二十週年

20 YEARS ANNIVERSARY

ANNUAL REPORT
2017

溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.
(A joint stock limited liability company incorporated in the People's Republic of China)
Stock code: 2120

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. GUAN Weili *(Chairman)*
Ms. WANG Lianyue
Ms. WANG Hongyue

Non-executive Directors

Mr. YANG Yang
Ms. HE Xin (retired on June 14, 2017)
Mr. LIN Lijun (appointed on June 14, 2017)

Independent Non-executive Directors

Mr. CHONG Yat Keung
Mr. HUANG Zhi
Mr. GOT Chong Key Clevin

Audit Committee

Mr. HUANG Zhi *(Chairman)*
Mr. GOT Chong Key Clevin
Ms. HE Xin (retired on June 14, 2017)
Mr. LIN Lijun (appointed on June 14, 2017)

Nomination Committee

Mr. GOT Chong Key Clevin *(Chairman)*
Mr. CHONG Yat Keung
Mr. GUAN Weili

Remuneration Committee

Mr. CHONG Yat Keung *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

Strategy and Risk Management Committee

Mr. GUAN Weili *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

Supervisory Committee

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jingou
Mr. XIE Tiefan
Mr. QIAN Chengliang (appointed on June 14, 2017)
Mr. MA Jinlong (appointed on June 14, 2017)

Joint Company Secretaries

Mr. WANG Jian
Ms. NG Wing Shan

Authorized Representatives

Ms. WANG Hongyue
Ms. NG Wing Shan

Auditor

PricewaterhouseCoopers Zhong Tian LLP

Legal Advisors as to Hong Kong Laws

Clifford Chance

Registered Office and Head Office in the PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

Corporate Information

Principal Place of Business in Hong Kong

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

H Share Registrar

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

Stock Code

2120

Company's Website

www.knhosp.cn

Investor Relations

Telephone:	(86) 5778 8771 689
Fax:	(86) 5778 8789 117
Email:	ir@knhosp.cn

Financial Highlights

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**666,436**	415,408	343,674	296,296	226,363
Profit before income tax	**69,863**	92,139	70,170	68,567	47,576
Income tax expense	**(22,027)**	(26,588)	(18,548)	(17,369)	(11,383)
Total comprehensive income	**47,836**	65,551	51,622	51,198	36,193
Attributable to:					
Equity holders of the Company	**49,071**	68,832	55,709	51,198	36,193
Non-controlling interests	**(1,235)**	(3,281)	(4,087)	—	—

	As of December 31,				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,690,401**	1,603,382	1,224,434	372,339	305,679
Total liability	**579,904**	562,012	262,205	111,249	96,818
Total equity	**1,110,497**	1,041,370	962,229	261,090	208,861
Equity attributable to:					
Equity holders of the Company	**1,051,834**	1,008,383	959,716	261,090	208,861
Non-controlling interests	**58,662**	32,987	2,513	—	—

Chairman's Statement

GUAN Weili
Chairman

Dear Shareholders,

In 2017, with the constant deepening of the national healthcare reform policy and the continuous expansion of the mental health care service market, the Group's healthcare business also achieved rapid development. On one hand, the Group has made new breakthroughs in the provision of management services for public hospitals. The Group has signed a formal agreement on the project in relation to the provision of management services for the Yiwu Mental Health Center and put it into operation. On the other hand, in September 2017, Wenzhou Kangning Hospital, the flagship hospital of the Group, was relocated to the new building and the maximum number of beds available increased to 1,400. Its hardware facilities and environment had reached world-leading standards. In 2017, the Group as a whole continued to maintain steady and rapid growth. The number of medical institutions operated and managed increased from 14 at the end of 2016 to 18 at the end of 2017. The number of beds of medical institutions operated and managed increased from 3,367 at the end of 2016 to 4,550 at the end of 2017. The Group recorded revenue from healthcare business of RMB546.5 million in 2017, representing an increase of 33.2% as compared with 2016. In addition, as of the date of this report, Hangzhou Yining Hospital, Hangzhou Cining Hospital and Nanchang Kangning Hospital had been put into operation. Preparations for the construction of Taizhou Kangning Hospital, Langfang Yining Hospital and Sihui Kangning Hospital were still in full swing.

Chairman's Statement (Continued)

To arouse the Chinese people's concern for mental and psychological health and increase the brand influence of the Group, the Group submitted an A Share Offering application to the CSRC in December 2016. It is regrettable that this application was not approved, but I believe this would not have any material adverse impact on the financial position or operations of the Group. With the increase in the number of well-established hospitals owned by the Group, the Group can generate sufficient cash flows through operating activities to support its expansion of the future healthcare network.

