Our Group has adequate capital to operate our business independently, and has sufficient internal resources to support our daily operations.

During the Track Record Period, our Group had certain non-trade related amounts due to/from our Controlling Shareholders or their respective close associates, please refer to the section headed “*Financial Information — Related Party Transactions*” of this prospectus and Note 21 of the Accountants’ Report set out in Appendix I to this prospectus for further details. As at the Latest Practicable Date, (i) all amounts due from our Controlling Shareholders or their respective close associates had been repaid to us; and (ii) all amounts due to Kanghua Group had been fully settled. During the Track Record Period, certain bank borrowings were secured/guaranteed by our Controlling Shareholders and/or their respective close associates and properties held by our Controlling Shareholders, please refer to the section headed “*Financial Information — Indebtedness*” of this prospectus and Note 24 of the Accountants’ Report set out in Appendix I to this prospectus for further details. Such securities/guarantees provided to our Group for bank borrowings had been released as at the Latest Practicable Date. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and a strong credit profile to support its daily operations. There will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders or their respective close associates in favour of our Group or vice versa upon the Listing. We engaged an independent internal control consultant to assist us in putting in place controls in relation to transactions with connected persons and their associates to ensure that any advances to or from such persons are in compliance with the Listing Rules.

Having considered that our future operations are not expected to be financed by our Controlling Shareholders or their respective close associates, we believe our Group is financially independent of our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Corporate Governance

Our Company will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders.

We recognise the importance of good corporate governance to protect the interests of our Shareholders. We have adopted the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

- (i) where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or its close associates has a material interest, our Controlling Shareholder shall not vote on the resolutions and shall not be counted in the quorum for the voting;
- (ii) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with any of our Controlling Shareholders or its close associates, our Company will comply with the applicable Listing Rules;
- (iii) our Board consists of a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, details of whom are set out in "*Directors, Supervisors and Senior Management*", individually and together possess the requisite knowledge and experience to be a member of our Board. All of our independent non-executive Directors are experienced and will provide impartial and professional advice to protect the interest of our minority Shareholders;
- (iv) where advice from independent professionals, such as that from financial advisers, is reasonably requested by our Directors (including our independent non-executive Directors), the appointment of such independent professionals will be made at our Company's expenses; and
- (v) we have appointed TC Capital International Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to corporate governance.

Based on the above, we believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority shareholders' rights after the Listing.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

We have entered into certain agreements with entities that will constitute our connected persons and such arrangements will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

Connected persons

Upon the Listing (whether or not the Over-allotment Option is exercised), Kanghua Group will hold more than 10% of the total issued share capital of our Company and will remain as our substantial Shareholder under the Listing Rules. Under Rule 14A.07(1) of the Listing Rules, Kanghua Group will become our connected person upon the Listing.

As Mr. Wang Junyang, being our executive Director and one of our Controlling Shareholders, controls more than 30% of equity interest in Tongli Enterprise, under Rule 14A.07(4) of the Listing Rules, Tongli Enterprise will become our connected person upon the Listing.

Mr. Wang Junyang, being our executive Director and a Controlling Shareholder, will become our connected person upon the Listing under Rule 14.07(1) of the Listing Rules.

Thus, our transactions with Kanghua Group, Tongli Enterprise and Mr. Wang Junyang which will continue after the Listing, will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules. Details of these transactions, as well as the waivers granted by the Hong Kong Stock Exchange from strict compliance with the relevant requirements in Chapter 14A of the Listing Rules, are set out below.

Continuing connected transactions

Summary table of our continuing connected transactions

Nature of transactions	Applicable Listing Rules		Proposed annual caps for the year ending 31 December		
	Rules	Waiver sought	2016	2017	2018
			RMB (million)		
The Healthcare Services Framework Agreement	14A.76(1)(c)	None	N/A		
The Kanghua Hospital Lease Agreement	14A.31 14A.34 14A.35 14A.36 14A.49 14A.52 14A.71 14A.72	Announcement and independent Shareholders' approval requirements and requirement on the period for the agreement	Amount to be paid to Kanghua Group 20.0 24.0 26.0		

CONNECTED TRANSACTIONS

Nature of transactions	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending 31 December		
			2016	2017	2018
			RMB (million)		
The Renkang Hospital Lease Agreement	14A.31 14A.34 14A.35 14A.36 14A.49 14A.52 14A.71 14A.72	Announcement and independent Shareholders' approval requirements and requirement on the period for the agreement	Amount to be paid to Tongli Enterprise 3.2 3.4 3.7		

Exempt continuing connected transaction

The Healthcare Services Framework Agreement

(a) *Description of the transaction*

On 1 July 2016, our Company entered into the Healthcare Services Framework Agreement with Mr. Wang Junyang. Details of the key terms of the Healthcare Services Framework Agreement are as follows:

Service receiver:	Mr. Wang Junyang and companies controlled by him
Service provider:	Our Group, including Kanghua Hospital and Renkang Hospital
Term:	Renewable term of three years commencing from 1 January 2016 to 31 December 2018 (both days inclusive)
Scope of services:	general employee healthcare services, in particular employee physical examination and work-related injuries services

The relevant service receiver and service provider will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Healthcare Services Framework Agreement. Pursuant to such agreement, the terms and conditions for the healthcare services provided by our Group to Mr. Wang Junyang or companies controlled by him shall not be more favourable than those offered by our Group to independent third parties seeking similar services.

(b) *Reasons for the transaction*

In the past, companies controlled by Mr. Wang purchased healthcare services for their employees from our hospitals from time to time. These services are expected to continue from time to time after the Listing and generate revenue for our Group. As these services will be provided by our hospitals in the ordinary course of business on terms and conditions no more favourable than those offered to independent third parties seeking similar services, the Healthcare Services Framework Agreement is in line with the business operations and interests of our Group.

CONNECTED TRANSACTIONS

(c) *Historical transaction amounts*

The service fees payable by companies controlled by Mr. Wang Junyang to Kanghua Hospital or Renkang Hospital for the provision of employee healthcare services for each of the three years ended 31 December 2015 and the four months ended 30 April 2016 were approximately RMB91,000, RMB75,000, RMB73,000 and RMB13,000, respectively.

(d) *Listing Rules requirements*

As the highest relevant percentage ratio in respect of the maximum aggregate transaction amount under the Healthcare Services Framework Agreement is expected to be, on an annual basis, less than 5% and the total consideration is expected to be less than HK\$3,000,000 and it is on normal commercial terms or better, the Healthcare Services Framework Agreement will be exempt to Rule 14A.76(1)(c) of the Listing Rules from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Non-exempt continuing connected transactions

1. *The Kanghua Hospital Lease Agreement*

(a) *Description of the transaction*

On 10 April 2016, Kanghua Hospital, our wholly-owned subsidiary, entered into the Kanghua Hospital Lease Agreement with Kanghua Group. Details of the key terms of the Kanghua Hospital Lease Agreement are as follows:

Landlord:	Dongguan Kanghua Investment Group Co., Ltd. (東莞市康華投資集團有限公司)
Tenant:	Dongguan Kanghua Hospital Co., Ltd. (東莞康華醫院有限公司)
Premises:	The land and buildings situated at Dongguan Avenue, Nancheng District, Dongguan, Guangdong Province, PRC (中國廣東省東莞市南城區東莞大道)
Term:	10 years commencing from 1 January 2016 to 31 December 2025 (both days inclusive)
Rent:	<p>The annual rent will be equal to the product of (i) the actual GFA used by the tenant during the year (which shall not be less than 254,896.14 sq.m.); and (ii) price per sq.m.</p> <p>The initial price per sq.m. for the year 2016 is RMB6.5. The price per sq.m. is subject to an increment of 7% every year which was determined with reference to historical PRC GDP growth rate.</p> <p>The annual rent is payable in arrears on 31 March every year.</p>
Usage:	Provision of healthcare services and staff accommodation facilities
Termination:	The landlord may terminate the lease agreement if (i) the tenant without any excuse intentionally fails to pay the annual rent within 90 days of it falling due; or (ii) the tenant uses the premises for illegal purposes.
Renewal:	The tenant may request the landlord to renew the lease by giving notice 90 days before the expiry of the lease, and the landlord shall not unreasonably refuse to renew the lease.

CONNECTED TRANSACTIONS

If the landlord decides not to renew the lease, it must give the tenant at least one year advance notice prior to expiry. In addition, (i) the landlord shall have an obligation to assist the tenant in locating an alternative site for operation and to provide all reasonable assistance required for the tenant's relocation; (ii) the landlord shall compensate the tenant for economic losses (including loss of revenue) and the necessary relocation expenses as a result of the relocation; and (iii) the landlord shall allow the tenant to occupy and use the premises until the tenant's relocation is completed and the day-to-day operation of the tenant at the new premises has commenced.

First right of refusal:	If the landlord decides to dispose of the premises, it shall give the tenant advance notice. The tenant shall have a first right of refusal to purchase the premises under the same conditions at the prevailing fair market price (or such amount to be determined by a jointly appointed independent third party valuer).
Maintenance:	During the term of the lease, the tenant shall be responsible for the maintenance of the relevant properties. Any re-fitting or renovation of the buildings or facilities shall be on the account of the tenant.

(b) *Reasons for the transaction*

We have started to lease and use the above premises since the commencement of operations of Kanghua Hospital. Any relocation may cause unnecessary disruption to our business operations and incur unnecessary costs.

Under the Listing Rules, the Kanghua Lease Agreement should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires the agreement to be of a longer period. Our Directors are of the view that it is in the interests of our Group for the Kanghua Hospital Lease Agreement to have a 10-year term as it will enable Kanghua Hospital to secure its current premises for its long term hospital operations at fair market price, and to minimise the risk of unnecessary cost, time and interruption of business caused by relocation in the case of short term lease. As such, our Directors are of the view that the lease term of 10 years is appropriate for the Kanghua Hospital Lease Agreement and it is the normal business practice for lease agreements of this type to be of a long-term duration.

(c) *Historical transaction amounts*

The rent paid/payable by Kanghua Hospital to Kanghua Group for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2016 was approximately RMB15.0 million, RMB15.0 million, RMB15.0 million and RMB6.6 million, respectively. JLL, an independent property valuer and consultant, has confirmed that the historical rents paid by Kanghua Hospital to Kanghua Group for the years ended 31 December 2013, 2014 and 2015 were fair and reasonable and represented the prevailing market rates at the relevant time for similar properties in the locality that were used for similar purposes in the PRC.

CONNECTED TRANSACTIONS

(d) *Annual caps*

The maximum aggregate annual amount of rent payable by Kanghua Hospital to Kanghua Group in 2016, 2017 and 2018 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December		
	2016	2017	2018
	RMB (million)		
Total rent payable to Kanghua Group	20.0	24.0	26.0

In determining the above annual caps, our Directors have taken into account (i) the annual growth rate of price per sq.m. of 7% under the Kanghua Hospital Lease Agreement which was determined with reference to historical PRC GDP growth and confirmed by JLL to be fair and reasonable; and (ii) the anticipated expansion of Kanghua Hospital requiring more leased GFA.

(e) *Listing Rules requirements*

As the highest relevant percentage ratio in respect of the Kanghua Hospital Lease Agreement (on an aggregated basis with the Renkang Hospital Lease Agreement as described in “— *Non-exempt continuing connected transactions* — 2. *The Renkang Hospital Lease Agreement*”) will be, on an annual basis, more than 5% and the total consideration is expected to exceed HK\$10,000,000, the Kanghua Hospital Lease Agreement would, upon the Listing, and in the absence of the grant of a waiver by the Hong Kong Stock Exchange as referred to in the section headed “— *Waiver applications for non-exempt continuing connected transactions*” below, be subject to the announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

At the end of 2018, our Company will re-comply with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, where and if applicable, including the requirements for the setting of new monetary annual caps for the maximum aggregate rent payable under the Kanghua Hospital Lease Agreement for an additional three year period.

Under the requirements of the Listing Rules, and in the absence of the grant of a waiver by the Hong Kong Stock Exchange as referred to in the section headed “— *Waiver applications for non-exempt continuing connected transactions*” below, the Kanghua Lease Agreement should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer period.

2. *The Renkang Hospital Lease Agreement*

(a) *Description of the transaction*

On 10 April 2016, Renkang Hospital, our 57%-owned subsidiary, entered into the Renkang Hospital Lease Agreement with Tongli Enterprise. Details of the key terms of the Renkang Hospital Lease Agreement are as follows:

Landlord: Dongguan Tongli Enterprise Co., Ltd. (東莞市同力實業有限公司)

CONNECTED TRANSACTIONS

Tenant:	Dongguan Renkang Hospital Co., Ltd. (東莞仁康醫院有限公司)
Premises:	The land and buildings situated at 88 Dongxi Road, Xitou Village, Houjie Town, Dongguan, Guangdong Province, PRC (中國廣東省東莞市厚街鎮溪頭村東溪路88號)
Term:	10 years commencing from 1 January 2016 to 31 December 2025 (both days inclusive)
Rent:	<p>The annual rent will be equal to the product of (i) the actual GFA used by the tenant during the year (which shall not be less than 73,265.62 sq.m.); and (ii) price per sq.m.</p> <p>The initial price per sq.m. for the year 2016 is RMB3.6. The price per sq.m. is subject to an increment of 7% every year which was determined with reference to historical PRC GDP growth rate.</p>
Usage, termination, renewal, first right of refusal, maintenance:	Other terms of the Renkang Hospital Lease Agreement, including the usage, termination, renewal, first right of refusal and maintenance, are identical to the ones in Kanghua Hospital Lease Agreement described above. Refer to “— <i>Non-exempt continuing connected transactions — 1. The Kanghua Hospital Lease Agreement</i> ” for further details.

(b) *Reasons for the transaction*

We have started to lease and use the above premises since the commencement of operations of Renkang Hospital. Any relocation may cause unnecessary disruption to our business operations and incur unnecessary costs.

Under the Listing Rules, the Renkang Lease Agreement should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires the agreement to be of a longer period. Our Directors are of the view that it is in the interests of our Group for the Renkang Hospital Lease Agreement to have a 10-year term as it will enable Renkang Hospital to secure its current premises for its long term hospital operations at fair market price, and to minimise the risk of unnecessary cost, time and interruption of business caused by relocation in the case of short term lease. As such, our Directors are of the view that the lease term of 10 years is appropriate for the Renkang Hospital Lease Agreement and it is the normal business practice for lease agreements of this type to be of a long-term duration.

(c) *Historical transaction amounts*

The rent payable/paid by Renkang Hospital to Tongli Enterprise for the years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2016 was approximately RMB2.6 million, RMB2.9 million, RMB3.2 million and RMB1.1 million, respectively. JLL, an independent property valuer and consultant, has confirmed that the historical rents paid by Renkang Hospital to Tongli Enterprise for the years ended 31 December 2013, 2014 and 2015 were fair and reasonable and represented the prevailing market rates at the relevant time for similar properties in the locality that were used for similar purposes in the PRC.

CONNECTED TRANSACTIONS

(d) *Annual caps*

The maximum aggregate annual amount of rent payable by Renkang Hospital to Tongli Enterprise in 2016, 2017 and 2018 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December		
	2016	2017	2018
	RMB (million)		
Total rent payable to Tongli Enterprise . . .	3.2	3.4	3.7

In determining the above annual caps, our Directors have taken into account the annual growth rate of price per sq.m. of 7% under the Renkang Hospital Lease Agreement which was determined with reference to historical PRC GDP growth and confirmed by JLL to be fair and reasonable.

(e) *Listing Rules requirements*

As the highest relevant percentage ratio in respect of the Renkang Hospital Lease Agreement (on an aggregated basis with the Kanghua Hospital Lease Agreement as described in “— *Non-exempt continuing connected transactions — 1. The Kanghua Hospital Lease Agreement*”) will be, on an annual basis, more than 5% and the total consideration is expected to exceed HK\$10,000,000, the Renkang Hospital Lease Agreement would, upon the Listing, and in the absence of the grant of a waiver by the Hong Kong Stock Exchange as referred to in the section headed “— *Waiver applications for non-exempt continuing connected transactions*” below, be subject to the announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

At the end of 2018, our Company will re-comply with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, where and if applicable, including the requirements for the setting of new monetary annual caps for the maximum aggregate rent payable under the Renkang Hospital Lease Agreement for an additional three year period.

Under the requirements of the Listing Rules, and in the absence of the grant of a waiver by the Hong Kong Stock Exchange as referred to in “— *Waiver applications for non-exempt continuing connected transactions*” below, the Renkang Lease Agreement should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer period.

Waiver applications for non-exempt continuing connected transactions

By virtue of Rules 14A.74 and 14A.76(2) of the Listing Rules, each of the transactions under the sub-section “— *Non-exempt continuing connected transactions*” will constitute connected transactions subject to reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. As these non-exempt continuing connected transactions are expected to continue on a recurring and continuing basis, our Directors (including our independent non-executive Directors) consider that compliance with the above announcement and independent shareholders’ approval requirements will be impractical, will add unnecessary administrative costs and will be unduly burdensome.

CONNECTED TRANSACTIONS

Accordingly, our Company has applied for, and the Hong Kong Stock Exchange has granted to our Company, a waiver from strict compliance with the announcement and the approval of independent shareholders requirements under Rule 14A.105 of the Listing Rules in respect of each of the above non-exempt continuing connected transactions. The waiver granted by the Hong Kong Stock Exchange for the above non-exempt continuing connected transactions will expire on 31 December 2018. Upon expiry of the waiver, such non-exempt continuing connected transactions will be subject to the then applicable Listing Rules.

Also, our Company has applied for, and the Hong Kong Stock Exchange has granted to our Company, a waiver from strict compliance with the requirement under Rule 14A.52 of the Listing Rules for each of (i) the Kanghua Hospital Lease Agreement (10-year term ending on 31 December 2025); and (ii) the Renkang Hospital Lease Agreement (10-year term ending on 31 December 2025) such that it will exceed three years.

Confirmation from our Directors

Our Directors (including our independent non-executive Directors) are of the view that (i) the continuing connected transactions set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and that (ii) the proposed annual caps in respect of the non-exempt continuing connected transactions and duration are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Confirmation from the independent valuer

JLL, an independent property valuer, is of the view that in light of the prevailing market conditions and rental level of similar types of properties in the vicinity, the premises under each of the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement, are leased on normal commercial terms and the rentals payable (including the annual rental increment of 7%) under each of these agreements are at market level and are fair and reasonable.

JLL is also of the view that, in respect of the duration of each of (i) the Kanghua Hospital Lease Agreement (10-year term ending on 31 December 2025); and (ii) the Renkang Hospital Lease Agreement (10-year term ending on 31 December 2025), it is normal business practice for agreements of this type to be of such duration.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and that (ii) the proposed annual caps of such non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The Sole Sponsor is also of the view that, in respect of the duration of each of (i) the Kanghua Hospital Lease Agreement (10-year term ending on 31 December 2025); and (ii) the Renkang Hospital Lease Agreement (10-year term ending on 31 December 2025), it is normal business practice for agreements of this type to be of such duration.

USE OF PROCEEDS

The net proceeds from the Global Offering which our Company will receive, in the event the Over-allotment Option is not exercised and assuming an Offer Price of HK\$13.05 (being the mid-point of the Offer Price Range), will be approximately HK\$1,004.6 million, after deducting the estimated underwriting fees and commissions, incentive fees and expenses in relation to the Global Offering payable by our Company.

Our Company intends to use the net proceeds from the Global Offering as follows:

- approximately HK\$90.4 million (or 9% of the net proceeds) will be used to expand and ramp up our existing healthcare services at Kanghua Hospital and Renkang Hospital, in particular our offerings of high-end special services as set out in “*Business — Our Healthcare Services — Expansion of our healthcare services*”. We intend to allocate this capital expenditure in the following manner:
 - approximately 56% will be applied to (i) increase our operating capacity in O&G, cardiovascular and oncology disciplines, including hiring more staff and patient zone expansion; we expect to deploy a total of 150 additional beds to these disciplines by the end of 2017; and (ii) increase our operating capacity in high-end special services, including hiring more specialists and patient zone expansion for reproductive medicine and VIP outpatient services; and
 - approximately 44% will be applied to increase our operating capacity in VIP inpatient healthcare services by furnishing the 3rd phase of Huaxin Building; we expect to deploy 100 additional beds to VIP inpatient services by the end of 2017.

Although the overall hospital bed utilisation rate at each of our hospitals had decreased during the Track Record Period, we intend to apply a portion of the net proceeds from the Global Offering to increase our existing operating capacity in specific disciplines that we believe will exhibit strong growth in line with our strategy. These hospital beds require specific configurations and are not interchangeable with other regular ward beds. In particular, we expect: (i) the demand for our O&G services will increase in view of the two-child policy; (ii) our strength and reputation in cardiovascular discipline will continue to attract more patients; (iii) our oncology services will considerably expand as we acquire new capability in specialised treatment and diagnosis; and (iv) our VIP healthcare services will continue to gain popularity given the increasingly affluent population and demand for quality healthcare services;

- approximately HK\$361.6 million (or 36% of the net proceeds) will be used to expand our operating capacity and capability in multi-disciplinary specialised treatment and diagnosis and upgrade the medical facilities of Kanghua Hospital and Renkang Hospital. We intend to allocate this capital expenditure in the following manner:
 - approximately 56% will be applied to develop our capability in proton therapy (質子治療), a cutting-edge radiotherapy for the treatment of complex cancers with significantly fewer side effects; this will involve the establishment of a large scale dedicated medical centre equipped with a suite of advanced equipment and systems;
 - approximately 42% will be applied to the purchase of advanced medical technology equipment in radiology and nuclear medicine, such as gamma knife and linear accelerator for the treatment of tumours and PET/CT scanner for advanced diagnosis of diseases; and

USE OF PROCEEDS

- approximately 2% will be applied to improve our hospital environment, install advanced laboratories, deploy additional examination rooms and beds for specialised treatments and diagnosis and improve our mobile and online intelligent medical platform;
- approximately HK\$100.5 million (or 10% of the net proceeds) will be used to expand our hospital consultancy and management operations with third party hospitals in the PRC. As at the Latest Practicable Date, other than Zhonglian Cardiovascular Hospital, we had not identified any other hospitals with which to enter into consultancy and management agreements. We intend to allocate this capital expenditure in the following manner:
 - approximately 49% will be applied to our management agreement with respect to Zhonglian Cardiovascular Hospital, out of which (i) approximately 50% will be used for the purchase of medical equipment that will be leased to Zhonglian Cardiovascular Hospital; (ii) approximately 25% will be used to provide further capital support; and (iii) approximately 25% will be used to hire additional management staff in view of the anticipated expansion of the hospital to 500 beds by its third year of operation and other related costs, such as the provision of training to the expanding hospital staff; and
 - approximately 51% will be applied to new consultancy and management operations to be identified. As at the Latest Practicable Date, we had yet to identify any such opportunities. We target to commence new consultancy and management operations in or around 2017. Depending on the terms negotiated, management model and type of managed hospitals identified, we estimate this capital expenditure will primarily involve the purchase of medical equipment, hiring management staff and providing on-going guidance and training to hospital staff and/or providing capital support, as appropriate;
- approximately HK\$351.6 million (or 35% of the net proceeds) will be used to expand our healthcare operations in the PRC, including through selective mergers with and acquisitions of other hospitals. We will initially focus on identifying regions in the PRC where healthcare resources are scarce and demand for quality healthcare services is unmet. As at the Latest Practicable Date, we had not identified any specific acquisition targets. Historically, we adopted the strategy of growing organically through our hospitals, particularly Kanghua Hospital. Hospitals by their nature have a limited service area. While we are confident we will be able to achieve consistent growth in our existing hospitals and differentiate ourselves from our competitors, it is inevitable that in the long term our growth will be limited by demographics. To maintain our competitiveness in the long term, we recognise the need to expand our hospital operations nation-wide to create economies of scale and scope as a hospital network. We anticipate that the enhanced influence of a larger hospital network will increase our bargaining power with suppliers, which will in turn improve our margins. A hospital network may also reduce duplicative functions and increase our overall efficiency. Barriers to entry for new hospitals to start up are high. Mergers with and acquisitions of existing hospitals will enable us to gain rapid entry into the market of choice. As mergers with and acquisitions of hospitals are expected to involve high upfront capital requirement, we intend to use a significant portion of the net proceeds from the Global Offering for such purposes. Although our experience in mergers and acquisitions is limited, through developing Kanghua Hospital into an institutional scale Grade A Class III multi-disciplinary general hospital, we believe we have accumulated a wealth of experience

USE OF PROCEEDS

and expertise that would enable us to manage acquired hospitals, including general and specialty hospitals, effectively. In particular, as we intend to target small and medium sized hospitals with 300 to 500 beds, it is expected that such hospitals, being less clinically complex and significantly smaller in scale than Kanghua Hospital, will be well within our capability to manage; and

- approximately HK\$100.5 million (or 10% of the net proceeds) will be used for providing funding for working capital and other general corporate purposes.

If the actual net proceeds from the Global Offering are lower than the aforesaid amounts, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. If the actual net proceeds from the Global Offering exceed the aforesaid estimated amounts, the surplus will be applied to supplement our working capital.

Pending the deployment of the net proceeds from the Global Offering as described above, our Company currently intends to deposit such net proceeds into short-term interest bearing deposits and/or money market instruments.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$13.05 (being the mid-point of the Offer Price Range), the net proceeds which our Company will receive will be approximately HK\$1,164.1 million, after deducting the estimated underwriting fees and commissions, incentive fees and expenses in relation to the Global Offering payable by our Company.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
CMB International Capital Limited
ABCI Securities Company Limited
BOCOM International Securities Limited
Zhaobangji International Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our H Shares to be offered as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming and remaining unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) may, in its sole and absolute discretion, be entitled by notice in writing to the Company to terminate this Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- i. there shall develop, occur, exist or come into effect:
 - (a) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak or escalations of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to the Group (collectively, the “**Relevant Jurisdiction**”); or
 - (b) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (c) any change or development involving a prospective change, or any event or series of events resulting or likely to result in or representing any change or development, or any prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market matters or conditions or exchange control or any monetary or trading settlement system (including, without limitation, a change in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) or a change in the system under which the value of the Hong Kong Dollar is linked to the United States Dollar or revaluation of HK dollar or Renminbi against any foreign currencies or a change in any other currency exchange rates, in any of the Relevant Jurisdictions; or
- (d) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any other jurisdiction relevant to any member of the Group, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of the Relevant Jurisdictions; or
- (e) the imposition of any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (f) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (g) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in any of the Relevant Jurisdictions adversely affecting an investment in the H Shares; or
- (h) any adverse change or development or event involving any prospective adverse change or development in the assets, liabilities, profit, losses, earnings, results of operations, business, performance, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group; or
- (i) the outbreak or escalation of hostilities (whether or not war is or has been declared) involving or affecting any of the Relevant Jurisdictions or the declaration by any of the Relevant Jurisdictions of a national emergency or war or any other national or international calamity or crisis; or
- (j) any event, or series of events, in the nature of force majeure in or affecting directly or indirectly any of the Relevant Jurisdictions (including, without limitation, any act of God, act of government, declaration of a national or international emergency or war, calamity, crisis, riot, public disorder, civil commotion, fire, flood, explosion, epidemic (including SARS, swine or avian flu, H5N1, H1N1, H7N9 or such related/mutated forms), pandemic, outbreak of infectious disease, economic sanctions, earthquake, terrorism, strike, labour dispute or lock-out); or

UNDERWRITING

- (k) any Director or Supervisor being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any government, political, regulatory body of any action against any Director or Supervisor in his capacity as such or an announcement by any governmental, political regulatory body that it intends to take any such action; or
- (l) the Chairman, Chief Executive Officer or any Director of the Company vacating his office; or
- (m) any governmental authority or a political or regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or take other action, or announcing an intention to investigate or take other action, against any member of the Group or any Director; or
- (n) any imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions on the PRC or any other jurisdiction relevant to any member of the Group; or
- (o) any litigation or claim being threatened or instigated against the any member of the Group; or
- (p) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Listing Rules or other applicable Laws; or
- (q) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling the Offer Shares (including the H Shares allotted or sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (r) non-compliance of this prospectus or the Application Forms (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (s) except with the prior written consent of the Sole Global Coordinator, the issue or requirement to issue by the Company of any supplement or amendment to the Hong Kong Prospectus, Application Forms, or other documents in connection with the offer and sale of the H Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or
- (t) an order or a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (u) a valid demand by any creditor for repayment or payment of any of the indebtedness of any member of the Group or in respect of which that member of the Group is liable prior to its stated maturity, or any loss or damage sustained by that member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (1) is or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses,

UNDERWRITING

results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the success of the Hong Kong Public Offering or the International Offering or the level of applications under the Hong Kong Public Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable or incapable for any part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering or the delivery of the Offered Shares to be performed or implemented or proceed as envisaged or to market the Global Offering in the manner contemplated by this prospectus; or (4) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting the Hong Kong Public Offering and/or the Global Offering) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- ii. there comes to the notice of the Sole Global Coordinator, the Sole Sponsor or any of the Hong Kong Underwriters:
- (a) any statement contained in any of this prospectus, the Application Forms and the Formal Notice and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or inaccurate in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation expressed or contained in any of the Hong Kong Prospectus, the Application Forms and the Formal Notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (b) non-compliance of the Hong Kong Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
 - (c) any matter or event arising or has been discovered rendering or there coming to the notice of any of the Sole Global Coordinator or the Hong Kong Underwriters any matter or event showing any of the representations, warranties and undertakings given by the Company or the Controlling Shareholders in this Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or incomplete in any material respect, or misleading or having been breached; or
 - (d) any matter or event, act or omission which gives or is likely to give rise to any material liability of the Company or the Controlling Shareholders pursuant to the indemnities given by the Company, the Controlling Shareholders or any of them under the Hong Kong Underwriting Agreement; or
 - (e) any breach on the part of the Company and/or the Controlling Shareholders of any provisions of or obligations under the Hong Kong Underwriting Agreement or the International Underwriting Agreement in any material respect; or

UNDERWRITING

- (f) any material adverse change or development involving a prospective material adverse change or development in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, properties, results of operations, position or condition (financial or otherwise) of the Group, including any litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (g) any of the experts (other than the Sole Sponsor) specified in this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (h) the Company has withdrawn this prospectus, the Application Forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (i) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares, subject only to allotment and the dispatch of share certificates in respect thereof, is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (j) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus, not having been disclosed in the Hong Kong Prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents (including any supplement or amendment thereto) issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering; or
- (k) the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors having been withdrawn, terminated or cancelled or a material portion of the orders in the bookbuilding process at the time the International Underwriting Agreement is entered into having been withdrawn, terminated or cancelled and such withdrawn, terminated or cancelled orders not having been fully covered by other orders at or before 4:00 p.m. on 1 November 2016 (the "**replacement orders**") or any replacement order having been subsequently withdrawn, terminated or cancelled, and the Sole Global Coordinator, in its sole discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering.

Lock-up

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 Listing 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 Listing Date), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), that he/she or it will not, and shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he/she or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (“**Parent Shares**”); or
- (b) during the period of six months commencing on the date on which the First Six-month Period expires (“**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she or it would cease to be our controlling shareholder (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he/she or it will:

- (a) if he/she or it pledges or charges any of our securities beneficially owned by him/her or it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately informs us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he/she or it receives indications, either verbal or written, from the pledgee or charge that any of his/her or its pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken with each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), our Company will not and will procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the

UNDERWRITING

requirements of the Listing Rules and only after the consent of any relevant PRC authority (if so required) has been obtained, at any time during the First Six-month Period:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable), or deposit any H Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares, debt capital or other securities of our Company or any shares, debt capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any shares or other securities of such other member of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in sub-paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above is to be settled by delivery of H Shares or other securities of our Company or shares or debt capital or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such H Shares or other shares or securities will be completed within the First Six-month Period).

If our Company enters into any of the foregoing transactions described in sub-paragraphs (i) to (iii) above or offers to or agrees to or announces, or publicly disclose, any intention to effect any such transaction during the Second Six-Month Period, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company. Our Controlling Shareholders also undertook to the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor to procure our compliance with the undertakings above.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to each of us, the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules and only after the consent of any relevant PRC authority (if so required) has been obtained:

UNDERWRITING

- (i) he or she will not, at any time during the First Six-Month Period:
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any such other securities as applicable), or deposit any H Shares or other securities of our Company with a depository in connection with the issue of depository receipts; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any such other securities as applicable); or
 - (c) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (a) or (b) above; or
 - (d) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraphs (a), (b) or (c) above, in each case, whether any of the transactions specified in sub-paragraphs (a), (b) or (c) above is to be settled by delivery of H Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such H Shares or other securities will be completed within the First Six-Month Period);
- (ii) he or she will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraphs (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he or she will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (iii) until the expiry of the Second Six-Month Period, in the event that he or she enters into any of the transactions specified in sub-paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, he or she will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we and the Controlling Shareholders will enter into the International Underwriting Agreement with the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set forth therein, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering, or procure purchasers for such International Offer Shares.

UNDERWRITING

It is expected that our Company will grant to the International Underwriters the Over-allotment Option, exercisable by CICC (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 12,600,000 additional H Shares, representing approximately 15% of the initial Offer Shares, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any.

Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach of the Hong Kong Underwriting Agreement by us. It is expected that we will also indemnify the International Underwriters for certain losses which they may suffer.

Commission and Expenses

The Sole Global Coordinator (on behalf of the Hong Kong Underwriters) will receive an underwriting commission of 3% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. In addition, we may at our sole and absolute discretion pay the Sole Global Coordinator an incentive fee of up to 1.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$13.05, being the mid-point of the Offer Price range of HK\$11.60 to HK\$14.50 per Offer Share, the fees and commissions in connection with the Hong Kong Public Offering and the International Offering, together with the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount to approximately RMB79.6 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 advisors and service providers engaged by us in relation to the Global Offering will be borne by us. We will reimburse the Sole Global Coordinator (on behalf of the Underwriters) and the Sole Sponsor for expenses they incurred in relation to the Global Offering.

Underwriters' Interests in our Company

Save for their respective obligations under the Underwriting Agreements and save as otherwise disclosed in this prospectus, 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 Global Offering.

UNDERWRITING

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC and the U.S.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

UNDERWRITING

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the relevant rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in the section headed “*Structure of the Global Offering*” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares) whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set forth in “*Structure of the Global Offering*”.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering of 84,000,000 H Shares comprises:

- (i) the Hong Kong Public Offering of 8,400,000 H Shares (subject to reallocation) in Hong Kong, as described below in the paragraph headed “The Hong Kong Public Offering”; and
- (ii) the International Offering of an aggregate of 75,600,000 H Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares within Hong Kong) in offshore transactions in reliance on Regulation S,

to be offered by us.

The 84,000,000 H Shares being offered by our Company under the Global Offering will represent about 25.15% of our Company’s enlarged share capital immediately after completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in Offer Shares under the International Offering, but may not apply in both the Hong Kong Public Offering and the International Offering.

References in this prospectus to “applications”, “Application Forms”, “application monies” or the “procedure for application” relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

Our Company is initially offering 8,400,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering subject to the reallocation of Offer Shares between (i) the International Offering; and (ii) the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers), whose ordinary business involves dealing in shares and other securities, and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— *Conditions of the Hong Kong Public Offering*” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such

STRUCTURE OF THE GLOBAL OFFERING

allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in such a ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 4,200,000 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). The Hong Kong Offer Shares in pool B will consist of 4,200,000 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “subscription price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 4,200,000 Hong Kong Offer Shares, being the number of Hong Kong Offer Shares initially allocated to each pool, are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; or (iii) 100 times or more than the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 25,200,000 Offer Shares (in the case of (i)), 33,600,000 Offer Shares (in the case of (ii)) and 42,000,000 Offer Shares (in the case of (iii)), representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may, at its discretion, reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Offer Shares from the Hong Kong Public Offering to the International Offering in such proportions as the Sole Global Coordinator deems appropriate.