After the listing of the Company's shares in Hong Kong, the Group experienced rapid development. The number of hospitals operated and managed by the Group and the number of beds doubled. The rapid development has also accumulated some risks. Human resources supply and group management have gradually become the bottleneck restricting the rapid development of the Group. Therefore, the Board of Directors proposes to make 2018 a year for consolidating the base and focus on the following tasks: first, we will further expand the talent recruitment channel, improve the remuneration and welfare system for the core key employees, and further enhance the cohesiveness of employees through corporate culture building; second, we will increase the degree of standardization in management, and improve management efficiency and monitoring results through information technology; third, we will strengthen brand building, especially the visibility of the flagship hospital in Wenzhou and certain medium-to-high end hospitals.

Looking forward, the Group will continue to put efforts in the psychiatric specialty healthcare field by virtue of the great opportunity that the government encourages social capital to invest in medical institutions. Through constantly strengthening discipline construction and personnel training, deepening the reform of internal operational mechanisms, improving the network of medical institutions, we will continuously enhance the Group's influence and competitiveness in the psychiatric specialty field, and provide better healthcare services for the patients and contribute our efforts to the realization of the strategic goal of healthy China.

GUAN Weili
Chairman of the Board

Zhejiang, the PRC
March 23, 2018

Management Discussion and Analysis

Business Review and Outlook

Psychiatric Specialty Healthcare Service Industry in China

As a major public health issue that affects the national economic and social development and at a same time a key livelihood and social issue, mental health currently faces both opportunities and challenges. On the one hand, with the rapid development of social economy and the deepening of the aging population, the number of patients with abnormal mental behaviors and common mental disorders has increased year by year in China. However, due to the shortage and uneven distribution of mental health medical resources in China, the public's mental health needs have not yet been well met; on the other hand, mental health specialist healthcare institutions generally have the problems of insufficient supply of talents and low service levels.

In recent years, the Chinese government has attached great importance to mental health work and has successively promulgated the Mental Health Law of the PRC (《中華人民共和國精神衛生法》), the National Mental Health Work Plan (2015-2020) (《全國精神衛生工作規劃 (2015-2020 年)》), the 13th Five-Year Plan for Healthcare (《「十三五」衛生與健康規劃》) and the Guiding Opinions on Strengthening Mental Health Services (《關於加強心理健康服務的指導意見》) and other related laws and policy documents, so as to strongly encourage social capital to participate in the development of mental health industry in various forms and accelerate the improvement of China's mental health service system. On May 23, 2017, the State Council promulgated the Opinions on Supporting the Provision of Multi-layered and Diverse Medical Care Services by Social Forces (《支持社會力量提供多層次多樣化醫療服務的意見》), clearly stressing that in the future it will expand and upgrade existing services and modes of socially-run medical care institutions, accelerate the development of specialized medical services, actively support the development of social forces into specialized medical services and other sub-service areas, and create a batch of competitive brand service institutions. In view of this, with the gradual implementation of a series of favorable policies formulated by the state to encourage the investment of social capital in the psychiatric healthcare market, simplify the relevant regulatory processes, strengthen taxation, investment and financing supports and increase the scope of insurance reimbursement for private hospitals. The prospects for the development of the mental healthcare service industry in China will be promising.

Management Discussion and Analysis

Business Review

2017 was a year with steady development after the Group's listing. With enhancing mental health services capability and expanding business areas, the Group's business managed to maintain rapid growth. Details of the progress achieved are set out as follows:

In 2017, the Group's owned hospital business developed steadily. Pingyang Kangning Hospital and Shenzhen Yining Hospital commenced operation in March 2017 in succession and achieved rapid improvement in bed utilization rates. The business of Linhai Kangning Hospital, Geriatric Hospital and Quzhou Yining Hospital, which were newly opened in 2016, entered a phase of rapid growth, among which Linhai Kangning Hospital and Quzhou Yining Hospital turned loss into profits in 2017. Wenzhou Kangning Hospital had relocated to the new building in September 2017 and the maximum number of beds available increased to 1,400. Qingtian Kangning Hospital and Yueqing Kangning Hospital also increased considerably in service volume comparing to 2016, while Cangnan Kangning Hospital and Yongjia Kangning Hospital slowed down in business growth due to the limited space for expansion. As of December 31, 2017, the number of the Group's owned hospitals increased to 10 (December 31, 2016: 8) and the number of beds under operation increased to 3,420 (December 31, 2016: 2,577).

In 2017, the business of the healthcare facilities managed by the Group developed stably. First of all, the Group secured entrustment management of Yiwu Psychiatric Health Center and Wenzhou Cining Hospital through formal agreement and the number of beds under management increased by 300. Secondly, Beijing Yining Hospital, which previously endured considerable losses, achieved rapid enhancement in bed utilization rates through introducing the professional operation teams. The businesses in Yanjiao Furen Hospital, Pujiang Hospital, Chun'an Hospital and Pingyang Changgeng Ward which were previously under our management, also achieved stable development. Only the business of Chengdu Yining Ward was not developed due to the change in shareholders of the cooperative hospital. As of December 31, 2017, the healthcare facilities managed by the Group increased to 8 (December 31, 2016: 6) and the number of beds under management increased to 1,130 (December 31, 2016: 790).