STRUCTURE OF THE GLOBAL OFFERING

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he, or any person(s) for whose benefit he is making the application, has not applied for, taken up or indicated an interest in, and will not apply for, take up or indicate an interest in, any Offer Shares under the International Offering. Such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been, or will be, placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$14.50 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— *Pricing and Allocation*” below, is less than the maximum Offer Price of HK\$14.50 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “*How to Apply for the Hong Kong Offer Shares*” in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

The International Offering will consist of an initial offering of 75,600,000 H Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund Managers), whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “— *Pricing and Allocation*” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell his/its Shares after the listing of our Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our Company's and our Shareholders' benefit as a whole.

The Sole Global Coordinator (on behalf of the International Underwriters) may require investors who have been offered Offer Shares under the International Offering and who have made applications under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such applications are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The total number of Offer Shares to be sold and issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “— *The Hong Kong Public Offering — Reallocation*” in this section, any exercise of the Over-allotment Option and/or any reallocation of unsold Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 12,600,000 H Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover, among other things, over-allocations in the International Offering (if any). In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements of the relevant jurisdictions. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, CICC, as Stabilising Manager, its affiliates or any persons acting for it (on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilising or supporting the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of the H Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any persons acting for it to conduct any such stabilising action. Such stabilising action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering and conducted at the absolute discretion of the Stabilising Manager, its affiliates or any persons acting for it, and may be discontinued at any time. The number of H Shares that may be over-allocated will not be greater than the number of H Shares that may be sold upon exercise of the Over-allotment Option, being an aggregate of 12,600,000 additional H Shares, which is 15% of the Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares will represent about 27.87% of our Company's enlarged issued share capital on completion of the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the H Shares; (iii) purchasing or agreeing to purchase the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling or agreeing to sell our Shares in order to liquidate any position established as a result of the abovementioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the H Shares;
- there is no certainty as to the extent to which, and the time or period for which, the Stabilising Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation and selling of any such long position in the open market by the Stabilising Manager, its affiliates or any person acting for it may have an adverse impact on the market price of the H Shares;
- no stabilising action can be taken to support the price of the H Shares for longer than the stabilisation period which will begin on the Listing Date and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it may cover such over-allocation by (among other methods) using Shares purchased by the Stabilising Manager, its affiliates or any person acting for it in the secondary market or exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including those in relation to stabilisation and the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed 12,600,000 H Shares, being the number of H Shares which may be issued and allotted by our Company upon full exercise of the Over-allotment Option and representing 15% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective professional and institutional investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering that they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around 1 November 2016 and in any event no later than 4 November 2016, by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$14.50 per Offer Share and is expected to be not less than HK\$11.60 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction. Upon issue of such notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such announcement(s) will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics and any other financial information in this prospectus which may change as a result of any such reduction. In the absence of any such announcement, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering) are estimated to be approximately HK\$1,004.6 million, assuming an Offer Price of HK\$13.05 per Offer Share, being the approximate mid-point of the proposed Offer Price range of HK\$11.60 to HK\$14.50.

The final Offer Price, the level of indications of interest in the Global Offering and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on 7 November 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

HONG KONG UNDERWRITING AGREEMENT AND INTERNATIONAL UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “*Underwriting*” in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue (including the Shares that may be sold pursuant to any exercise of the Over-allotment Option) and our Shares being offered pursuant to the Global Offering (subject only to allotment);
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and

STRUCTURE OF THE GLOBAL OFFERING

- (iii) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before 4 November 2016, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed “*How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies*”. In the meantime, all application monies will be held in separate bank accounts with the receiving bank of our Company or any other banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. in Hong Kong on 8 November 2016 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed “*Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination*” has not been exercised.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 8 November 2016, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on 8 November 2016.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the designated **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on 27 October 2016 until 12:00 noon on 1 November 2016 from:

- (i) Any of the following addresses of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

CMB International Capital Limited

Units 1803-4, 18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

ABCI Securities Company Limited

10/F, Agricultural Bank of China Tower
50 Connaught Road
Central
Hong Kong

BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Zhaobangji International Capital Limited

Units 1&17, 19/F, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

(ii) Any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island . .	Bank of China Tower Branch	3/F, 1 Garden Road
Kowloon	Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok
	194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O
New Territories	City One Sha Tin Branch	Shop Nos. 24-25, G/F, Fortune City One Plus, No. 2 Ngan Shing Street, Sha Tin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 27 October 2016 until 12:00 noon on 1 November 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — GUANGDONG KANGHUA HEALTHCARE PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, 27 October 2016 — 9:00 a.m. to 5:00 p.m.
- Friday, 28 October 2016 — 9:00 a.m. to 5:00 p.m.
- Saturday, 29 October 2016 — 9:00 a.m. to 1:00 p.m.
- Monday, 31 October 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 1 November 2016 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 1 November 2016, the last application day or such later time as described in “— 10. *Effect of Bad Weather on the Opening of the Applications Lists*” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Please follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

- (i) **undertake** to execute all relevant documents and instruct and authorize our Company and/or the Sole Global Coordinator (or its agents or nominees), as agent of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) **agree** that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) **agree** to disclose to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;
- (xii) **represent, warrant and undertake** that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorize** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfil the criteria mentioned in "Personal Collections" section in the prospectus to collect share certificate(s) and/or refund cheque(s);
- (xvi) **declare and represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) **understand** that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “2. Who can apply” in this section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the designated **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

TIME FOR SUBMITTING APPLICATIONS UNDER THE WHITE FORM eIPO

You may submit your application through the **White Form eIPO** at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 27 October 2016 until 11:30 a.m. on Tuesday, 1 November 2016 and the latest time for completing full payment of application monies in respect of such applications will be at 12:00 noon on Tuesday, 1 November 2016 or such later time under the “— 10. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. The designated **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited will contribute HK\$2 for each “GUANGDONG KANGHUA HEALTHCARE CO., LTD.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center

1/F, One & Two Exchange Square

8 Connaught Place

Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Thursday, 27 October 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, 28 October 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Monday, 31 October 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, 1 November 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 27 October 2016 until 12:00 noon on Tuesday, 1 November 2016 (24 hours daily, except on Saturday, 29 October 2016, Sunday, 30 October 2016 and the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 1 November 2016, the last application day or such later time as described in “— 10. *Effect of Bad Weather on the Opening of the Application Lists*” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instruction** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our H Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 1 November 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees", you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “*Structure of the Global Offering — Pricing and Allocation*”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 1 November 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 1 November 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “*Expected Timetable*” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 7 November 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on our Company’s website at www.kanghuagp.com and the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- In the announcement to be posted on our Company's website at www.kanghuagp.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Monday, 7 November 2016;
- From the designated results of allocations website at www.iporesults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 7 November 2016 to 12:00 midnight on Sunday, 13 November 2016;
- By telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 7 November 2016 to Thursday, 10 November 2016;
- In the special allocation results booklets which will be available for inspection during opening hours from Monday, 7 November 2016 to Wednesday, 9 November 2016 at all the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "*Structure of the Global Offering*".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the designated **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$14.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "*Structure of the Global Offering* —

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be without interest and will be made on or before Monday, 7 November 2016.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- Refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, 7 November 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Tuesday, 8 November 2016 provided that the Global Offering has become unconditional and the right of termination described in the “*Underwriting*” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 7 November 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 7 November 2016, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 7 November 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 7 November 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*
For Hong Kong Offer shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.
- *If you are applying as a CCASS Investor Participant*
Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "*— 11. Publication of Results*" above. You should check the announcement published by our Company and report any discrepancies

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

to HKSCC before 5:00 p.m. on Monday, 7 November 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 7 November 2016, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 7 November 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 7 November 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “— 11. Publication of Results” above on Monday, 7 November 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 7 November 2016 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 7 November 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 7 November 2016.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.



德勤•關黃陳方會計師行
香港金鐘道88號
太古廣場一期35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

27 October 2016

The Directors

Guangdong Kanghua Healthcare Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited

Dear Sirs,

We set out below our report on the financial information relating to 廣東康華醫療股份有限公司 Guangdong Kanghua Healthcare Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2015 and for the four months ended 30 April 2016 (the "Relevant Periods") (the "Financial Information") for inclusion in the prospectus of the Company dated 27 October 2016 in connection with the proposed listing of H Shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

The Company was established as a limited liability company under the name of 東莞市康華實業有限公司 (Dongguan Kanghua Enterprise Co., Ltd.*) in the People's Republic of China (the "PRC") on 30 January 2002. On 30 December 2015, the Company was converted into a joint stock limited company under the name of 廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.), with a share capital of RMB250,000,000 under the Company Law of the PRC. Through a group reorganisation as more fully explained in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus (the "Group Reorganisation"), the Company has become the holding company of the Group since 30 September 2015.

The Company has the following subsidiaries at the date of this report:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest to the Group					Principal activities
			At 31 December			At 30	At date	
			2013	2014	2015	April 2016	of this report	
<i>Directly held</i>								
東莞康華醫院有限公司 Dongguan Kanghua Hospital Co.,Ltd.* ("Kanghua Hospital")	PRC 15 September 2005	Registered capital RMB250,000,000	100%	100%	100%	100%	100%	Operating of hospital

* English translated name is for identification purposes only

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest to the Group					Principal activities
			At 31 December			At 30 April	At date of this report	
			2013	2014	2015	2016		
<i>Directly held</i>								
東莞仁康醫院有限公司 Dongguan Renkang Hospital Co., Ltd.* (“Renkang Hospital”)	PRC 23 August 2005	Registered capital RMB60,000,000	57%	57%	57%	57%	57%	Operating of hospital
東莞康華醫療管理有限公司 Dongguan Kanghua Healthcare Management Co., Ltd.* (“Kanghua Healthcare Management”)	PRC 1 February 2016	Registered capital RMB11,000,000	N/A	N/A	N/A	100%	100%	Inactive
Kanghua Healthcare Management (HK) Company Limited (“Kanghua Healthcare Management (HK)”)	Hong Kong 17 May 2016	Ordinary shares HK\$10,000	N/A	N/A	N/A	N/A	100%	Inactive

All companies now comprising the Group have adopted 31 December as their financial year end date.

The PRC statutory financial statements of the Company and the subsidiaries for each of the three years ended 31 December 2013, 31 December 2014 and 31 December 2015, were prepared in accordance with relevant accounting rules and financial regulations applicable to PRC enterprises and were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	Financial period	Name of certified public accountants
The Company	Years ended 31 December 2013, 31 December 2014 and 31 December 2015	廣東中誠安泰會計師事務所有限公司 (Guangdong CCAT Certified Public Accountants*)
Kanghua Hospital	Year ended 31 December 2013	廣東中誠安泰會計師事務所有限公司 (Guangdong CCAT Certified Public Accountants*)
	Year ended 31 December 2014	東莞市德正會計師事務所有限公司 (Dongguan City Diligent Certified Public Accountants*)
	Year ended 31 December 2015	廣東中誠安泰會計師事務所有限公司 (Guangdong CCAT Certified Public Accountants*)
Renkang Hospital	Years ended 31 December 2013, 31 December 2014 and 31 December 2015	東莞市正中信合會計師事務所 (Dongguan Zhengzhongxinhe Certified Public Accountants*)

* English translated name is for identification purpose only

No statutory audited financial statements have been issued for Kanghua Healthcare Management and Kanghua Healthcare Management (HK) since their respective dates of establishment/incorporation, as their first statutory financial statements are not yet due to be issued.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries, for the Relevant Periods in accordance with accounting policies which conform with International Financial Reporting Standards (“IFRS”) (referred as the “Underlying Financial Statements”). We have performed an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountant (“HKICPA”).

We have also examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 of Section E below. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section E below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Company as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016 and of the financial performance and cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the four months ended 30 April 2015 together with the notes thereon (the “April 2015 Financial Information”) have been extracted from the Group’s unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the April 2015 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of April 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the April 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the April 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

(A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Four months ended 30 April	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
Revenue	8	858,874	985,108	1,063,702	310,593	380,121
Cost of revenue		(669,778)	(761,424)	(824,290)	(250,334)	(300,020)
Gross profit		189,096	223,684	239,412	60,259	80,101
Other income	9	66,338	70,492	64,301	24,783	10,097
Other expenses, gains and losses	10	(2,201)	(2,214)	(4,085)	(656)	(466)
Administrative expenses		(74,365)	(79,855)	(83,657)	(25,839)	(30,454)
Finance costs	11	(54,126)	(76,895)	(67,153)	(25,168)	(5,142)
Profit before taxation	12	124,742	135,212	148,818	33,379	54,136
Income tax expenses	15	(15,629)	(27,445)	(29,854)	(998)	(14,414)
Profit and total comprehensive income for the year/period		<u>109,113</u>	<u>107,767</u>	<u>118,964</u>	<u>32,381</u>	<u>39,722</u>
Profit (loss) and total comprehensive income (expense) for the year/ period attributable to:						
- owners of the Company		107,309	102,237	118,847	33,839	40,063
- non-controlling interests		<u>1,804</u>	<u>5,530</u>	<u>117</u>	<u>(1,458)</u>	<u>(341)</u>
		<u>109,113</u>	<u>107,767</u>	<u>118,964</u>	<u>32,381</u>	<u>39,722</u>
Earnings per share for profit attributable to owners of the Company, basic (RMB cents)	17	<u>42.9</u>	<u>40.9</u>	<u>47.5</u>	<u>13.5</u>	<u>16.0</u>

(B) STATEMENTS OF FINANCIAL POSITION

		THE GROUP			
		At 31 December			At 30 April
	NOTES	2013	2014	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	18	262,751	265,984	321,828	324,906
Amounts due from shareholders	21	852,828	937,842	—	—
Deferred tax assets	25	28,268	8,072	4,301	3,464
Deposits paid for acquisition of property, plant and equipment.		6,037	8,310	4,676	8,671
		<u>1,149,884</u>	<u>1,220,208</u>	<u>330,805</u>	<u>337,041</u>
Current assets					
Inventories	19	35,721	33,672	38,195	44,339
Accounts and other receivables	20	69,607	59,357	88,217	111,502
Amounts due from shareholders	21	512,875	507,138	490,117	448,552
Amount due from a related party	21	—	15,205	4,162	5,928
Pledged bank deposits	22	—	—	50,000	25,000
Restricted bank balances	22	7,572	12,098	8,904	3,456
Bank balances and cash.	22	45,939	37,346	95,520	68,049
		<u>671,714</u>	<u>664,816</u>	<u>775,115</u>	<u>706,826</u>
Current liabilities					
Accounts and other payables	23	327,808	347,988	393,008	425,673
Amounts due to shareholders	21	584,928	467,678	104,541	96,161
Amounts due to related parties.	21	77,414	5,241	—	—
Bank borrowings.	24	748,000	918,500	341,800	213,400
Tax payables.		—	7,249	19,823	22,163
		<u>1,738,150</u>	<u>1,746,656</u>	<u>859,172</u>	<u>757,397</u>
Net current liabilities		<u>(1,066,436)</u>	<u>(1,081,840)</u>	<u>(84,057)</u>	<u>(50,571)</u>
Net assets.		<u>83,448</u>	<u>138,368</u>	<u>246,748</u>	<u>286,470</u>
Capital and reserves					
Paid-in capital/Share capital.	26	306,700	306,700	250,000	250,000
Reserves.		<u>(232,806)</u>	<u>(183,416)</u>	<u>(18,453)</u>	<u>21,610</u>
Equity attributable to owners of the Company.		73,894	123,284	231,547	271,610
Non-controlling interests		9,554	15,084	15,201	14,860
Total equity		<u>83,448</u>	<u>138,368</u>	<u>246,748</u>	<u>286,470</u>

		THE COMPANY			
		At 31 December			At 30 April
	NOTES	2013	2014	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current asset					
Investment in subsidiaries	29	—	—	284,200	284,200
Current assets					
Amounts due from a shareholder	21	60,158	116,054	—	—
Amount due from a subsidiary	21	—	—	21,327	20,527
Prepayments		—	—	4,968	6,140
Bank balances and cash	22	71	264	59	21
		<u>60,229</u>	<u>116,318</u>	<u>26,354</u>	<u>26,688</u>
Current liabilities					
Other payables		10	5	95	8
Amount due to a shareholder	21	—	—	10,588	11,088
Bank borrowings	24	—	60,000	—	—
		<u>10</u>	<u>60,005</u>	<u>10,683</u>	<u>11,096</u>
Net current assets		<u>60,219</u>	<u>56,313</u>	<u>15,671</u>	<u>15,592</u>
Net assets		<u>60,219</u>	<u>56,313</u>	<u>299,871</u>	<u>299,792</u>
Capital and reserves					
Paid-in capital/Share capital	26	60,000	60,000	250,000	250,000
Reserves	29	219	(3,687)	49,871	49,792
Total equity		<u>60,219</u>	<u>56,313</u>	<u>299,871</u>	<u>299,792</u>

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non-		Total
	Share	Capital	Statutory	Accumulated	Total	controlling	
	capital	reserve	reserves	losses		interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013.	306,700	—	475	(280,709)	26,466	7,750	34,216
Profit and total comprehensive							
income for the year	—	—	—	107,309	107,309	1,804	109,113
Deemed distribution to a							
shareholder (Note i).	—	—	—	(59,881)	(59,881)	—	(59,881)
Transfer	—	—	(449)	449	—	—	—
At 31 December 2013.	306,700	—	26	(232,832)	73,894	9,554	83,448
Profit and total comprehensive							
income for the year	—	—	—	102,237	102,237	5,530	107,767
Deemed distribution to a							
shareholder (Note i).	—	—	—	(52,847)	(52,847)	—	(52,847)
At 31 December 2014.	306,700	—	26	(183,442)	123,284	15,084	138,368
Profit and total comprehensive							
income for the year	—	—	—	118,847	118,847	117	118,964
Capital contribution from							
shareholders (note 2 of							
section E)	140,000	106,700	—	—	246,700	—	246,700
Effect of reorganisation (Note ii) .	(246,700)	—	—	—	(246,700)	—	(246,700)
Issue of ordinary shares upon							
conversion into a joint stock							
company with limited liability							
(note 26 of section E)	50,000	(53,306)	(26)	3,332	—	—	—
Deemed distribution to a							
shareholder (Note i).	—	—	—	(10,584)	(10,584)	—	(10,584)
At 31 December 2015.	250,000	53,394	—	(71,847)	231,547	15,201	246,748
Profit (loss) and total							
comprehensive income							
(expense) for the period.	—	—	—	40,063	40,063	(341)	39,722
At 30 April 2016.	250,000	53,394	—	(31,784)	271,610	14,860	286,470
At 1 January 2015.	306,700	—	26	(183,442)	123,284	15,084	138,368
Profit (loss) and total							
comprehensive income							
(expense) for the period	—	—	—	33,839	33,839	(1,458)	32,381
Deemed distribution to a							
shareholder (Note i).	—	—	—	(17,146)	(17,146)	—	(17,146)
At 30 April 2015 (unaudited). . . .	306,700	—	26	(166,749)	139,977	13,626	153,603