In 2017, while steadily developing our existing owned hospitals, the Group continued to accelerate network layout through self-construction, investment as a minority shareholder and other methods. As for the self-construction hospitals, Hangzhou Yining Hospital, Hangzhou Cining Hospital and Nanchang Kangning Hospital have been put into operation before the date of this report. Luqiao Yining Hospital, Taizhou Kangning Hospital, Langfang Yining Hospital and Sihui Kangning Hospital were under intense construction work. As for investment as a minority shareholder, Chongqing Hechuan Kangning Hospital, Chengdu Yining Hospital and Guanxian Yining Hospital Co., Ltd. invested by the Group have been put into operation, Shanxi Shanda Hospital Management Consulting Co., Ltd. has been operating Shanyang Shengquan Rehabilitation Hospital and Shangshan Rehabilitation Hospital and Heze Yining Hospital Co., Ltd. was under intense construction work.

Business Highlights

In September 2017, the new building of Wenzhou Kangning Hospital, the Group's flagship hospital, was put in use, and the maximum number of beds available increased to 1,400.

Management Discussion and Analysis

Business Outlook

The Group's financial position and operating results are mainly subject to the following risks:

(i) Risk relating to high reimbursement amount from public medical insurance. From 2015 to 2017, reimbursement amount from public medical insurance accounted for 56.6%, 52.6% and 53.8% of the total cash received from sales of goods and rendering of service for the respective years, respectively. If the Group's medical institutions are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;

(ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, it requires medical institutions shall maintain a certain number of medical staff. With the increase in the number of medical institutions of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results; and

(iii) Risk relating to failure to renew qualifications and licenses required for our operations. Medical institutions are required to obtain the Medical Practice License before carrying out their businesses, which usually have valid period and requires regular inspection by the regulatory authorities. If the medical institutions of the Group are unable to renew their licenses in the future due to poor management or non-compliance, our operating results will be affected adversely.

Looking into the future, the Group will leverage on the favorable environment in China which encourage the social capital to establish medical facilities to implement and improve a number of medium- and long-term strategic layouts. While continuing to expand the network of medical institutions and strengthen the Group's market position, the Group will strengthen scientific research, personnel training and information construction, with a view to improving its service level of medical institutions.

Financial Review

The Group recorded revenue of RMB666.4 million for the Reporting Period, representing an increase of 60.4% as compared with 2016. After excluding the revenue of RMB119.9 million for real estate and other business, the revenue of healthcare business amounted to RMB546.5 million, representing an increase of 33.2% as compared with 2016. The revenue from operating the Group's owned hospitals and the management service fees from managing healthcare facilities both increased. With the upgrading of the bed utilization rate of hospital newly put into operation in 2016, the gross profit margin of our owned hospitals increased to 34.0% (2016: 33.3%). As such, the overall gross profit margin of healthcare business of the Group for the Reporting Period increased to 35.1% (2016: 34.1%) and the gross profit of healthcare business increased to RMB191.6 million, representing an increase of 37.1% as compared with 2016. During the Reporting Period, net profit attributable to Shareholders of the Company amounted to RMB49.1 million, representing a decrease of 28.7% as compared with 2016, primarily due to the exchange losses of the Reporting Period while for 2016 the exchange gains was recorded and one-off A-share listing expense in 2017. Excluding the effects of the exchange gains/losses and A-share listing expense, net profit attributable to Shareholders of the Company increased by 28.5% as compared with 2016.

Management Discussion and Analysis

Revenue and Cost of Revenue

The Group generates revenue mainly through the following four ways: (i) revenue from operating its owned hospitals; (ii) management service fees from managing healthcare facilities; (iii) revenue of other healthcare related business; and (iv) revenue of the property business.

The table below sets forth a breakdown of total revenue for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Revenue from operating the Group's owned hospitals	**520,175**	391,505
Management service fee income	**26,386**	18,943
Total revenue of healthcare business	**546,561**	410,448
Revenue from other healthcare related business	**2,318**	2,955
Revenue of the property business	**117,557**	2,006
Total revenue	**666,436**	415,409

During the Reporting Period, total revenue of the Group amounted to RMB666.4 million, representing an increase of 60.4% as compared with 2016, primarily due to: (i) the increase of revenue from operating the Group's owned hospitals by 32.9% and the increase of management service fee income by 39.3%, resulting in an increase of 33.2% in the Group's revenue of healthcare business; and (ii) revenue of property sales amounted to RMB111.2 million arising from the delivery of some properties of Phase II of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. Revenue from operating the Group's owned hospitals accounted for 95.2% of total healthcare business revenue (2016: 95.4%) and management service fee income accounted for 4.8% of total healthcare business revenue (2016: 4.6%). The proportion of revenue from operating the Group's owned hospitals to total healthcare business revenue kept stable.