Notes:

- (i) The Group has unsecured, interest-free and repayable on demand balances due from a shareholder. Such amounts were measured at its fair value at initial recognition based on the best estimate of the expected repayments by the shareholder at the time of recognising the amount due from a shareholder. The differences between the amount due from a shareholder and fair value at initial recognition were recognised in equity as deemed distribution to a shareholder, and the amount due from a shareholder were then carried at amortised cost using effective interest. Subsequently, when the Group revised its estimate of the expected repayments by the shareholder, the carrying amount of the interest-free advances has been adjusted to reflect the actual and revised estimated cash flows. The adjustments were also recognised in equity as deemed distribution to a shareholder.
- (ii) Amount represents the aggregate cash consideration paid for the acquisition of the 100% interest in Kanghua Hospital and 57% interest in Renkang Hospital.
- (iii) Amount represents statutory reserve of the Company in the PRC. According to the relevant laws in the PRC, the Company and its subsidiaries in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities					
Profit before taxation	124,742	135,212	148,818	33,379	54,136
Adjustments for:					
Depreciation of property, plant and equipment	39,988	37,646	38,952	12,296	13,659
Finance costs	54,126	76,895	67,153	25,168	5,142
Imputed interest income arising from amount due from a shareholder	(54,788)	(59,881)	(52,847)	(22,376)	(7,091)
Interest income from banks	(327)	(406)	(1,498)	(117)	(605)
Impairment loss recognised in respect of accounts receivables	1,028	1,954	1,423	400	401
Loss on disposal of property, plant and equipment	673	260	1,383	256	65
Operating cash flows before movements in working capital . .	165,442	191,680	203,384	49,006	65,707
(Increase) decrease in inventories . .	(5,861)	2,049	(4,523)	(4,830)	(6,144)
Decrease (increase) in accounts and other receivables	831	8,296	(27,963)	(38,058)	(23,686)
Increase in accounts and other payables	53,222	3,926	41,513	102,589	34,161
Cash generated from operations . . .	213,634	205,951	212,411	108,707	70,038
PRC Enterprise Income Tax paid . .	—	—	(13,509)	—	(11,237)
Net cash generated from operating activities	<u>213,634</u>	<u>205,951</u>	<u>198,902</u>	<u>108,707</u>	<u>58,801</u>

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investing activities					
Advance to a related party	—	(15,205)	—	—	(1,766)
Repayments from a related party . .	—	—	11,043	4,009	—
Advances to shareholders	(620,627)	(585,118)	(26,581)	(197,701)	(117,363)
Repayments from shareholders	279,381	512,875	1,023,707	314,466	166,019
Purchase of property, plant and equipment	(34,601)	(18,156)	(86,036)	(12,229)	(14,717)
Placement of restricted bank balances	(6,658)	(11,112)	(7,835)	(1,985)	(2,629)
Withdrawal of restricted bank balances	5,872	6,586	11,029	8,179	8,077
Placement of pledged bank deposits	—	—	(50,000)	(25,000)	—
Withdrawal of pledged bank deposits	—	—	—	—	25,000
Proceeds from disposal of property, plant and equipment	—	13	—	—	—
Deposits paid for acquisition of property, plant and equipment	(2,973)	(9,041)	(4,065)	(353)	(6,849)
Interest received from banks	327	406	1,498	117	605
Net cash (used in) generated from investing activities	(379,279)	(118,752)	872,760	89,503	56,377
Financing activities					
New bank borrowings raised	733,000	824,500	932,300	301,666	90,000
Repayments of bank borrowings . . .	(486,000)	(654,000)	(1,509,000)	(336,000)	(218,400)
Interest paid	(53,732)	(76,869)	(68,410)	(25,168)	(5,869)
Advances from shareholders	23,202	—	—	—	—
Repayments to shareholders	—	(117,250)	(363,137)	(112,856)	(8,380)
Advances from related parties	—	837	—	—	—
Repayments to related parties	(37,352)	(73,010)	(5,241)	(5,221)	—
Payment in relation to reorganisation	—	—	(246,700)	—	—
Capital injection from shareholders	—	—	246,700	—	—
Net cash generated from (used in) financing activities	179,118	(95,792)	(1,013,488)	(177,579)	(142,649)
Net increase (decrease) in cash and cash equivalents	13,473	(8,593)	58,174	20,631	(27,471)
Cash and cash equivalents at beginning of the year/period	32,466	45,939	37,346	37,346	95,520
Cash and cash equivalents at end of the year/period, represented by bank balance and cash	45,939	37,346	95,520	57,977	68,049

(E) NOTES TO THE FINANCIAL INFORMATION**1. GENERAL**

The Company was established as a limited liability company under the name of 東莞市康華實業有限公司 (Dongguan Kanghua Enterprise Co., Ltd.) in the People's Republic of China (the "PRC") on 30 January 2002. On 30 December 2015, the Company was converted into a joint stock limited company and renamed as 廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.), with a share capital of RMB250,000,000 under the Company Law of the PRC. The addresses of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the Prospectus. The Company and its subsidiaries (collectively referred as the "Group") are engaged in operation of hospital in PRC.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

Historically, pursuant to an acting-in-concert arrangement between Mr. Wang Junyang, Ms. Wang Aici, Ms. Wang Aiqin and Mr. Chen Wangzhi, all of whom are close family members (collectively referred as the "Controlling Shareholders"), the Controlling Shareholders controlled the Company, Kanghua Hospital and Renkang Hospital through their investment holding companies, namely 東莞市康華投資集團有限公司 (Dongguan Kanghua Investment Group Co., Ltd.*, the "Kanghua Group"), 東莞市興業集團有限公司 (Dongguan Xingye Group Co., Ltd.*, the "Xingye Group"), 東莞市興達物業投資有限公司 (Dongguan Xingda Property Investment Co., Ltd.*, the "Xingda Property") and 東莞市同力實業有限公司 (Dongguan Tongli Enterprise Co., Ltd.*, the "Tongli Enterprise").

In preparation for the listing of the Company's shares on the Stock Exchange, the entities now comprising the Group underwent the Group Reorganisation to enable the Company to become the holding company of the Group which involves the principle steps of the Group Reorganisation as follows:

- (1) On 8 September 2015, Kanghua Group, Xingye Group and Xingda Property transferred their equity interests in Kanghua Hospital to the Company at a total cash consideration of RMB 212.5 million. The consideration of each of the transfers was determined with reference to the then registered capital of Kanghua Hospital.

Following to the above changes, Kanghua Hospital became a wholly-owned subsidiary of the Company.

On the same date, Tongli Enterprise transferred 57% of its equity interest in Renkang Hospital to the Company at a cash consideration of RMB34.2 million.

Following to the above changes, Renkang Hospital became a non-wholly owned subsidiary of the Company.

* English translated name is for identification purposes only.

- (2) On 18 September 2015, Kanghua Group, together with Xingye Group and Xingda Property, contributed a total of RMB246.7 million in cash into the Company. Out of the RMB246.7 million, RMB140 million was contributed in the form of a registered capital increase and RMB106.7 million was contributed to the Company's capital reserve. As a result of capital contribution, the Company increased its registered share capital from RMB60 million to RMB200 million, which was held as to 70% by Kanghua Group, as to 20% by Xingye Group, and as to 10% by Xingda Property.
- (3) On 21 September 2015, (i) Xingye Group transferred 9% of its equity interest in the Company to Kanghua Group at a consideration of RMB27.603 million; and (ii) Xingye Group transferred 1% of its equity interest in the Company to Xingda Property at a consideration of RMB3.067 million. As a result of the transfers, the Company was held as to 79% by Kanghua Group, as to 11% by Xingda Property and as to 10% by Xingye Group.
- (4) On 30 December 2015, the Company was converted into a joint stock limited company under the PRC Company Law, with a registered share capital of RMB250 million, divided into 250,000,000 ordinary shares of nominal value of RMB1.00 each, all of which were fully paid up. Upon completion of the conversion, Kanghua Group, Xingda Property and Xingye Group held 197,500,000, 27,500,000 and 25,000,000 ordinary shares, representing approximately 79%, 11% and 10% of the then equity interest in the Company, respectively.

Pursuant to the Group Reorganisation detailed above, the Company became the holding company of the companies now comprising the Group in September 2015 and the Controlling Shareholders are the ultimate controlling shareholders through their investment holding companies, namely Kanghua Group, Xingye Group and Xingda Property. The Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Relevant Periods. The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information has been prepared using the principles of merger accounting on the basis as if the Company had always been the holding company of the Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results, changes in equity and cash flows of the companies now comprising the Group for the Relevant Periods, as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Relevant Periods.

The consolidated statements of financial position at the end of each reporting period have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted all IFRSs which are effective for the Group's accounting periods beginning on 1 January 2016 consistently throughout the Relevant Periods.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ³
Amendments to IAS 7	Disclosure Initiative ²
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers ¹

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2017.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective for annual periods beginning on or after a date to be determined.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future will not have a significant impact on the amounts reported and disclosures made in the Group’s Financial Information.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statements of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes noncancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 27, total operating lease commitment of the Group with terms more than 12 months as at 30 April 2016 amounting to RMB64,804,000. The directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of use assets and lease liabilities.

Except as described above, the directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform to IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The Financial Information incorporates the financial statements of the companies now comprising the Group.

Subsidiaries are entities controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the Controlling Shareholders.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the Controlling Shareholders' interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for services provided in the normal course of business, net of discounts and related taxes.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Revenue from the provision of inpatient healthcare services, outpatient healthcare services and physical examination services is recognised upon rendering of the relevant services 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.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment held for use in the provision of services, or for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts and other receivables, amounts due from shareholders/a related party, pledged bank deposits, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as accounts receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio passed the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of accounts receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including accounts and other payables, amounts due to related parties, amounts due to shareholders and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government subsidies

Government subsidies are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the subsidies are intended to compensate. Specifically, government subsidies whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including government-managed retirement benefit schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year from the end of each reporting period.

Estimated allowance for inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly reviews its inventory levels in order to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a realisable value that is lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. If the realisable value of inventories of the Group becomes lower than its carrying amount subsequently, additional allowance may be required. The carrying amounts of inventories are approximately RMB35,721,000, RMB33,672,000, RMB38,195,000 and RMB44,339,000 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively. No impairment loss on the above amounts was recognised during the Relevant Periods.

Details of the Group's inventories are set out in note 19.

Estimated allowance for accounts receivables

Management regularly reviews the recoverability of accounts receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required. The carrying amounts of accounts receivables are approximately RMB60,452,000, RMB54,339,000, RMB70,223,000 and RMB84,757,000 (net of allowance for doubtful debts of approximately RMB1,762,000, RMB2,829,000, RMB3,929,000 and RMB4,330,000, respectively) as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively.

Details of the Group's accounts receivables are set out in note 20.

Provision for medical dispute claims

The Group may be subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical dispute claims brought by the former patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each reporting period, and taking into consideration the assessment and analysis of external experts and the total claim exposure. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Based on the assessment, the provisions for the certain medical dispute claims existed of approximately RMB215,000, RMB983,000, RMB2,365,000 and RMB1,376,000 has been provided and included in accounts and other payables by the Group as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively. The situation is closely monitored by the directors of the Company and provision will be made as appropriate. Where the final actual claims are greater than expected, a material dispute claims expense may arise, which would be recognised in profit or loss for the period in which such a claim takes place.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of debt, which include bank borrowings and amounts due to shareholders disclosed in notes 24 and 21 respectively, net of cash and cash equivalents and equity attributable to owner of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

THE GROUP

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	1,485,915	1,566,624	722,793	639,807
Financial liabilities				
Amortised cost	<u>1,694,187</u>	<u>1,690,600</u>	<u>784,626</u>	<u>691,985</u>

THE COMPANY

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	60,229	116,318	21,386	20,548
Financial liabilities				
Amortised cost	<u>—</u>	<u>60,000</u>	<u>10,588</u>	<u>11,088</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, amount(s) due from shareholders/a related party, bank balances and cash, restricted bank balances, pledged bank deposits, accounts and other payables, amounts due to shareholders/related parties and bank borrowings. Details of these financial instruments are disclosed in respective notes of Section E. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk***Interest rate risk***

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings (see notes 22 and 24) due to the fluctuation of the prevailing market interest rate.

The Group is also exposed to fair value interest rate risk in relation to the pledged bank deposits, restricted bank balances, fixed-rate bank borrowings and amounts due to shareholders (see notes 22, 24 and 21 for details).

In order to mitigate the interest rate risk, the Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the Relevant Periods.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances and variable-rate bank borrowings. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year/period. 50 basis point increase or decrease represent the management's assessment of the reasonable possible change in interest rates of bank deposits and bank borrowings, respectively.

If the interest rates had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for each of the year ended 31 December 2013 and 2014 would decrease/increase by approximately RMB1,221,000 and RMB1,590,000 respectively and for the year ended 31 December 2015 and four months ended 30 April 2016 would increase/decrease by approximately RMB466,000 and RMB330,000 respectively.

Foreign currency risk

The Group has no significant foreign currency risk as all of the operations of the group entities are denominated in RMB which is also the functional currency of the relevant group entities.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statements of financial position of the Group.

In order to minimise the credit risk, management of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group does not have concentration of credit risk in relation to its accounts receivables.

The directors of the Company consider that the credit risk on amounts due from shareholders and amount due from a related party is limited because they regularly monitor the financial position of these related parties through involvement in either their management and operations. In addition, advances are only made to related parties having a good financial standing.

Other than the concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and amounts due from shareholders and amount due from a related company, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

(iii) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group had net current liabilities of RMB50,571,000 as at 30 April 2016. In view of the net current liabilities position, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash flow projections particularly the funds expected to be generated internally from operations and the unutilised banking facilities with the total amount of RMB266,000,000 available as at 30 April 2016, the directors of the Company are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	THE GROUP						
	Weighted	On demand	1 - 3	3 months	Total	Carrying	Carrying
	average						
	interest	1 month	months	to 1 year	1 - 5 years	cash flows	amounts
rate	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 31 December 2013							
Accounts and other payables	—	283,845	—	—	—	283,845	283,845
Amounts due to shareholders							
- non-interest bearing	—	570,928	—	—	—	570,928	570,928
- interest bearing	6.72	14,000	—	—	—	14,000	14,000
Amounts due to related parties							
- non-interest bearing	—	172	—	—	—	172	172
- interest bearing	6.88	77,242	—	—	—	77,242	77,242
Bank borrowings							
- variable-rate	6.64	286,000	—	—	—	286,000	286,000
- fixed-rate	6.90	462,000	—	—	—	462,000	462,000
		<u>1,694,187</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,694,187</u>	<u>1,694,187</u>

THE GROUP

	Weighted	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total	Carrying amounts
	average					undiscounted	
	interest rate					cash flows	
%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 31 December 2014							
Accounts and other payables .	—	299,181	—	—	—	299,181	299,181
Amounts due to shareholders .	—	467,678	—	—	—	467,678	467,678
Amounts due to related parties							
- non-interest bearing	—	1,009	—	—	—	1,009	1,009
- interest bearing	6.60	4,232	—	—	—	4,232	4,232
Bank borrowings							
- variable-rate	7.27	353,000	—	—	—	353,000	353,000
- fixed-rate.	7.32	505,500	—	64,458	—	569,958	565,500
		<u>1,630,600</u>	<u>—</u>	<u>64,458</u>	<u>—</u>	<u>1,695,058</u>	<u>1,690,600</u>
At 31 December 2015							
Accounts and other payables .	—	338,285	—	—	—	338,285	338,285
Amounts due to shareholders .	—	104,541	—	—	—	104,541	104,541
Bank borrowings							
- fixed-rate	7.18	295,000	—	50,160	—	345,160	341,800
		<u>737,826</u>	<u>—</u>	<u>50,160</u>	<u>—</u>	<u>787,986</u>	<u>784,626</u>

THE GROUP

	Weighted	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total	Carrying amounts
	average					undiscounted	
	interest rate					cash flows	
%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 30 April 2016							
Accounts and other payables .	—	382,424	—	—	—	382,424	382,424
Amounts due to shareholders	—	96,161	—	—	—	96,161	96,161
Bank borrowings							
- fixed-rate.	7.02	213,400	—	—	—	213,400	213,400
		<u>691,985</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>691,985</u>	<u>691,985</u>

THE COMPANY							
	Weighted average interest rate	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014							
Bank borrowings	12.00	<u>—</u>	<u>—</u>	<u>67,200</u>	<u>—</u>	<u>67,200</u>	<u>60,000</u>
At 31 December 2015							
Amount due to a shareholder	—	<u>10,588</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,588</u>	<u>10,588</u>
At 30 April 2016							
Amount due to a shareholder	—	<u>11,088</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,088</u>	<u>11,088</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The bank loans with a repayment on demand clause are also included in the “on demand or less than 1 month” time band in the above maturity analysis. As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, the aggregate undiscounted principal amounts of these bank loans amounted to RMB798,868,000, RMB985,558,000, RMB366,341,000 and RMB228,386,000, respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

The directors of the Company believe that the principal and interest will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

THE GROUP							
	Weighted average effective interest rate	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings							
At 31 December 2013							
- variable-rate	6.64	—	—	—	304,990	304,990	286,000
- fixed-rate.	6.90	—	48,105	445,773	—	493,878	462,000
		<u>—</u>	<u>48,105</u>	<u>445,773</u>	<u>304,990</u>	<u>798,868</u>	<u>748,000</u>
At 31 December 2014							
- variable-rate	7.27	—	—	193,086	185,577	378,663	353,000
- fixed-rate.	7.32	19,318	75,124	512,453	—	606,895	565,500
		<u>19,318</u>	<u>75,124</u>	<u>705,539</u>	<u>185,577</u>	<u>985,558</u>	<u>918,500</u>
At 31 December 2015							
- fixed-rate	7.18	—	—	157,340	209,001	366,341	341,800
At 30 April 2016							
- fixed-rate.	7.02	24,991	—	107,050	96,345	228,386	213,400

THE COMPANY							
	Effective interest rate	On demand or less than 1 month	1 - 3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowing							
At 31 December 2014							
- fixed-rate.	13.52	—	—	68,112	—	68,112	60,000

(c) **Fair value**

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

8. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of hospital services.

Information reported to the directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of service provided. The Group's operating segments are classified as (i) Inpatient healthcare services; (ii) Outpatient healthcare services and (iii) Physical examination services. The details of the Group's operating segments are as follows:

- | | |
|--------------------------------------|--|
| (i) Inpatient healthcare services: | Provision of treatment of patients who are hospitalised overnight or for an indeterminate time, usually several days or weeks, subject to the patient's conditions and recovery. |
| (ii) Outpatient healthcare services: | Provision of treatment of patients who are hospitalised for less than 24 hours. |
| (iii) Physical examination services: | Provision of clinical examination of individuals for signs of diseases and health advisory services. |

These operating segments also represent the Group's reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segments:

Year ended 31 December 2013

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE				
External sales	<u>519,456</u>	<u>282,696</u>	<u>56,722</u>	<u>858,874</u>
Segment profit	<u>79,131</u>	<u>78,067</u>	<u>31,898</u>	189,096
Other income				66,338
Other expenses, gains and losses				(2,201)
Other operating expenses				(74,365)
Finance costs				<u>(54,126)</u>
Profit before taxation				<u>124,742</u>

Year ended 31 December 2014

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE				
External sales	<u>585,281</u>	<u>338,282</u>	<u>61,545</u>	<u>985,108</u>
Segment profit	<u>93,039</u>	<u>96,722</u>	<u>33,923</u>	223,684
Other income				70,492
Other expenses, gains and losses				(2,214)
Other operating expenses				(79,855)
Finance costs				<u>(76,895)</u>
Profit before taxation				<u>135,212</u>

Year ended 31 December 2015

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE				
External sales	<u>628,045</u>	<u>373,265</u>	<u>62,392</u>	<u>1,063,702</u>
Segment profit	<u>93,078</u>	<u>110,799</u>	<u>35,535</u>	239,412
Other income				64,301
Other expenses, gains and losses				(4,085)
Other operating expenses				(83,657)
Finance costs				<u>(67,153)</u>
Profit before taxation				<u>148,818</u>

Four months ended 30 April 2015 (unaudited)

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE				
External sales	<u>188,520</u>	<u>109,404</u>	<u>12,669</u>	<u>310,593</u>
Segment profit	<u>26,564</u>	<u>27,358</u>	<u>6,337</u>	60,259
Other income				24,783
Other expenses, gains and losses				(656)
Other operating expenses				(25,839)
Finance costs				<u>(25,168)</u>
Profit before taxation				<u>33,379</u>

Four months ended 30 April 2016

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE				
External sales	<u>232,083</u>	<u>134,361</u>	<u>13,677</u>	<u>380,121</u>
Segment profit	<u>33,197</u>	<u>40,086</u>	<u>6,818</u>	80,101
Other income				10,097
Other expenses, gains and losses				(466)
Other operating expenses				(30,454)
Finance costs				<u>(5,142)</u>
Profit before taxation				<u>54,136</u>

There were no inter-segment sales during the Relevant Periods.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of other income, other expenses, gains and losses, other operating expenses, finance costs and income tax expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Except as disclosed above, no other amounts are regularly provided to the CODM of the Group and therefore, no further analysis is presented.

Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM of the Group.

Information about major customers

All revenue are generated in the PRC where all assets of the Group are located. The Group has a highly diversified patient portfolio. No single patient contributing over 10% of the Group's total revenue during the Relevant Periods.

9. OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Imputed interest income arising					
from amount due from a					
shareholder	54,788	59,881	52,847	22,376	7,091
Interest income from banks	327	406	1,498	117	605
Government subsidies (note)	7,290	4,699	3,153	537	—
Rental income	3,248	4,391	4,973	1,496	1,803
Others	685	1,115	1,830	257	598
	<u>66,338</u>	<u>70,492</u>	<u>64,301</u>	<u>24,783</u>	<u>10,097</u>

Note:

The government subsidies mainly represented the subsidies on research and development, medical related seminars and forums costs incurred with no unfulfilled conditions attached. In addition, the amount also included the release of deferred income of RMB1,000,000, RMB1,000,000 and RMB1,000,000 for the three years ended 31 December 2013, 2014 and 2015 and RMB333,000 (unaudited) and nil for the four months ended 30 April 2015 and 2016 respectively which were recognised in profit or loss on a systematic basis over the useful life of the property, plant and equipment.

10. OTHER EXPENSES, GAINS AND LOSSES

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Impairment loss on accounts receivables	(1,028)	(1,954)	(1,423)	(400)	(401)
Loss on disposal of property, plant and equipment	(673)	(260)	(1,383)	(256)	(65)
Donations	(500)	—	—	—	—
Other expenses	—	—	(1,279)	—	—
	<u>(2,201)</u>	<u>(2,214)</u>	<u>(4,085)</u>	<u>(656)</u>	<u>(466)</u>

11. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on bank borrowings wholly repayable within five years	43,284	66,605	63,796	21,811	5,142
Interest on amount due to a shareholder	492	3	—	—	—
Interest on amount due to a related party	<u>10,350</u>	<u>10,287</u>	<u>3,357</u>	<u>3,357</u>	<u>—</u>
	<u>54,126</u>	<u>76,895</u>	<u>67,153</u>	<u>25,168</u>	<u>5,142</u>

12. PROFIT BEFORE TAXATION

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:				(unaudited)	
Directors' remuneration (note 13)	—	—	746	—	132
Other staff costs	173,190	201,314	227,081	69,464	80,800
Retirement benefit schemes contributions for other staff	8,256	8,380	9,739	2,970	4,915
Total staff costs	181,446	209,694	237,566	72,434	85,847
Depreciation of property, plant and equipment	39,988	37,646	38,952	12,296	13,659
Research and development expenditure	742	726	709	229	254
Operating lease rentals in respect of hospital	17,657	17,920	18,209	6,074	7,683
Auditor's remuneration	65	21	25	—	—
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue).	421,411	487,999	517,003	159,155	193,751

13. DIRECTORS' EMOLUMENTS

During the year ended 31 December 2013 and 2014 and up to 24 December 2015, Mr. Wang Junyang was the sole director of the Company. On 25 December 2015, Mr. Chen Wangzhi, Mr. Wong Wai Hung, Ms. Wang Aiqin and Mr. Lv Yubo were appointed as directors of the Company. Mr. Chen Wangzhi is also the chief executive of the Group and his emoluments disclosed below included those for services rendered by him as the chief executive.

Details of the emoluments paid or payable to the directors and the chief executive of the Company during the Relevant Periods are as follows:

	<u>Fees</u>	<u>Salaries and allowances</u>	<u>Retirement benefit schemes contributions</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2013				
Executive director:				
Mr. Wang Junyang	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
For the year ended 31 December 2014				
Executive director:				
Mr. Wang Junyang	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
For the year ended 31 December 2015				
Executive director:				
Mr. Chen Wangzhi	—	738	8	746
Mr. Wang Junyang	—	—	—	—
Mr. Wong Wai Hung	—	—	—	—
Ms. Wang Aiqin	—	—	—	—
Non-executive director:				
Mr. Lv Yubo	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>738</u>	<u>8</u>	<u>746</u>
For the four months ended 30 April 2015				
(unaudited)				
Executive director:				
Mr. Wang Junyang	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	Fees	Salaries and allowances	Retirement benefit schemes contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the four months ended 30 April 2016				
Executive directors:				
Mr. Chen Wangzhi	—	124	8	132
Mr. Wang Junyang	—	—	—	—
Mr. Wong Wai Hung	—	—	—	—
Ms. Wang Aiqin	—	—	—	—
Non-executive director:				
Mr. Lv Yubo	—	—	—	—
	—	124	8	132

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of them were directors of the Company for each of the years ended 31 December 2013, 31 December 2014 and four months ended 30 April 2015, while one of them was director of the Company whose emoluments are included in note 13 for the year ended 31 December 2015 and four months ended 30 April 2016. The emoluments of the remaining top five highest paid individuals are as follows:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and allowances	1,769	1,790	1,651	824	396
Performance related incentive payments	1,070	2,635	1,210	485	903
Retirement benefits scheme contributions	23	15	15	8	11
	<u>2,862</u>	<u>4,440</u>	<u>2,876</u>	<u>1,317</u>	<u>1,310</u>

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
				(unaudited)	
Nil to HK\$1,000,000	4	4	3	5	4
HK\$1,000,001 to HK\$1,500,000 . .	1	—	1	—	—
HK\$2,500,001 to HK\$3,000,000 . .	—	1	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

During the Relevant Periods, no emoluments were paid by the Group to the director(s) of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

15. INCOME TAX EXPENSES

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax:					
PRC Enterprise Income Tax ("PRC EIT")	—	7,249	25,795	1,172	12,975
Under provision in respect of prior years	—	—	288	—	602
	—	7,249	26,083	1,172	13,577
Deferred tax (note 25)	<u>15,629</u>	<u>20,196</u>	<u>3,771</u>	<u>(174)</u>	<u>837</u>
	<u>15,629</u>	<u>27,445</u>	<u>29,854</u>	<u>998</u>	<u>14,414</u>

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory income tax rate of the Company and its PRC subsidiaries is 25% for the Relevant Periods.

The income tax expenses for the Relevant Periods can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before taxation	<u>124,742</u>	<u>135,212</u>	<u>148,818</u>	<u>33,379</u>	<u>54,136</u>
Tax at PRC EIT rate of 25%	31,185	33,803	37,204	8,345	13,534
Tax effect of expenses not deductible for tax purposes.	5,204	8,788	4,951	1,225	2,165
Tax effect of income not taxable for tax purposes.	(13,697)	(14,970)	(13,213)	(8,967)	(1,907)
Tax effect of tax losses not recognised.	43	976	786	395	20
Utilisation of tax losses previously not recognised.	(7,106)	(1,152)	(162)	—	—
Under provision in respect of prior years.	—	—	288	—	602
Income tax expenses	<u>15,629</u>	<u>27,445</u>	<u>29,854</u>	<u>998</u>	<u>14,414</u>

16. DIVIDENDS

No dividend was declared or paid by the Company or its group entities during the Relevant Periods.

17. EARNINGS PER SHARE

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Earnings:					
Earnings for the purpose of calculating basic earnings per share (profit for the year/ period attributable to the owners of the Company)	<u>107,309</u>	<u>102,237</u>	<u>118,847</u>	<u>33,839</u>	<u>40,063</u>
Number of shares:					
Number of ordinary shares for the purpose of calculating basic earnings per share	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>

The calculation of the basic earnings per share during the Relevant Periods is based on the earnings attributable to owners of the Company for the Relevant Periods, and the number of ordinary shares of 250,000,000, respectively, which has been adjusted retrospectively for the effect of shares issued in connection with the Group Reorganisation as set out in note 2 as if the Group Reorganisation had been effective since 1 January 2013.

No diluted loss per share is presented as there was no potential dilutive ordinary share in issue during the Relevant Periods.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Medical equipment	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2013	157,423	240,208	64,387	7,871	1,399	471,288
Additions	—	30,065	1,932	523	125	32,645
Disposals	—	(2,155)	(369)	—	—	(2,524)
Transfer	1,399	—	—	—	(1,399)	—
At 31 December 2013	158,822	268,118	65,950	8,394	125	501,409
Additions	—	31,607	4,996	986	3,563	41,152
Disposals	—	(3,082)	(735)	(94)	—	(3,911)
Transfer	125	—	—	—	(125)	—
At 31 December 2014	158,947	296,643	70,211	9,286	3,563	538,650
Additions	—	24,035	10,871	471	60,802	96,179
Disposals	—	(9,339)	(2,621)	(65)	—	(12,025)
Transfer	6,175	—	—	—	(6,175)	—
At 31 December 2015	165,122	311,339	78,461	9,692	58,190	622,804
Additions	—	3,462	856	310	12,174	16,802
Disposals	—	(2,476)	(445)	—	—	(2,921)
At 30 April 2016	165,122	312,325	78,872	10,002	70,364	636,685
DEPRECIATION						
At 1 January 2013	23,023	140,347	32,390	4,761	—	200,521
Provided for the year	7,760	26,990	4,495	743	—	39,988
Eliminated on disposals	—	(1,565)	(286)	—	—	(1,851)
At 31 December 2013	30,783	165,772	36,599	5,504	—	238,658
Provided for the year	7,768	26,214	2,827	837	—	37,646
Eliminated on disposal	—	(2,938)	(608)	(92)	—	(3,638)

	Leasehold improvement	Medical equipment	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014	38,551	189,048	38,818	6,249	—	272,666
Provided for the year	7,768	25,687	4,814	683	—	38,952
Eliminated on disposal	—	(8,990)	(1,591)	(61)	—	(10,642)
At 31 December 2015	46,319	205,745	42,041	6,871	—	300,976
Provided for the period	2,692	8,727	1,988	252	—	13,659
Eliminated on disposal	—	(2,438)	(418)	—	—	(2,856)
At 30 April 2016	49,011	212,034	43,611	7,123	—	311,779
CARRYING VALUES						
At 31 December 2013	<u>128,039</u>	<u>102,346</u>	<u>29,351</u>	<u>2,890</u>	<u>125</u>	<u>262,751</u>
At 31 December 2014	<u>120,396</u>	<u>107,595</u>	<u>31,393</u>	<u>3,037</u>	<u>3,563</u>	<u>265,984</u>
At 31 December 2015	<u>118,803</u>	<u>105,594</u>	<u>36,420</u>	<u>2,821</u>	<u>58,190</u>	<u>321,828</u>
At 30 April 2016	<u>116,111</u>	<u>100,291</u>	<u>35,261</u>	<u>2,879</u>	<u>70,364</u>	<u>324,906</u>

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method and at the following rates per annum:

Leasehold improvement	5%
Medical equipment	10% - 20%
Office equipment	10% - 20%
Motor vehicles	20%

19. INVENTORIES

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Pharmaceutical products	26,954	25,752	29,286	32,754
Consumables and others	8,767	7,920	8,909	11,585
	<u>35,721</u>	<u>33,672</u>	<u>38,195</u>	<u>44,339</u>

20. ACCOUNTS AND OTHER RECEIVABLES

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivables	60,452	54,339	70,223	84,757
Other receivables				
- Prepayments to suppliers	2,905	1,958	3,288	9,291
- Deferred listing expenses	—	400	5,642	7,103
- Others	6,250	2,660	9,064	10,351
Total accounts and other receivables	<u>69,607</u>	<u>59,357</u>	<u>88,217</u>	<u>111,502</u>

The individual patients of the Group would usually settle payments by cash, credit cards or governments' social insurance schemes. For credit card payments, the banks will normally settle the amounts approximately 30 days after the transaction date. Payments by governments' social insurance schemes will normally be settled by the local social insurance bureau and similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government medical insurance schemes ranged from 30 to 90 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

The following is an aged analysis of accounts receivables, net of allowance for doubtful debts, presented based on the revenue recognition date at the end of each reporting period.

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	30,378	32,079	58,802	59,355
31 to 90 days	10,713	8,506	2,912	9,315
91 to 180 days	8,991	5,631	3,365	7,577
181 to 365 days	5,465	3,872	2,112	5,516
Over 365 days	4,905	4,251	3,032	2,994
	<u>60,452</u>	<u>54,339</u>	<u>70,223</u>	<u>84,757</u>

The management of the Group closely monitors the credit quality of accounts receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that were neither past due nor impaired related to the customers for whom there was no history of default.

Included in the Group's accounts receivables balance are debtors with aggregate carrying amounts of approximately RMB19,361,000, RMB13,754,000, RMB8,509,000 and RMB16,087,000 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively, which are past due at end of the respective reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of accounts receivables based on the transaction date which are past due but not impaired at the end of each reporting period:

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
91 to 180 days	8,991	5,631	3,365	7,577
181 to 365 days	5,465	3,872	2,112	5,516
Over 365 days	4,905	4,251	3,032	2,994
	<u>19,361</u>	<u>13,754</u>	<u>8,509</u>	<u>16,087</u>

Movement in the allowance for doubtful debts

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	962	1,762	2,829	3,929
Impairment loss recognised on receivables	1,028	1,954	1,423	401
Amounts written off as uncollectable	(228)	(887)	(323)	—
At the end of the year/period	<u>1,762</u>	<u>2,829</u>	<u>3,929</u>	<u>4,330</u>

21. AMOUNTS DUE FROM (TO) SHAREHOLDERS/RELATED PARTIES/A SUBSIDIARY

(a) Amounts due from (to) a shareholder(s)

THE GROUP

	At				Maximum amount outstanding during the year/four months ended			
	At 31 December		30 April		31 December		30 April	
	2013	2014	2015	2016	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from shareholders								
Kanghua Group.	1,355,423	1,444,100	490,117	448,552	1,416,449	1,555,645	1,457,172	498,728
Xingye Group.	10,280	880	—	—	41,780	10,280	880	—
	1,365,703	1,444,980	490,117	448,552				
Less: Amounts shown under current assets	(512,875)	(507,138)	(490,117)	(448,552)				
Amounts shown under non-current assets	852,828	937,842	—	—				

All of the amounts above are non-trade nature, unsecured, interest-free and repayable on demand.

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to shareholders:				
Kanghua Group	14,000	—	—	—
Xingye Group	<u>570,928</u>	<u>467,678</u>	<u>104,541</u>	<u>96,161</u>
	<u>584,928</u>	<u>467,678</u>	<u>104,541</u>	<u>96,161</u>

Included in the amounts due to shareholders, an amount of RMB14,000,000 due to Kanghua Group, as at 31 December 2013 is non-trade nature, unsecured, repayable on demand and interest-bearing at a fixed rate of interest at 6.72% per annum. The amount has been fully settled in 2014.

Except for the above, all of the remaining balance above are non-trade nature, unsecured, interest-free and repayable on demand.