Management Discussion and Analysis

Revenue and cost of revenue from operating the Group's owned hospitals

Revenue from operating the Group's owned hospitals consists of fees charged for the outpatient visits and the inpatient services at the Group's various hospitals, including treatment and general healthcare services and pharmaceutical sales. The table below sets forth a breakdown of our revenue, cost of revenue and gross profit for the Group's owned hospitals for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Treatment and general healthcare services		
Revenue	**389,494**	285,599
Cost of revenue	**235,839**	174,139
Gross profit	**153,655**	111,460
Pharmaceutical sales		
Revenue	**130,681**	105,906
Cost of revenue	**107,405**	86,970
Gross profit	**23,276**	18,936
The Group's Owned hospitals		
Revenue	**520,175**	391,505
Cost of revenue	**343,244**	261,109
Gross profit	**176,931**	130,396

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB520.2 million, representing an increase of RMB128.7 million as compared with 2016, mainly due to the fast business growth of Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital. Revenue of the aforementioned four hospitals for the Reporting Period amounted to RMB83.1 million (2016: RMB7.3 million). During the Reporting Period, the gross profit of the Group's owned hospitals increased by 35.7% as compared with 2016, which favored the overall gross profit margin of the Group's owned hospitals increased to 34.0% (2016: 33.3%).

Management Discussion and Analysis

The table below sets forth a breakdown of revenue of the Group's owned hospital by inpatients and outpatients for the periods indicated, with relevant operating data:

	For the year ended December 31, 2017	2016
Inpatients		
Inpatient bed as at period end	**3,420**	2,577
Effective inpatient service bed-day capacity	**1,248,300**	943,182
Utilization rate (%)	**87.8%**	86.5%
Number of inpatient bed-days	**1,095,389**	815,883
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	**371,663**	268,555
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	**339**	329
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	**64,896**	48,262
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	**59**	59
Total inpatient revenue (RMB'000)	**436,559**	316,817
Total average inpatient spending per bed-day (RMB)	**398**	388
Outpatients		
Number of outpatient visits	**160,015**	145,696
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	**17,831**	17,044
Average outpatient spending per visit on treatment and general healthcare services (RMB)	**111**	117
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	**65,785**	57,644
Average outpatient spending per visit on pharmaceutical sales (RMB)	**411**	396
Total outpatient revenue (RMB'000)	**83,616**	74,688
Total average outpatient spending per visit (RMB)	**522**	513
Total treatment and general healthcare services revenue (RMB'000)	**389,494**	285,599
Total pharmaceutical sales revenue (RMB'000)	**130,681**	105,906

During the Reporting Period, inpatient revenue amounted to RMB436.4 million, representing an increase of 37.8% as compared with 2016, primarily due to: (i) the increase of 34.3% in the number of inpatient bed-days arising from the considerable increase of inpatient beds in Linhai Kangning Hospital, Geriatric Hospital and Quzhou Yining Hospital; and (ii) the increase of 2.6% in average inpatient spending per bed-day. Inpatient revenue increased to 83.9% of our revenue from operating our owned hospitals (2016: 80.9%).

Management Discussion and Analysis

During the Reporting Period, outpatient revenue amounted to RMB83.6 million, representing an increase of 12.0% as compared with 2016, primarily due to: (i) the increase of outpatient visits by 9.8%; and (ii) the increase of average outpatient spending per visit by 1.8%. The proportion of outpatient revenue to our revenue from operating our owned hospitals decreased to 16.1% (2016: 19.1%), mainly due to outpatient revenue of Geriatric Hospital and Shenzhen Yining Hospital accounted for lower proportion of their operating revenue.

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 36.4% as compared with 2016, accounting for 74.9% of our revenue from operating our owned hospitals (2016: 72.9%), and revenue from pharmaceutical sales increased by 23.4% as compared with 2016, accounting for 25.1% of our revenue from operating our owned hospitals (2016: 27.1%).

Cost of revenue of the Group's owned hospitals primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, leasing expenses, depreciation and amortization, canteen expenses and testing fees. The table below sets forth a breakdown of cost of revenue for the Group's owned hospitals for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Pharmaceuticals and consumables used	**131,949**	103,962
Employee benefits and expenses	**116,085**	87,060
Leasing expenses	**20,358**	12,830
Depreciation and amortization	**29,331**	17,697
Canteen expenses	**17,401**	14,018
Testing fees	**9,975**	6,062
Others	**18,145**	19,480
Cost of revenue for owned hospitals	**343,244**	261,109

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB343.2 million, representing an increase of 31.5% as compared with 2016, which was lower than the increase of revenue of the owned hospitals. It was mainly due to: (i) the increase of 26.9% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 33.3% in employee benefits and expenses arising from the increase in beds in operation of the owned hospitals; and (iii) the increase of leasing expenses and depreciation and amortization of RMB19.2 million arising from Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital which were newly put into operation after April 2016, representing an increase of 62.8%.

From the cost structure perspective, pharmaceutical and consumables used are still the main part of cost of revenue of the owned hospitals, accounting for 38.4% (2016: 39.8%). The next part is employee benefits and expenses, which accounted for 33.8% of cost of revenue of the owned hospitals (2016: 33.3%). Leasing expenses, together with depreciation and amortization, accounted for 14.5% of cost of revenue of the owned hospitals (2016: 11.7%). During the Reporting Period, the change of the cost structure mainly due to the increase of the fixed costs which do not vary with the business volume, such as leasing expenses and depreciation and amortization, as compared with 2016.