THE COMPANY

The amounts due from (to) a shareholder are non-trade nature, unsecured, interest-free and repayable on demand.

The maximum amount outstanding of amounts due from a shareholder amounted to RMB94,408,000, RMB129,810,000 and RMB82,125,000 for the three years ended 31 December 2013, 2014 and 2015, respectively.

(b) Amounts due from (to) related parties

	At				Maximum balance outstanding during the year/four months ended			
	At 31 December			30 April	31 December			30 April
	2013	2014	2015	2016	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from a related party:								
Tongli Enterprise	<u>—</u>	<u>15,205</u>	<u>4,162</u>	<u>5,928</u>	<u>169</u>	<u>15,205</u>	<u>25,085</u>	<u>5,928</u>
Amounts due to related parties:								
Tongli Enterprise	(77,242)	(4,232)	—	—				
東莞市卓眾物業管理有限公司 (formerly known as 東莞市康華物業管理有限公司) (Note i)	(172)	(989)	—	—				
東莞市力盛裝飾工程有限公司 (Note ii)	—	(20)	—	—				
	<u>(77,414)</u>	<u>(5,241)</u>	<u>—</u>	<u>—</u>				

Notes:

- (i) Kanghua Group has control in this entity.
- (ii) Xingye Group had control in this entity; this entity ceased to be a related party of the Group as Xingye Group has disposed its entire interest in it by 8 December 2015.

Included in amounts due to related parties, an amount of RMB77,242,000 and RMB4,232,000 due to Tongli Enterprise, are non-trade nature, unsecured, repayable on demand and interest-bearing at 6.88% and 6.60% per annum as at 31 December 2013 and 31 December 2014, respectively.

Except for the above, all of the remaining amounts above are non-trade nature, unsecured, interest-free and repayable on demand.

(c) Amount due from a subsidiary

The amount is non-trade nature, unsecured, interest-free and repayable on demand.

22. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS/RESTRICTED BANK BALANCES

Bank balances carried interest at market rates which ranges from 0.35% to 1.265% per annum as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016.

Pledged bank deposits represent deposits pledged to a bank to secure bank borrowings granted to the Group. The pledged bank deposits carried fixed interest rate of 3.00% and 3.00% per annum as at 31 December 2015 and 30 April 2016, respectively.

Restricted bank balances represent deposits to a bank to secure banking facilities and deposits required by Dongguan Social Insurance Bureau which is based on annual assessment on the medical service quality of the hospitals. The restricted bank balances carried fixed interest rate of 0.35%, 0.35%, 0.35% and 0.30% per annum as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively.

23. ACCOUNTS AND OTHER PAYABLES

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payables	230,858	266,208	296,883	329,676
Accrued expenses	31,243	34,766	42,328	31,292
Construction payables	30,566	14,338	11,894	12,663
Receipt in advance	22,116	21,640	29,112	42,238
Other tax payables	2,867	2,098	2,265	1,896
Interest payables	1,231	1,257	2,320	1,593
Provision for medical dispute claims	215	983	2,365	1,376
Others	8,712	6,698	5,841	4,939
Other payables	96,950	81,780	96,125	95,997
Total accounts and other payables	<u>327,808</u>	<u>347,988</u>	<u>393,008</u>	<u>425,673</u>

The credit period of accounts payables is from 30 to 90 days from the invoice date.

Included in accounts payables, amount of approximately RMB75,580,000 and RMB99,056,000 as at 31 December 2013 and 2014 respectively were trade-nature payable to a related party 東莞市裕恒醫藥有限公司, Dongguan Yuheng Pharmaceuticals Co., Ltd (“Yuheng Pharmaceuticals”), an affiliate of Xingda Property. Yuheng Pharmaceuticals ceased to be a related party of the Group since 18 September 2015, as Xingda Property had fully disposed of its equity interest in Yuheng Pharmaceuticals which thereafter become an independent third party to the Group.

The following is an aged analysis of accounts payables based on the date of receipt of goods at the end of each reporting period.

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	71,524	55,019	95,664	111,538
31 to 90 days	67,854	76,756	80,588	81,635
91 to 180 days	52,691	86,336	85,647	102,356
180 to 365 days	15,295	28,038	14,560	17,319
Over 365 days	23,494	20,059	20,424	16,828
	<u>230,858</u>	<u>266,208</u>	<u>296,883</u>	<u>329,676</u>

Included in other payables is provision for medical dispute claims which the Group is involved as defendants in certain medical disputes arising from its ordinary course of business. The following is the movement in provision for medical dispute claims:

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	—	215	983	2,365
Provision	241	1,386	1,693	295
Payment	(26)	(618)	(311)	(1,284)
At the end of the year/period	<u>215</u>	<u>983</u>	<u>2,365</u>	<u>1,376</u>

24. BANK BORROWINGS

	THE GROUP				THE COMPANY
	At 31 December			At 30 April	At 31 December
	2013	2014	2015	2016	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings - secured:					
Fixed-rate	462,000	565,500	341,800	213,400	60,000
Variable-rate	286,000	353,000	—	—	—
	<u>748,000</u>	<u>918,500</u>	<u>341,800</u>	<u>213,400</u>	<u>60,000</u>
Carrying amounts repayable within one year*	512,000	745,500	341,800	190,000	60,000
Carrying amounts of bank loans that are not repayable within one year from the end of the reporting period but contain a repayable on demand clause (shown under current liabilities)	236,000	173,000	—	23,400	—
	748,000	918,500	341,800	213,400	60,000
Less: Amounts due within one year shown under current liabilities	<u>(748,000)</u>	<u>(918,500)</u>	<u>(341,800)</u>	<u>(213,400)</u>	<u>(60,000)</u>
Amounts shown under non-current liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Variable-rate bank borrowings bear interest at a premium over prevailing lending rate quoted by the People's Bank of China.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively, are as follows:

	THE GROUP				THE COMPANY
	At 31 December			At 30 April	At 31 December
	2013	2014	2015	2016	2014
Effective interest rates:					
Variable-rate borrowings	6.30%-6.88%	6.30%-9.60%	—	—	—
Fixed-rate borrowings	<u>6.10%-7.65%</u>	<u>6.15%-12.00%</u>	<u>5.29%-9.60%</u>	<u>5.29%-9.00%</u>	<u>13.52%</u>

Details of bank borrowings secured by assets held by the Group or related parties and/or guaranteed by related parties are set out below.

	THE GROUP				THE COMPANY
	At 31 December			At 30 April	At 31 December
	2013	2014	2015	2016	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Arranged in order according to portion number					
Portion 1 (note 1)	248,000	266,000	—	—	—
Portion 2 (note 2)	200,000	200,000	—	—	—
Portion 3 (note 3)	—	60,000	—	—	60,000
Portion 4 (note 4)	—	100,000	—	—	—
Portion 5 (note 5)	50,000	50,000	—	—	—
Portion 6 (note 6)	150,000	150,000	100,000	—	—
Portion 7 (note 7)	100,000	92,500	100,000	100,000	—
Portion 8 (note 8)	—	—	95,000	90,000	—
Portion 9 (note 9)	—	—	46,800	23,400	—
	<u>748,000</u>	<u>918,500</u>	<u>341,800</u>	<u>213,400</u>	<u>60,000</u>

Notes:

- (1) The portion of bank borrowings was secured by pledge of Kanghua Hospital premises and land use rights held by Kanghua Group, and was also supported by the personal guarantee by Mr. Wang Junyang and Ms. Wang Aiqin and certain close family members of the Controlling Shareholders of the Company. The securities and guarantees have been released during the year ended 31 December 2015 upon the repayment of bank borrowings.

- (2) The portion of bank borrowings was guaranteed by the corporate guarantee from Kanghua Group and personal guarantee by Mr. Wang Junyang and Ms. Wang Aiqin and certain close family members of the Controlling Shareholders of the Company. Both corporate and personal guarantees have been released during the year ended 31 December 2015 upon the repayment of bank borrowings.
- (3) The portion of bank borrowings was secured from pledge of certain equity interest in Kanghua Hospital held by and was also guaranteed by corporate guarantee from Kanghua Group, Xingye Group and 東莞市康聯房地產開發有限公司, a company of which Mr. Wang Junyang and Ms. Wang Aici have controlling beneficial interest, and personal guarantee by Mr. Wang Junyang and Ms. Wang Aici. Both corporate and personal guarantees and securities have been released during the year ended 31 December 2015 upon the repayment of bank borrowings.
- (4) The portion of bank borrowings was guaranteed by the corporate guarantee from Tongli Enterprise and personal guarantee by certain close family members of the Controlling Shareholders of the Company and a non-controlling shareholder of Renkang Hospital. Both corporate and personal guarantees have been released during the year ended 31 December 2015 upon the repayment of bank borrowings.
- (5) The portion of bank borrowings was guaranteed by the corporate guarantee from Kanghua Group and Xingye Group. The guarantees have been released during the year ended 31 December 2015 upon the repayment of bank borrowings.
- (6) The portion of bank borrowings was guaranteed by the corporate guarantee from Kanghua Group and 東莞市名都家居有限公司, a company of which Mr. Wang Junyang has controlling beneficial interest, and personal guarantee by Mr. Wang Junyang and a close family member of the Controlling Shareholders of the Company. Both corporate and personal guarantees have been released during the year ended 30 April 2016 upon the repayment of bank borrowings.
- (7) The portion of bank borrowings is secured by pledge of properties and land use rights held by Tongli Enterprise, and is also guaranteed by the corporate guarantee from Tongli Enterprise and personal guarantee by Mr. Chen Wangzhi, Ms. Wang Aiqin, Ms. Wang Aici and certain non-controlling shareholders of the Renkang Hospital. The guarantees are released upon the repayment of bank borrowings in June 2016.
- (8) The portion of bank borrowings is guaranteed by the corporate guarantee from Tongli Enterprise and personal guarantee by certain close family members of the Controlling Shareholders of the Company and certain non-controlling shareholders of Renkang Hospital. As represented by the directors of the Company, the guarantees will be released prior to listing.
- (9) The portion of bank borrowings is secured by the pledged bank deposits of RMB50,000,000 and RMB25,000,000 as at 31 December 2015 and 30 April 2016, respectively.

At 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, the Group has available unutilised short-term bank loan facilities of approximately RMB168,000,000, RMB247,500,000, RMB266,000,000 and RMB266,000,000, respectively.

25. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised and movements thereon during the Relevant Periods:

	Tax losses	Other deductible temporary difference	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2013.	30,376	13,521	43,897
Charge to profit or loss	<u>(11,755)</u>	<u>(3,874)</u>	<u>(15,629)</u>
At 31 December 2013	18,621	9,647	28,268
Charge to profit or loss	<u>(16,607)</u>	<u>(3,589)</u>	<u>(20,196)</u>
At 31 December 2014	2,014	6,058	8,072
Charge to profit or loss	<u>(467)</u>	<u>(3,304)</u>	<u>(3,771)</u>
At 31 December 2015	1,547	2,754	4,301
Credit to profit or loss.	<u>264</u>	<u>(1,101)</u>	<u>(837)</u>
At 30 April 2016.	<u>1,811</u>	<u>1,653</u>	<u>3,464</u>

At 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, the Group had unused tax losses of approximately RMB83,387,000, RMB12,159,000, RMB10,601,000 and RMB8,216,000 respectively available for offset against future profits. Deferred tax asset has been recognised in respect of tax losses amounting to approximately RMB74,483,000, RMB8,057,000, RMB6,188,000 and RMB7,248,000 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, respectively. No deferred tax asset was recognised in respect of the remaining tax losses as realisation of the related tax benefit through the future taxable profit is not probable. The unused tax losses can be carried forward up to five years from the year in which the loss was originated, to offset future taxable profits.

At 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016, the Group has other deductible temporary difference amounted to approximately RMB45,664,000, RMB29,705,000, RMB14,886,000 and RMB9,946,000 respectively.

A deferred tax asset has been recognised in respect of approximately RMB38,589,000, RMB24,232,000, RMB11,014,000 and RMB6,609,000 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016 respectively of such other deductible temporary difference. No deferred tax asset was recognised in respect of the remaining deductible temporary difference due to unpredictable profit stream.

26. PAID-IN CAPITAL/SHARE CAPITAL

The Company was established as a joint stock cooperative enterprise in the PRC on 30 January 2002 with an aggregate paid-in capital of RMB60,000,000.

For the purposes of presentation of the consolidated statements of financial position, the balance of paid-in capital as at 31 December 2013 and 31 December 2014 represented the aggregate of paid-in capital of the Company and the subsidiaries attributable to the controlling shareholders prior to the completion of the Group Reorganisation. The paid-in capital as at 1 January 2013, 31 December 2013 and 31 December 2014 represented the consolidated paid-in capital of following companies:

Name of the companies	At	At	At
	1 January 2013	31 December 2013	31 December 2014
	RMB'000	RMB'000	RMB'000
The Company	60,000	60,000	60,000
Kanghua Hospital	250,000	250,000	250,000
Renkang Hospital	60,000	60,000	60,000
	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>
Presented in the Financial Information	<u>306,700</u>	<u>306,700</u>	<u>306,700</u>

As set out in note 2, the Group Reorganisation has been completed during the year ended 31 December 2015 and the balance of share capital as at 31 December 2015 and 30 April 2016 represent the share capital of the Company. Details of the movements of paid-in capital/share capital of the Company are as follows:

	Paid-in capital/share capital
	RMB'000
At 1 January 2013, 31 December 2013 and 31 December 2014	60,000
Capital contribution by shareholders on 18 September 2015	140,000
Issue of ordinary shares upon conversion into a joint stock company with limited liability on 30 December 2015	<u>50,000</u>
At 31 December 2015 and 30 April 2016	<u><u>250,000</u></u>

The Company converted into a joint stock company with limited liability on 30 December 2015. Pursuant to the approval of shareholders and the board of directors of the Company, the Company's equity was converted into 250,000,000 ordinary shares with par value of RMB1 each issued proportionately to its existing equity owners, after capitalisation of capital reserve of RMB53,306,000 and statutory reserve of RMB26,000 and elimination of accumulated losses of RMB3,332,000, respectively. 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 meeting 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.

Issued share capital

	Number of shares
Ordinary shares, issued and fully paid:	
At 1 January 2015	—
Issue of ordinary shares upon the conversion to a jointly stock company with limited liability	<u>250,000,000</u>
At 31 December 2015 and 30 April 2016	<u><u>250,000,000</u></u>

27. OPERATING LEASES

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with Kanghua Group, the shareholder, and the non-controlling shareholder of Renkang Hospital which fall due as follows:

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	2,901	3,191	—	5,528
In the second to fifth years inclusive	3,191	—	—	29,087
Over five years	—	—	—	30,189
	<u>6,092</u>	<u>3,191</u>	<u>—</u>	<u>64,804</u>

Operating lease payments represent rentals payable by the Group for land and buildings used for provision of hospital services. These leases are negotiated for terms ranging from three to ten years with fixed monthly rental. None of the leases include any contingent rental.

The Group as Lessor

Property rental income earned during the year/period was as follows:

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Rental income	3,248	4,391	4,973	1,402	1,803
Less: Outgoings	—	—	—	—	—
	<u>3,248</u>	<u>4,391</u>	<u>4,973</u>	<u>1,402</u>	<u>1,803</u>

The properties have non-cancellable operating leases at the end of each reporting periods as follows:

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	179	575	527	395
In the second to fifth year inclusive	180	406	27	41
	<u>359</u>	<u>981</u>	<u>554</u>	<u>436</u>

The properties generate rental yield of 3% on an ongoing basis. All of the properties held have non-cancellable operating leases with contract terms of two years.

28. CAPITAL COMMITMENTS

	At 31 December			At 30 April
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the Financial Information	21,721	67,895	59,952	87,459

29. FINANCIAL INFORMATION OF THE COMPANY

(a) Interest in subsidiaries of the Company

	As at 31 December 2015 and 30 April 2016
	RMB'000
Investment in Kanghua Hospital	250,000
Investment in Renkang Hospital	34,200
	<u>284,200</u>

(b) Movements of the reserves of the Company

	Capital reserve	Statutory reserve	Accumulated (losses) profits	Total reserve
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	—	475	(83)	392
Loss and total comprehensive expense for the year	—	—	(173)	(173)
Transfer	—	(449)	449	—
At 31 December 2013	—	26	193	219
Loss and total comprehensive expense for the year	—	—	(3,906)	(3,906)
At 31 December 2014	—	26	(3,713)	(3,687)
Loss and total comprehensive expense for the year	—	—	(3,142)	(3,142)
Capital contribution by shareholders (note 2) . . .	106,700	—	—	106,700
Issue of ordinary shares upon conversion into a joint stock company with limited liability (note 26)	(53,306)	(26)	3,332	(50,000)
At 31 December 2015	53,394	—	(3,523)	49,871
Loss and total comprehensive expense for the period	—	—	(79)	(79)
At 30 April 2016	<u>53,394</u>	<u>—</u>	<u>(3,602)</u>	<u>49,792</u>

30. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in the Financial Information, the Group had entered into the following related party transactions:

Name of related companies	Relationship	Nature of transactions	Year ended 31 December			Four months ended 30 April	
			2013	2014	2015	2015	2016
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)	
Kanghua Group . . .	Shareholder	Consultancy fee	360	2,230	800	800	—
		Rental expense	15,008	15,008	15,008	5,010	6,628
		Interest expense	492	3	—	—	—
		Interest income	54,788	59,881	52,847	22,376	7,091
Tongli Enterprise . .	Non-controlling shareholder of Renkang Hospital	Rental expense	2,638	2,902	3,191	1,064	1,055
		Consultancy fee	360	580	600	200	150
		Interest expenses	10,350	10,287	3,357	3,357	—
東莞市裕恒醫藥有限公司	Affiliate of Xingda Property. Beneficial interest held by two of the Controlling shareholders.	Purchase of pharmaceuticals products	191,277	218,247	131,764 (Note i)	46,908	N/A (Note i)
東莞市卓眾物業管理有限公司 (formerly known as 東莞市康華物業管理有限公司)	Affiliate of Kanghua Group. Beneficial interest held by one of the Controlling Shareholders	Property management fee	10,750	12,000	10,000	3,300	6,353
東莞市菁盛園林工程有限公司 . . .	Beneficial interest held by Xingye Group	Landscape maintenance expense	13	1,089	555	179	231
東莞市東成石材有限公司	Beneficial interest held by Xingye Group	Purchase of construction materials	—	149	12,177	1,759	—
東莞市力盛裝飾工程有限公司 . . .	Beneficial interest held by Xingye Group	Renovation work capitalised as property, plant and equipment	78	3,474	23,489	—	N/A
		Maintenance expense	1,838	495	1,441 (Note ii)	60	N/A (Note ii)

Name of related companies	Relationship	Nature of transactions	Year ended 31 December			Four months ended 30 April	
			2013	2014	2015	2015	2016
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
東莞市海月建設發展有限公司 . . .	Beneficial interest held by Kanghua Group	Landscape engineering and maintenance service	—	—	1,219	—	2,683
天霆雲計算科技(上海)有限公司 . . .	Beneficial interest held by a director of the Company	Purchase of equipment	—	599	—	—	—

Note i: The entity ceased to be a related party of the Group since 18 September 2015 as detailed in note 23.