Management Discussion and Analysis

Management service fee income

The Group's management service fee income is primarily derived from rendering management services to other healthcare facilities. The table below sets forth the breakdown of our management service fee income, cost of revenue and gross profit for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Revenue	**26,386**	18,943
Cost of revenue	**11,690**	9,554
Gross profit	**14,696**	9,389

During the Reporting Period, management service fee income of the Group amounted to RMB26.4 million, representing an increase of 39.3% as compared with 2016, accounting for 4.8% (2016: 4.6%) of the Group's total revenue of healthcare business for 2017, due to the contribution of the management service fee of RMB6.0 million during the Reporting Period (2016: RMB1.0 million) in relation to Yanjiao Furen Hospital entrusted by the Group.

Cost of the Group for rendering management services primarily includes benefits and expenses for management staff assigned and amortization of management rights acquired for obtaining operation rights. During the Reporting Period, cost of revenue of management service fee of the Group increased to RMB11.7 million, increased by 22.4% as compared with 2016, which is lower than the increase of management service fee income, mainly because the operation rights in the cost of revenue of management service fee are amortized on the straight-line basis and the annual amortization amount is fixed. Accordingly, gross profit margin of the management service business increased to 55.7% (2016: 49.6%).

Revenue and cost of the property business

The Group's revenue of the property business includes property leasing income and property sales income. During the Reporting Period, revenue of the property business amounted to RMB117.6 million (2016: RMB2.0 million), mainly due to property sales income of RMB111.2 million and property leasing income of RMB6.4 million were recorded by Wenzhou Guoda, which was acquired by the Group in August 2016, during the Reporting Period. The cost of revenue of the property business amounted to RMB93.1 million, therefore the gross profit in property business contributed by Wenzhou Guoda during the Reporting Period amounted to RMB18.1 million.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB217.1 million, increased by 51.5% annually. The gross profit of healthcare business after deducting the property and other business amounted to RMB191.6 million, representing an increase of 37.1% as compared with 2016. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the year ended December 31,	
	2017	2016
Treatment and general healthcare services	**39.4%**	39.0%
Pharmaceutical sales	**17.8%**	17.9%
Management services	**55.7%**	49.6%
Healthcare business	**35.1%**	34.1%
Property and other businesses	**21.3%**	71.6%
Consolidated gross profit margin	**32.6%**	34.5%

During the Reporting Period, consolidated gross profit margin of the Group decreased to 32.6% (2016: 34.5%), mainly due to the relatively low gross profit margin of property business of Wenzhou Guoda, excluding the property business and other businesses, the gross profit margin of healthcare business amounted to 35.1%, representing an increase of 1.0 percentage point as compared with 2016, mainly due to the fast increase of bed utilization rate of Linhai Kangning Hospital and Geriatric Hospital during the Reporting Period which were newly opened in 2016.

Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB9.8 million (2016: RMB1.2 million), mainly due to the increase of RMB6.7 million in land value added tax arising from the property sales operated by Wenzhou Guoda.

Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB1.8 million (2016: RMB3.1 million), representing a decrease of 44.3% as compared with 2016 and accounting for 0.3% of the healthcare business revenue of the Group (2016: 0.8%), demonstrating that the Group's business growth does not rely on increasing selling expenses.

Management Discussion and Analysis

Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, leasing expenses of the hospitals under development, depreciation and amortization, consultancy expenses, travelling expenses and other expenses. The table below sets forth a breakdown of administrative expenses of the Group for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Employee benefits and expenses	**42,020**	29,443
Leasing expenses of the hospitals under development	**14,469**	13,532
Depreciation and amortization	**6,967**	4,881
Professional service expenses	**11,218**	4,800
Travelling expenses	**3,745**	3,155
Others	**13,335**	14,044
Total administrative expenses	**91,754**	69,855

During the Reporting Period, the administrative expenses of the Group amounted to RMB91.8 million, representing an increase of 31.3 % as compared with 2016, mainly due to: (i) an increase of 42.7% of our employee benefits and expenses arising from the increase of our management staff; (ii) depreciation and amortization increased by 42.7%; and (iii) increased professional service expenses of RMB6.4 million mainly arising from the A-share offering application. The proportion of the administrative expenses to the revenue of healthcare business of the Group was maintained as 16.8% (2016: 17.0%), excluding the one-off impact of consultancy expenses arising from the A-share offering, the proportion of the administrative expenses to the revenue of healthcare business of the Group slightly decreased to 15.8%, mainly due to: (i) the management efficiency of the Group headquarter has been improved with the expansion of the Group's business scale; and (ii) after Shenzhen Yining Hospital opened in March 2017, its leasing expenses were recorded in cost of revenue.

Management Discussion and Analysis

Finance (Expenses)/Income – Net

Our finance income includes interest income from bank deposits and the gains on foreign exchange, and the finance expenses include the interest expenses on bank loans, the losses on foreign exchange and the amortization of unrecognized financial charge in relation to long-term payables. The table below sets forth a breakdown of our finance income and expense for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Interest income	**4,960**	5,666
Exchange (loss)/gain	**(14,930)**	25,139
Borrowing interest expense	**(8,371)**	(109)
Amortization of unrecognized financial charge	**(5,465)**	(5,636)
Others	**(457)**	(295)
Finance (expenses)/income – net	**(24,263)**	24,765

During the Reporting Period, the net finance expenses of the Group amounted to RMB24.3 million, while a finance income of RMB24.8 million was recorded in the same period of 2016, mainly due to: (i) the exchange losses of RMB14.9 million arising from the lower exchange rate of HKD against RMB during the Reporting Period, representing a decrease of RMB40.1 million as compared with 2016; and (ii) an increase of RMB8.3 million of interest expense of bank borrowings.

Investment Income/(Loss)

Our investments income/(loss) consist of share of investments income/(loss) accounted for using the equity method and gains/(loss) arising from disposal of long-term equity investment. The table below sets forth a breakdown of our investments income/(loss) for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Share of losses of investments accounted for using the equity method	**(6,462)**	(6,202)
Gains arising from disposal of long-term equity investment	**350**	4,541
	(6,112)	(1,661)

During the Reporting Period, the investment loss of the Group amounted to RMB6.1 million (2016: RMB1.7 million), mainly due to our investment losses in Chongqing Hechuan Kangning Hospital, Shandong Yining Management Company, Chengdu Yining Hospital and Hangzhou Anken, which were accounted for using the equity method.

Management Discussion and Analysis

Assets Impairment Losses

During the Reporting Period, the assets impairment losses increased to RMB19.1million (2016: RMB3.9 million), representing an increase of 389.7% as compared with 2016 and increased to 3.5% of revenue of healthcare business (2016: 1.0%), mainly due to the change of the Group's accounting estimate in the bad debt provision of accounts receivable and other receivables during the Reporting Period. The adoption incurred additional provision of bad debt of RMB7.5 million as compared with the original method; additionally, the increase of assets impairment losses is also attributed to the considerable increase of account receivables at the end of the Reporting Period as compared with the balance of December 31, 2016. As at December 31, 2017 and December 31, 2016, the provisions for bad debts for accounts receivables of the Group's healthcare business amounted to RMB14.7 million and RMB8.1 million respectively and accounted for 6.7% and 5.4% of account receivables balance of healthcare business at the corresponding time.

Non-Operating Income (Expenses) and Other Gains

Our non-operating income mainly consists of government grants, and non-operating expenses mainly consist of donation expenses and losses on disposal of non-current assets. The table below sets forth a breakdown of our non-operating income, non-operating expenses and other gains for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Government grants	**9,619**	8,019
Other non-operating income	**196**	549
Non-operating income	**9,815**	8,568
Donation expenses	**4,166**	4,478
Losses on disposal of non-current assets	**7,215**	—
Other non-operating expenses	**1,821**	205
Non-operating expenses	**13,202**	4,683
Other gains	**9,417**	—

During the Reporting Period, the non-operating income of the Group increased to RMB9.8 million, primarily due to the government grants of RMB9.6 million of the Group. The non-operating expenses of the Group increased to RMB13.2 million, of which RMB6.7 million was due to the losses on disposal of decoration of Shuangyu Medical Area after Wenzhou Kangning Hospital moved to the new building. Other gains of the Group increased to RMB9.4 million, primarily due to the increase of the government grants in relation to healthcare business.

Management Discussion and Analysis

Income Tax Expense

During the Reporting Period, income tax expense of the Group decreased to RMB22.0 million (2016: RMB26.6 million), representing a decrease of 17.2% as compared with 2016, mainly due to the decrease of 24.2% of the Group's profits before tax during the Reporting Period as compared with 2016. As for the year of 2017 and 2016, our actual tax rates were 31.5% and 28.9%, respectively. The slight increase in actual tax rates for the Reporting Period was mainly due to the increase of the expenses which cannot be deducted before tax.

Total Comprehensive Income

During the Reporting Period, total comprehensive income attributable to Shareholders of the Company amounted to RMB49.1 million, representing a decrease of 28.7% as compared with 2016, primarily due to the following incidental factors:

i. approximately RMB8.3 million in relation to the profit before tax arising from property business of Wenzhou Guoda for the Reporting Period;

ii. the exchange loss of approximately RMB14.9 million arising from the lower exchange rate of HKD against RMB for the Reporting Period;

iii. an increase of approximately RMB7.5 million in asset impairment loss from the adoption of a new accounting estimate in the bad debt provision of accounts receivable and other receivables; and

iv. an increase of non-operaitng expense of approximately RMB6.7 million from disposal of the decoration of Shuangyu Medical Area.