Note ii: The entity ceased to be a related party of the Group since 8 December 2015 as Xingye Group has disposed its entire interest in it by that date.

Other than those disclosed above, certain subsidiaries of the Group had provided staff healthcare services to companies controlled by the Controlling Shareholders and the corresponding aggregate service fees amounted to approximately RMB91,000, RMB75,000 and RMB73,000 for the three years ended 31 December 2013, 2014 and 2015 and RMB50,000 and RMB13,000 for the four months ended 30 April 2015 and 2016, respectively.

Provision of guarantees and security by the Group's directors, shareholders and related parties

The Controlling Shareholders and related parties of the Company have provided guarantees and pledged certain of their properties, land use rights and equity interests in Kanghua Hospital to banks to support facilities granted by those banks to the Group, details of which are set out in note 24.

Compensation of key management personnel

Key management includes directors, supervisors and senior management. The remuneration of directors and other members of key management during the Relevant Periods was as follows:

	Year ended 31 December			Four month ended
	2013	2014	2015	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and allowances	438	461	826	156
Performance related incentive payments . . .	7	19	25	8
Retirement benefits scheme contributions . . .	16	16	18	12
	<u>461</u>	<u>496</u>	<u>869</u>	<u>176</u>

31. DETAILS OF NON WHOLLY-OWNED SUBSIDIARY THAT HAS MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non wholly-owned subsidiary of the Group that has material non-controlling interests at the end of each reporting period:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership and voting rights held by non-controlling interests				Profit (loss) allocated to non-controlling interest					Accumulated non-controlling interests			
		At 31 December		At 30 April		Year ended 31 December			Four months ended 30 April		At 31 December		At 30 April	
		2013	2014	2015	2016	2013	2014	2015	2015	2016	2013	2014	2015	2016
						RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(unaudited)														
Renkang Hospital . PRC	43%	43%	43%	43%	<u>1,804</u>	<u>5,530</u>	<u>117</u>	<u>(1,458)</u>	<u>(341)</u>	<u>9,554</u>	<u>15,084</u>	<u>15,201</u>	<u>14,860</u>	

Summarised financial information in respect of Renkang Hospital that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	At 31 December			At 30 April
	2013	2014	2015	2016
Current assets	<u>80,773</u>	<u>126,836</u>	<u>195,187</u>	<u>165,399</u>
Non-current assets	<u>174,844</u>	<u>161,146</u>	<u>154,827</u>	<u>151,779</u>
Current liabilities	<u>(233,398)</u>	<u>(252,903)</u>	<u>(314,663)</u>	<u>(282,619)</u>
Equity attributable to owners of Renkang Hospital . . .	<u>12,665</u>	<u>19,995</u>	<u>20,150</u>	<u>19,699</u>
Non-controlling interests of Renkang Hospital	<u>9,554</u>	<u>15,084</u>	<u>15,201</u>	<u>14,860</u>

	Year ended 31 December			Four months ended 30 April	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue and other income	153,951	184,041	190,215	53,850	61,194
Total expenses	(149,756)	(171,181)	(189,943)	(57,241)	(61,986)
Profit (loss) for the year/period and total comprehensive income (expense) for the year/period	<u>4,195</u>	<u>12,860</u>	<u>272</u>	<u>(3,391)</u>	<u>(792)</u>
Profit (loss) for the year/period and total comprehensive income (expense) for the year/period attributable to:					
— the owners of the Company	2,391	7,330	155	(1,933)	(451)
— non-controlling interests	<u>1,804</u>	<u>5,530</u>	<u>117</u>	<u>(1,458)</u>	<u>(341)</u>
	<u>4,195</u>	<u>12,860</u>	<u>272</u>	<u>(3,391)</u>	<u>(792)</u>
Net cash inflow (outflow) from operating activities	40,902	49,932	41,413	93,870	(3,669)
Net cash inflow (outflow) from investing activities	19,193	(51,791)	(66,836)	(83,739)	29,037
Net cash (outflow) inflow from financing activities	<u>(54,486)</u>	<u>(2,204)</u>	<u>34,151</u>	<u>17,923</u>	<u>(36,645)</u>
Net cash inflow (outflow)	<u>5,609</u>	<u>(4,063)</u>	<u>8,728</u>	<u>28,054</u>	<u>(11,277)</u>

32. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations.

Except for those disputes with provision made as disclosed in note 23, the management of the Group believes that the final result of other medical disputes with total claims of RMB6,467,000, RMB9,549,000, RMB9,946,000 and RMB9,671,000 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 April 2016 respectively will not have a material impact on the financial position or operations of the Group and the amount of outflow, if any, cannot be determined with sufficient reliability prior to judicial appraisals. Accordingly, no provision is made in this regard.

33. MAJOR NON-CASH TRANSACTION

As part of the Group Reorganisation detailed in note 2, there is an amount of RMB37,500,000 non-cash consideration in the transfer of equity interest in Kanghua Hospital to the Company which has been set off with the amount due from a shareholder.

(F) DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the directors of the Company by the Group during the Relevant Periods.

Under the arrangement currently in force, the aggregate amount of remunerations payable to the Company's directors for the year ending 31 December 2016 is estimated to be approximately RMB748,000.

(G) EVENTS AFTER THE REPORTING PERIOD

In June 2016, the Group entered into a management agreement with a hospital located in Chongqing (the "Chongqing Hospital"). The hospital building of the Chongqing Hospital is currently under construction and refurbishment and the Group is going to provide assistance in construction and preparation work of the hospital before it becomes operational which is expected to be by the end of 2016. Pursuant to the agreement, the Group will provide management services to the Chongqing Hospital. In return for the management services, the Group is entitled to a monthly management fee of RMB200,000 plus 5% of the Chongqing Hospital's monthly revenue.

(H) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies comprising the Group have been prepared in respect of any period subsequent to 30 April 2016.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report on the financial information for each of the three years ended 31 December 2015 and for the four months ended 30 April 2016 of the Group (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with Rules 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group as if the Global Offering had taken place on 30 April 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group 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 30 April 2016 or at any future dates following the Global Offering. The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the audited consolidated net assets of the Group as at 30 April 2016 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 30 April 2016	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	(note 1) RMB'000	(note 2) RMB'000	RMB'000	(note 3) RMB	(note 3) HK\$
Based on an Offer Price of HK\$11.60 per Share.	<u>271,610</u>	<u>768,328</u>	<u>1,039,938</u>	<u>3.11</u>	<u>3.59</u>
Based on an Offer Price of HK\$14.50 per Share	<u>271,610</u>	<u>975,048</u>	<u>1,246,658</u>	<u>3.73</u>	<u>4.30</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 30 April 2016 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 30 April 2016 of RMB271,610,000.

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$11.60 and HK\$14.50 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 be issued upon the exercise of Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the General Mandate. For the purpose of this unaudited pro forma statement, the estimated net proceed is converted from Hong Kong dollars into Renminbi at the rate of HK\$1.00 to RMB0.86847, which was the rate prevailing on 17 October 2016. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate or at all.
- (3) The unaudited pro forma adjusted consolidated 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 334,000,000 Shares in issue assuming that the Global Offering has been completed on 30 April 2016, but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Options or any Share which may be issued or repurchased by the Company pursuant to the General Mandate.
- (4) For the purpose of this unaudited pro forma statement of adjusted consolidated net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.86847, which was the rate prevailing on 17 October 2016. No representation is made that Renminbi amounts have been, could have been or could be converted to Hong Kong dollar at that rate or at any other rate or at all.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2016.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Guangdong Kanghua Healthcare Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of 廣東康華醫療股份有限公司 Guangdong Kanghua Healthcare Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 30 April 2016 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 27 October 2016 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited by way of initial public offering (the "Global Offering") on the Group's financial position as at 30 April 2016 as if the Global Offering had taken place at 30 April 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for each of the three years ended 31 December 2015 and the four month-period ended 30 April 2016, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Global Offering at 30 April 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 October 2016

1. TAXATION IN THE PRC

Enterprise Income Tax

Pursuant to *the Enterprise Income Tax Law of the PRC* (“**EIT Law**”) promulgated on 16 March 2007 and implemented from 1 January 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 realised, 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.

VAT

The *Temporary Regulations on Value-added Tax of PRC*, which were promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994, amended on 10 November 2008, and came into effect on 1 January 2009 and effective on 6 February 2016 and the *Detailed Implementing Rules of the Temporary Regulations on Value-added Tax*, which were promulgated by the MOF and became effective on 25 December 1993, and were amended on 15 December 2008 and 28 October 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%.

Tax related to Dividends

Individual Investors

Pursuant to *the Individual Income Tax Law of the PRC* (“**IIT Law**”) which was implemented on 10 September 1980, first revised on 31 October 1993, second revised on 30 August 1999, third revised on 27 October 2005, fourth revised on 29 June 2007, fifth revised on 29 December 2007 and sixth revised on 30 June 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 28 January 1994, first revised on 19 December 2005, second revised on 18 February 2008, third revised on

19 July 2011 and implemented on 1 September 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 organisations 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 21 July 1993, a foreign enterprise or a foreign individual holding B shares or foreign shares, which/who receive dividends (bonus shares) from an 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 4 January 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 28 June 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 PRC and the country where they reside and the taxation arrangement between the PRC and Hong Kong (or Macau).

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% 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 organisation or premises in the PRC or it has established an organisation and premises but the income received has no actual connection with the organisation 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 6 November 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 24 July 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 21 August 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 IIT Law and *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 30 March 1998 and implemented by Ministry of Finance and SAT, from 1 January 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 31 December 2009 by Ministry of Finance, SAT and China Securities Regulatory Commission, which expressly stipulates that from 1 January 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 levied individual income tax on income from the transfer of shares.

Enterprise Investors

In accordance with the *EIT Law* and its *implementation rules*, a non-resident enterprise that has not established an organisation or premises in the PRC or it has established an organisation and premises but the income received has no actual connection with the organisation 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 1 October 1988 and amended on 8 January 2011, and the *Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty* effective on 1 October 1988, 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 29 January 1996 and implemented on 1 April in the same year, and its first amendment was made on 14 January 1997 while the second amendment on 5 August 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 organisations and individuals residing in the PRC as well as the income of the foreign exchange or foreign exchange operating activities for the organisations 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 20 June 1996 and implemented on 1 July 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, organisations 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 organisations 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 realised 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 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 Listing, which was promulgated and implemented on 26 December 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 listing of domestic companies;
- 2) A domestic company shall, within 15 working days after the completion of the initial offering of shares for its overseas listing, go through the registration of overseas listing 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 listing” with a domestic bank respectively for the initial public offering (or follow-on offering) of shares and repurchase transactions by producing its overseas listing 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 listing to deposit its RMB funds obtained from foreign exchange settlement, funds raised from overseas listing 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 listing may be repatriated or be deposited overseas. The use of such funds shall be consistent with those listed in the prospectus documentation for shares or the prospectus 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 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 listing (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 listing 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 9 April 1991, and was amended on 28 October 2007 and 31 August 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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 fulfilment 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 recognised 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 Listing of Shares Overseas by Joint Stock Limited Company (“the Special Provisions”) and the Mandatory Clauses of the Articles of Association of Companies Seeking Overseas Listing (“the Mandatory Provisions”)**

On 29 December 1993, *the Company Law* was adopted by the standing committee and came into effect on 1 July 1994, amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. The amended *Company Law* came into effect on 1 March 2014.

The Special Provisions were adopted by the State Council on 4 July 1994 and took effect on 4 August 1994. *The Special Provisions* applies to the overseas share subscription and listing 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 27 August 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*.

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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 29 December 1998 by the standing committee and amended four times on 28 August 2004, 27 October 2005, 29 June 2013 and 31 August 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.

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

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 bearer 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 share offering price 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 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 public offer of its shares shall not be transferred within one year from the date of its shares being listed on a stock exchange. Directors,

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 listing date, and shall not transfer the shares they hold in the company within six months after they leave office.

Increase in Share 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 organisation; (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) fulfil any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer 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
- (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

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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;
- (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*:

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (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;
- (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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 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 general shareholders' 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 authorisation 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.

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;

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (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 authorisation 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.

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

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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;
- (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 organisation;
- (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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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.

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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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.

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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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.

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

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 Listing

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.

Suspension and Termination of Listing

The Securities Law provides that where a company is in one of the following circumstances, the stock exchange shall decide to suspend the listing and trading of its shares:

- (a) there is a change in the total share capital, equity distribution or etc. of the company and the listing 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 listing rules of the relevant stock exchange.

In the event that the conditions for listing 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 listing 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 offering 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 offering and trading of marketable securities, regulating public offering 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 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 offering of securities directly or indirectly and list its securities outside the PRC.

On 20 December 2012, the CSRC has promulgated *the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and Listing by Joint Stock Companies* which sets out the provisions on the application documents, application and examination procedures for overseas share issuance and listing 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 31 August 1994, became effective on 1 September 1995 and revised on 27 August 2009. It is applicable to contract disputes and other property interest disputes between equal citizens, legal person and other organisations 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 recognised 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 2 December 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 22 April 1987. This Convention provides that all arbitral awards made in a member country of the Convention shall be recognised 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 recognise 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 18 June 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 People’s Court of PRC and Hong Kong and became effective on 1 February 2000. Under this arrangement, award made by the PRC arbitral authorities recognised 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 3 July 2008 and became effective on 1 August 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 recognise 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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

(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.

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 authorised 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 authorised 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 offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and senior

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 listing 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 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 prospectus.

(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 at 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.

(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 listing of its foreign shares on the Stock Exchange is required to give an undertaking in favour 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 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 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 public offering 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

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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.

(16) *Corporate Reorganisation*

Corporate reorganisations 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.

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 listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

(1) *Compliance Adviser*

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing 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 authorised 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 authorised 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 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 authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed 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 listing 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 listing 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 listing 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.

(6) *Restrictions on purchase and subscription of its own shares*

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 Takeovers Code 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.

(7) *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 listing 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.

(8) *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.

(9) *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 authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 at 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.

(10) *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 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.

(11) *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.

(12) *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;

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- 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.

(13) *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.

(14) *Statements in H Share Certificates*

The company is required to ensure that all of its listing 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
- authorises 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.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

(15) *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.

(16) *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 Takeovers Code and an agreement that the 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.

(17) *Subsequent Listing*

The company must not apply for the listing 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.

(18) *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.

(19) *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 listing 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 listing.

Other Legal and Regulatory Provisions

Upon the company's listing, the provisions of the Securities and Futures Ordinance, the Hong Kong Code on Takeovers and Mergers 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.

This Appendix set out summaries of the main clauses of our Articles of Association adopted on 22 June 2016, which shall become effective as at the date on which the H shares are listed 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 VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” to this prospectus, 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.

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.

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;
- 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) Disclosure of matters relating to the contract rights of our Company and voting on the contracts

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.

(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 such company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of such 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;
- 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 of 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 shall not be more than half of the amount of the Directors. There is no provision in the Articles of Association that imposes any age limit for Directors beyond which retirement of a Director is mandatory.

(9) Power to borrow money

These Articles of Association do not have any special provision regarding the manner in which the Directors may exercise the right to borrow money or the manner in which such a right is given provided that the Directors shall be entitled to develop proposals for our Company to issue bonds and to list its Shares, and that such bond issues must be approved by the Shareholders by a special resolution at the Shareholders' general meeting.

(10) 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;
- 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 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); and
- 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 listing 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;
- 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 1% 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 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;
- 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-organisation 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 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 categorised 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.

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 favour 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.

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.

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 authorised 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.

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 Directors 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 its 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 shareholdings is calculated as at the date of the submission of the written requirement by the shareholders;
- ii. In the event that the Board of Directors agrees 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 agrees 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:

- 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 mergers, 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, 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 cancelled and the proposals listed in the notice shall not be cancelled 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;
- 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 public offering of shares by our Company shall not be transferred within one year of the date on which the stocks of our Company are listed 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 listed 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 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 recognise 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;
- 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;
- 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 POWER FOR ANY SUBSIDIARY OF OUR COMPANY TO OWN SHARES IN ITS PARENT

There are no provisions in these Articles of Association relating to ownership by any subsidiary of our Company of shares in its parent.

12 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 listing 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.

Receiving agents appointed by Our Company shall on behalf of shareholders of shares listed in Stock Exchange 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.

13 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 authorisation 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 authorised 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 authorised 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 authorised by the appointor by means of power of attorney or other instrument of authorisation, 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.

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.

14 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 listing 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.

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; and
- 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.

15 QUORUM OF GENERAL SHAREHOLDERS' MEETINGS

In the event that the number of shares with voting power represented by the shareholders planning to attend the meeting 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.

16 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.

17 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;
- 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 be 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 organise 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 recognised 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:

- 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.

18 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 organisation 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.

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;
- 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;
- 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; and
- 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 authorisation 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 a 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 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 Stock Exchange, 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 fails to withdraw from the dividend coupons for consecutive two times or the dividend coupons cannot 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 listing 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 authorised by the general shareholders' meeting;
- x. Decide on the setup of our Company's internal management organisation;
- 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 authorised 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.

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 two 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 authorisation 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 authorisation. 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.

(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 Stock Exchange, 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.

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 practising 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:

- i. Be in charge of the producing and operational management of our Company and report to the Board of Directors on work;
- ii. To organise the enforcement of resolutions of the Board of Directors;
- iii. Organise 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 authorised 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.