Because of the above incidental factors, total comprehensive income attributable to Shareholders of the Company decreased by approximately RMB18.8 million during the Reporting Period. Excluding incidental factors above, total comprehensive income attributable to Shareholders of the Company for the Reporting Period amounted to approximately RMB67.9 million, representing an increase of 35.8% as compared with the comprehensive income excluding the exchange gain in 2016, primarily due to the rapid enhancement in bed utilization rates of Linhai Kangning Hospital and Geriatric Hospital.

Management Discussion and Analysis

Financial Position

Inventory

As of December 31, 2017, inventory balances amounted to RMB23.5 million (as of December 31, 2016: RMB162.8 million), mainly includes: (i) the medical inventory and turnover materials of RMB14.1 million (as of December 31, 2016: RMB9.3 million); and (ii) completed development properties of RMB9.4 million (as of December 31, 2016: properties under development RMB153.5 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed development properties held by us during the Reporting Period:

Completed properties	Phase II Works of Business Center of Wenzhou Higher Education Mega Center
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Guo Yong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	30,557.34
Usage	Commercial, office and hotel
Stage	Completed and accepted
Completion date	June 30, 2017

Accounts Receivables

As of December 31, 2017, the balance of accounts receivables amounted to RMB232.2 million (as of December 31, 2016: RMB142.9 million), the balance of accounts receivables for healthcare business amounted to RMB220.1 million, representing an increase of 54.0% as compared with that of December 31, 2016, primarily due to our revenue of healthcare business increased during the Reporting Period as compared with 2016.

During the Reporting Period, the accounts receivables turnover days of the Group's healthcare business were 121 days (2016: 117 days).

Other Receivables and Prepayments

As of December 31, 2017, other receivables and prepayments decreased to RMB54.6 million (as of December 31, 2016: RMB77.0 million).

Management Discussion and Analysis

Investment Properties

As of December 31, 2017, the balance of investment properties amounted to RMB128.6 million (as of December 31, 2016: RMB72.2 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase II Works of Business Center (2F to 11F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of investment properties. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290617, Zhe (2017) Wenzhou property rights No. 0136790, Zhe (2017) Wenzhou property rights No. 0136791, Zhe (2017) Wenzhou property rights No. 0136792, Zhe (2017) Wenzhou property rights No. 0136793
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (Sq. m.)	12,854.06
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties

Available-for-Sale Financial Assets

As of December 31, 2017, the balance of available-for-sale financial assets amounted to RMB50.0 million (as of December 31, 2016: RMB50.0 million), primarily due to our contribution to the investment fund. During the Reporting Period, there was no significant change in the fair value of available-for-sale financial assets.

Management Discussion and Analysis

Accounts Payable

As of December 31, 2017, accounts payables increased to RMB83.8 million (as of December 31, 2016: RMB43.3 million), mainly due to the increase of RMB19.8 million as the property development project payable accrued by Wenzhou Guoda.

Advanced from Customers

As of December 31, 2017, advanced from customers decreased to RMB7.5 million (as of December 31, 2016: RMB71.1 million), mainly due to Phase II Works of Business Center of Wenzhou Higher Education Mega Center part of the properties of has been delivered, advanced from customers of RMB65.3 million was settled.

Other Payables

As of December 31, 2017, other payables increased to RMB99.8 million (as of December 31, 2016: RMB38.9 million), mainly due to the increase of payable in relation to the expansion project of Wenzhou Kangning Hospital.

Liquidity and Capital Resources

The table below sets forth the information as extracted from the consolidated cash flow statements of the Group for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Net cash generated from operating activities	**81,499**	49,867
Net cash used in investing activities	**(223,628)**	(92,788)
Net cash (used in)/generated from financing activities	**(21,900)**	69,080
Net (decrease)/increase in cash and cash equivalents	**(169,625)**	38,706

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB81.5 million, primarily consisting of net profit of RMB47.8 million and adjustments for depreciation of property, plant and equipment of RMB18.6 million. Changes in working capital resulted in cash outflow of RMB101.9 million. We had cash outflow of RMB47.6 million attributable to our various taxes paid.

Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB223.6 million, primarily due to RMB208.9 million for purchasing property, plant and equipment, including the amounts paid for renovation and upgrade of Wenzhou Kangning Hospital, purchasing property of Cangnan Kangning Hospital and renovation projects of Shenzhen Yining Hospital and Hangzhou Yining Hospital; and the amount of RMB60.5 million paid for investment as a minority shareholder.

Management Discussion and Analysis

Net Cash Used in Financing Activities

During the Reporting Period, net cash used in financing activities amounted to RMB21.9 million, primarily due to bank borrowings of RMB90.0 million, offsetting the repayment of bank and other borrowings of RMB107.7 million.

Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition or disposal during the Reporting Period.

Indebtedness

Bank Borrowings

As of December 31, 2017, the balance of bank borrowings of the Group amounted to RMB200.0 million (as of December 31, 2016: RMB216.7 million), primarily attributable to the increase of RMB90.0 million short-term bank borrowings, offsetting repayment of the bank borrowings of RMB106.7 million.