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.

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.

1. FURTHER INFORMATION**A. Incorporation**

We were incorporated in the PRC as a joint stock limited liability company on 30 January 2002. We established a principal place of business in Hong Kong at Unit 3207, Metroplaza Tower 2, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong, and was registered as a non-Hong Kong company in Hong Kong under the Companies (Non-Hong Kong Companies) Regulation (Chapter 622 of the Laws of Hong Kong) on 4 August 2016. Mr. Wong Wai Hang Ricky of Flat F, 11/F Block 12, The Cairnhill, 108 Route Twisk, Tsuen Wan, Hong Kong has been appointed as the Hong Kong authorised representative of our Company on 22 June 2016 for the acceptance of service of process and any notices required to be served on our Company in Hong Kong.

As we are established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus. A summary of our Articles of Association is set out in Appendix V to this prospectus.

B. Changes in the registered capital of our Company

On 30 January 2002, our Company was established as a limited liability company with a registered capital of RMB10 million.

On 18 September 2015, our Company increased its registered capital to RMB200 million.

On 30 December 2015, our Company was converted into a joint stock limited company under the PRC Company Law, with a registered capital of RMB250 million, divided into 250,000,000 Domestic Shares of nominal value of RMB1.00 each, all of which were fully paid up.

Immediately upon completion of the Global Offering, the registered capital of our Company will be RMB334,000,000, made up of 250,000,000 Domestic Shares and 84,000,000 H Shares, with nominal value of RMB1.00 each, assuming the Over-allotment Option is not exercised, and RMB346,600,000, made up of 250,000,000 Domestic Shares and 96,600,000 H Shares, with nominal value of RMB1.00 each, assuming the Over-allotment Option is exercised in full.

For further details, see “*History, Reorganisation and Corporate Structure*”.

Save as aforesaid, there has been no alteration in our share capital within two years immediately preceding the date of this prospectus.

C. Resolutions passed by our Shareholders

At the general meeting held on 22 June 2016, among other things, the following resolutions were passed by our Shareholders:

- (a) approving the issue of the H Shares by our Company and the Listing, whereby the number of H Shares to be issued shall not exceed 84,000,000; the issue price of the H Shares will be decided upon completion of the book building process for the Listing; and the granting of the Over-allotment Option in respect of no more than 12,600,000 H Shares;

- (b) subject to the Listing, the Articles of Association has been approved and conditionally adopted, which shall only become effective on the Listing Date and our Board has been authorised to amend the Articles of Association according to the relevant laws and regulations and requirements of relevant regulatory authorities; and
- (c) approving our Board to handle all matters relating to, among other thing, the issue of the H Shares and the Listing.

2. REORGANISATION

In preparation for the Listing, we underwent the Reorganisation, details of which are set out in the section headed “*History, Reorganisation and Corporate Structure*” in this prospectus. As confirmed by our PRC Legal Advisers, we have obtained all necessary approval from relevant PRC regulatory authorities required for the implementation of the Reorganisation. The approvals obtained in relation to our Reorganisation include the following:

- (a) on 25 December 2015 our Promoters convened an inaugural meeting of our Company, at which, among other things, the establishment of our Company and the adoption of our initial Articles of Association were approved; and
- (b) on 30 December 2015, a new business license was issued by the Dongguan Administrative Bureau for Industry and Commerce (東莞市工商行政管理局), whereupon our Company was formally established as a joint stock limited liability company.

3. FURTHER INFORMATION OF OUR SUBSIDIARIES

Our principal subsidiaries (for the purpose of the Listing Rules) as at 30 April 2016 are set out under the financial statements in the Accountants’ Report as included in Appendix I to this prospectus. Save as disclosed in “*History, Reorganisation and Corporate Structure*” of this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. 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 our business) within two years immediately preceding the date of this prospectus which are or may be material:

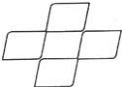


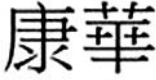
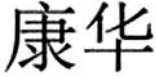


- (a) the agreement entered into between (i) Kanghua Group, Xingye Group and Xingda Property (as transferors); and (ii) our Company (as transferee) dated 8 September 2015 in respect of the transfer of equity interest in Kanghua Hospital;
- (b) the agreement entered into between (i) Tongli Enterprise (as transferor); and (ii) our Company, Ms. Zhang Dandan (張丹丹), Ms. Wang Aier (王愛兒) and Kangdi Enterprise (as transferees) dated 8 September 2015 in respect of the transfer of equity interest in Renkang Hospital;
- (c) the Renkang Entrusted Management Agreement;
- (d) the Hong Kong Underwriting Agreement;
- (e) the Kanghua Hospital Lease Agreement;

- (f) the Renkang Hospital Lease Agreement; and
- (g) the cornerstone investment agreement dated 19 October 2016 entered into among our Company, China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) and Rise Eagle Limited (升鵬有限公司), pursuant to which Rise Eagle Limited (升鵬有限公司) has agreed to subscribe for our H Shares, at the Offer Price, in the amount of the Hong Kong dollars equivalent of US\$30,000,000.


B. Our intellectual property

Trademarks

As at the Latest Practicable Date, we had registered the following trademarks that we believe are material to our business:

No.	Trademark	Owner	Territory	Class	Registration no.	Expiry date
1.		Kanghua Hospital	PRC	44	4161523	27-02-2019
2.		Kanghua Hospital	PRC	44	8618825	27-05-2022
3.		Kanghua Hospital	PRC	44	15219006	06-01-2026
4.	A.  B. 	Our Company	Hong Kong	44	303657637	12-01-2026
5.	A.  B. 	Our Company	Hong Kong	44	303657628	12-01-2026

As at the Latest Practicable Date, we had submitted applications to register the following trademark that we believe are material to our business:

No.	Trademark	Applicant	Territory	Class	Application no.	Application date
1.		Kanghua Hospital	PRC	44	18014480	30-09-2015

Domain names

As at the Latest Practicable Date, we had registered and maintained the following domain names that we believe are material to our business:

No.	Domain name	Registrant	Expiry date
1.	http://www.khhospital.com . . .	Kanghua Hospital Kanghua Healthcare	26-05-2026
2.	http://www.kanghuagp.com . . .	Management (HK)	05-11-2021
3.	http://www.khhospital.cn	Kanghua Hospital	18-01-2018
4.	http://www.dgrkyy.com	Renkang Hospital	04-11-2017
5.	http://www.dgrkhospital.com . .	Renkang Hospital	07-01-2018

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights that we believe are material in relation to our Group's business.

5. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS**A. Particulars of Directors' and Supervisors' Contracts**

Each of our Directors, entered into a service contract with our Company on 11 October 2016. These service contracts are (a) for a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained and (b) are subject to termination in accordance with their respective terms. These service contracts may be renewed in accordance with our Articles of Association and the applicable rules and regulations.

We entered into a service contract with each of our Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and settlement of disputes by arbitration on 11 October 2016.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

B. Remuneration of Directors and Supervisors

The aggregate amounts of compensation (including fees, salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses) that were paid to our Directors and Supervisors for each of the three years ended 31 December 2015 and the four months ended 30 April 2016 were approximately RMB461,000, RMB496,000, RMB869,000 and RMB176,000, respectively.

According to the arrangements in force on the Latest Practicable Date, we expect that the total remuneration to be paid and granted to our Directors and Supervisors for the year 2016 will be approximately RMB748,000. According to such arrangements, (i) with respect to our executive Directors, each of Mr. Wang Junyang, Mr. Wong Wai Hung Simon and Ms. Wang Aiqin will be entitled to an annual director's fee of RMB360,000 upon the Listing and Mr. Chen Wangzhi is entitled to an annual salary and other benefits of RMB396,000 and will be entitled to an annual director's fee of RMB360,000 upon the

Listing; (ii) with respect to our non-executive Director, Mr Lv Yubo (呂玉波) has waived emoluments in acting as our non-executive Director; (iii) with respect to our independent non-executive Directors, each of Mr. Yeung Ming Lai (楊銘禮), Dr. Chen Keji (陳可冀) and Mr. Chan Sing Nun (陳星能) will be entitled to an annual director's fee of RMB200,000 upon the Listing; and (iv) with respect to our Supervisors, each of Mr. Chen Shaoming (陳少明), Mr. Wang Shaofeng (王少鋒) and Mr. Wang Bingzhi (王炳枝) will be entitled to an annual supervisor's fee of RMB24,000 upon the Listing.

Save as disclosed above, no other payments had been paid or are payable by us to our Directors and Supervisors in respect of the Track Record Period.

Each of our Directors and Supervisors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

6. DISCLOSURE OF INTERESTS

A. Disclosure of Interests

1. Disclosure of our Directors' and Supervisors' interests in the registered capital of our Company and its associated corporations.

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the beneficial interests or short positions of our Directors, Supervisors and chief executives in any shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which once the H Shares are listed, will be required (a) to be notified to our Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein once the H Shares are listed; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the H Shares are listed are as follows:

(a) *Our Company*

<u>Director / Supervisor</u>	<u>Number of Shares held immediately following the Global Offering</u>	<u>Nature of interest</u>	<u>Approximate percentage of interest in the relevant class of Shares of our Company immediately following the Global Offering⁽¹⁾</u>	<u>Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering⁽²⁾</u>
Mr. Wang Junyang ⁽³⁾⁽⁴⁾⁽⁵⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company; interest in a controlled corporation	100%	74.85%

Director / Supervisor	Number of Shares held immediately following the Global Offering	Nature of interest	Approximate percentage of interest in the relevant class of Shares of our Company immediately following the Global Offering ⁽¹⁾	Approximate percentage of interest in the total share capital of our Company immediately following the Global Offering ⁽²⁾
Mr. Chen Wangzhi ⁽³⁾⁽⁶⁾⁽⁷⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company; interest in a controlled corporation; family interest of spouse	100%	74.85%
Ms. Wang Aiqin ⁽³⁾⁽⁶⁾⁽⁷⁾	250,000,000 Domestic Shares (Long position)	Interest of a party to an agreement regarding interest in our Company; interest in a controlled corporation; family interest of spouse	100%	74.85%

Notes:

- (1) the calculation is based on the percentage of shareholding in Domestic Shares or H Shares of our Company after the Global Offering.
- (2) the calculation is based on the total number of 334,000,000 Shares in issue after the Global Offering.
- (3) Immediately following completion of the Global Offering (but without taking into account any H Shares which may be allotted and used upon exercise of the Over-allotment Option), our Company will be held as to approximately 59.13% by Kanghua Group (see also note (4) below), as to approximately 7.49% by Xingye Group (see also note (5) below) and as to approximately 8.23% by Xingda Property (see also note (6) below), respectively. Pursuant to the Concert Party Agreement, each of Mr. Wang Junyang, Ms. Wang Aici, Mr. Chen Wangzhi and Ms. Wang Aiqin has agreed to jointly control their respective interests in our Company and the decisions as to the business and operations of our Group shall be in accordance with the unanimous consent of all of them. Therefore, each of them is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
- (4) Kanghua Group is held as to 97.46% by Mr. Wang Junyang and as to 2.54% by Ms. Wang Aici, respectively. As Mr. Wang Junyang controls more than one third of the voting power at the general meeting of Kanghua Group, Mr. Wang Junyang is deemed to be interested in the same number of Shares in which Kanghua Group is interested by virtue of the SFO.
- (5) Xingye Group is held as to 80% by Mr. Wang Junyang and as to 20% by Ms. Wang Aici, respectively. As Mr. Wang Junyang controls more than one third of the voting power at the general meeting of Xingye Group, Mr. Wang Junyang is deemed to be interested in the same number of Shares in which Xingye Group is interested by virtue of the SFO.
- (6) Xingda Property is held as to 50% each by Mr. Chen Wangzhi and Ms. Wang Aiqin. As each of Mr. Chen Wangzhi and Ms. Wang Aiqin controls more than one third of the voting power at the general meeting of Xingda Property, each of Mr. Chen Wangzhi and Ms. Wang Aiqin is deemed to be interested in the same number of Shares in which Xingda Property is interested by virtue of the SFO.
- (7) As Mr. Chen Wangzhi and Ms. Wang Aiqin are husband and wife, each of them is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

(b) *Associated corporations of our Company*

Director / Supervisor	Associated corporation	Nature of interest	Approximate percentage interest in the associated corporation
Mr. Wang Junyang	Kanghua Group	Beneficial owner	97.46%
Mr. Wang Junyang	Xingye Group	Beneficial owner	80%
Mr. Chen Wangzhi ⁽¹⁾	Xingda Property	Beneficial owner; family interest of spouse	100%
Ms. Wang Ai Qin ⁽¹⁾	Xingda Property	Beneficial owner; family interest of spouse	100%

Note:

(1) As Mr. Chen Wangzhi and Ms. Wang Ai Qin are husband and wife, each of them is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

2. Interests and short positions of substantial Shareholders in the Shares and underlying Shares

Save as disclosed in “*Substantial Shareholders*” of this prospectus, our Directors are not aware of any other person who will, immediately following the Global Offering, have an interest or short position in the Shares or underlying shares which are 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 the rights to vote in all circumstances at the general meetings of our Company.

B. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors, Supervisors or any of the parties listed in “*K. Consents*” below is interested in the promotion of our Company, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, our Company, or are proposed to be acquired or disposed of by or leased to our Company;
- (b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;
- (c) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties in the aforesaid paragraph:
 - (i) is interested legally or beneficially in any of the Shares or any shares in any of our subsidiary; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities;

- (d) 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 our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Hong Kong Stock Exchange;
- (e) as at the Latest Practicable Date, none of our Directors, Supervisors, their respective associates, or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital), had any interest in any of our top five suppliers and top five customers in respect of each of our business segments;
- (f) none of our Directors, Supervisors and chief executives of our Company has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, any interests and short positions in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the H Shares are listed on the Hong Kong Stock Exchange;
- (g) no amount, securities or benefit has been paid, allotted or given within the two years preceding the date of this prospectus to the promoter nor is any such amount, securities or benefit intended to be paid, allotted or give. None of our Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business; and
- (h) none of our Directors or Supervisors has been paid in cash or shares or otherwise by any person in respect of the Track Record Period as an inducement to join or upon joining our Company, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

7. OTHER INFORMATION

A. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

B. Litigation

Save as disclosed in “*Business — Legal Proceedings and Compliance*” in this prospectus, as at the Latest Practicable Date, we are not involved in any material litigation, arbitration or administrative proceedings. So far as our Directors are aware, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

C. Sole Sponsor and Sole Sponsor’s fee

The Sole Sponsor, namely, China International Capital Corporation Hong Kong Securities Limited has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

The Sole Sponsor's fees in connection with the Listing payable by our Company are estimated to amount to US\$1 million subject to the terms of the engagement.

D. Compliance adviser

We appointed TC Capital International Limited as our compliance adviser effective upon the Listing in compliance with Rules 3A.19 and 19A.05 of the Listing Rules.

E. Preliminary expenses

We have not incurred any material preliminary expenses.

F. Qualification of experts

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this prospectus are as follows:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	Licensed to conduct Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts), Type 4 (Advising on securities), Type 5 (Advising on futures contracts) and Type 6 (Advising on corporate finance) of the regulated activities as defined under the SFO
Commerce & Finance Law Offices	PRC legal advisers
Deloitte Touche Tohmatsu	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer and consultant
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

G. Taxation of holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer are effected on the H Share register of members of our Company, including in circumstances where such transaction is effected on the Hong Kong Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK\$2.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see "*Appendix III — Taxation and Foreign Exchange*".

H. No material adverse change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since 30 April 2016 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

I. Binding effect

This prospectus shall have the effect, if an application is made in pursuant 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.

J. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, we have not issued or 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 Group, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) no member of our Group has issued or agreed to issue any founder or management or deferred shares;
- (d) no member of our Group has issued or agreed to issue any debentures;
- (e) our Company has no outstanding convertible debt securities or debentures;
- (f) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any of the shares or loan capital of our Company or any of our subsidiaries;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived;
- (h) 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;
- (i) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (j) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law; and
- (k) no founders or management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued.

K. Consents

Each of the experts as referred to in the paragraph headed “Qualification of experts” of this Appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of any of its certificates, letters, opinions or reports and the references to its name included herein in the form and context in which it is included.

Save as disclosed in this prospectus, 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.

L. Promoters

The Promoters of our Company are Kanghua Group, Xingye Group and Xingda Property. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, security or benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the Promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

M. Related party transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in the section headed “*Connected Transactions*” in this prospectus and in note 30 of the “*Accountants’ Report*” in Appendix I to this prospectus.

N. Personal guarantees

As at the Latest Practicable Date, our Directors and Supervisors had not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

O. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in “*Appendix VI — Statutory and General Information — Further Information About Our Business — Summary of our material contracts*”; and
- (c) the written consents referred to in “*Appendix VI — Statutory and General Information — Other Information — Consents*”.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh 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 prospectus:

- (a) the Articles of Association of our Company;
- (b) the accountants’ report on financial information of our Group for the three years ended 31 December 2013, 2014 and 2015 and the four months ended 30 April 2016 prepared by Deloitte Touche Tohmatsu, the texts of which is set out in “*Appendix I — Accountants’ Report*”;
- (c) the independent reporting accountants’ assurance report on the compilation of unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which is set out in “*Appendix II — Unaudited Pro Forma Financial Information*”;
- (d) the PRC legal opinions issued by Commerce & Finance Law Offices, our Company’s PRC legal advisers, in respect of, among other things, certain matters in respect of the Group under PRC law;
- (e) the PRC Company Law, the Special Regulations and the Mandatory Provisions, together with the unofficial English translations thereof;
- (f) the service contracts referred to in “*Appendix VI — Statutory and General Information — Further Information About our Directors and Supervisors — Particulars of Directors’ and Supervisors’ Contracts*”;
- (g) the material contracts referred to in “*Appendix VI — Statutory and General Information — Further Information About Our Business — Summary of our material contracts*”;
- (h) the written consents referred to in “*Appendix VI — Statutory and General Information — Other Information — Consents*”; and
- (i) the industry report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the summary of which is set forth in the section headed “*Industry Overview*” in this prospectus.



廣東康華醫療股份有限公司
Guangdong Kanghua Healthcare Co., Ltd.*