Contingent Liabilities

As of December 31, 2017, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Asset Pledge

Wenzhou Guoda had pledged its properties, Phase I of Business Center of Wenzhou Higher Education Mega Center, in favor of Zheshang Bank for bank loan and as of December 31, 2017, the balance of the borrowing amounted to RMB40.0 million.

Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of December 31, 2017, the future aggregate minimum lease payments under non- cancellable lease agreements were RMB334.2 million.

Financial Instruments

Financial instruments of the Group consist of accounts receivable, available-for-sale financial assets, other receivables, cash and cash equivalents, bank borrowings, accounts payable and other payables. The Company's management manages and monitors these exposures to ensure effective measures are implemented on a timely manner.

Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currencies, which mainly involve risks of fluctuations in the exchange rate of HKD against RMB. The Group is exposed to foreign exchange risks accordingly.

As of December 31, 2017, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Management Discussion and Analysis

Gearing Ratio

As of December 31, 2017, the Group's gearing ratio (total liabilities divided by total assets) was 34.3% (as of December 31, 2016: 35.1%).

Employees and Remuneration Policy

As of December 31, 2017, the Group had a total of 1,860 full-time employees (as of December 31, 2016: 1,348 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB163.7 million (2016: RMB122.9 million). The average employees' remuneration is RMB101.1 thousand per year (including social medical insurance scheme and housing grant scheme bore by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

The Group had no share option schemes.

Report of the Board

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2017.

Principal Activities

The principal activities of the Group are operating and managing a network of healthcare facilities that primarily focus on providing psychiatric specialty care across various regions in China. Details of the principal activities of the principal subsidiaries of the Company are set out in "Notes to the Financial Statements – Interests in other entities – Interests in subsidiaries – The Group structure" of this annual report.

Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in "Management Discussion and Analysis – Employees and Remuneration Policy" and "Report of the Board–Major Customers and Suppliers" of this annual report, respectively.

Business Review

The business review on the Group is set out in the "Management Discussion and Analysis" of this annual report. The future development of the Group and the major risks and uncertainties that the Group may be exposed to are set out in the "Management Discussion and Analysis – Business Outlook" of this annual report.

Financial Highlights and Results

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2017 are set out in the "Financial Highlights" of this annual report.

The Group's financial results for the year December 31, 2017 are set out in the consolidated statement of comprehensive income of this annual report.

Investor Relations

Please refer to section "Corporate Governance Report – Communication with Shareholders and Investor Relations" of this annual report.

Environmental Policies

The Group is conscious of its environmental protection obligations and actively seeks to implement eco-friendly technologies and solutions where feasible. With respect to medical waste management, the Group has engaged qualified third parties to arrange proper disposal for all of its healthcare facilities in accordance with applicable laws and regulations. Those applicable laws and regulations have no material impact on the business operation of the Group. Details of the environmental policies of the Company are set out in the Environmental, Social and Governance Report independently published by the Company in due course, which can be accessed and downloaded at the websites of the Company and the Hong Kong Stock Exchange.

Report of the Board

Compliance with Relevant Laws and Regulations

There was no material incident of non-compliance with relevant laws and regulations that had a significant impact on the Company during the Reporting Period.

Permitted Indemnity Provision

For the year ended December 31, 2017, the Group has no permitted indemnity provision.

Use of Proceeds from Initial Public Offering

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on November 20, 2015. As of December 31, 2017, the Company's net proceeds from the initial public offering amounted to approximately HK$693.2 million (equivalent to RMB580.7 million) after deducting underwriting commissions and all related expenses. On March 30, 2017, the Board of Directors of the Company resolved a resolution to change the use of the net proceeds, deducted the allocation to finance renovation and upgrades for Wenzhou Kangning Hospital by RMB58.1 million, and increased the allocation to expand and ramp up healthcare facilities network and operating capacity by RMB58.1 million. Details please refer to the announcement of the Company dated March 31, 2017.

As of December 31, 2017, the Group applied the net proceeds amounted to RMB469.2 million in the followings:

- RMB334.7 million for expanding and ramping up our healthcare facilities network and operating capacity;
- RMB62.4 million for renovation and upgrades for Wenzhou Kangning Hospital;
- RMB31.6 million for research, teaching and personnel training purposes;
- RMB13.1 million to develop online platform for medical consultation and upgrade IT infrastructure; and
- RMB27.4 million for working capital and other general corporate purposes.

On March 23, 2018, the Board of Directors of the Company resolved a resolution to change the use of the net proceeds again, deducted the allocation to research, teaching and personnel training purposes by RMB17.4 million, deducted the allocation to develop online platform for medical consultation and upgrade IT infrastructure by RMB29.1 million, and increased the allocation to expend and ramp up healthcare facilities network and operating capacity by RMB46.5 million. Details please refer to the announcement of the Company dated March 26, 2018.

Dividend

The Board recommends the payment of the Proposed Final Dividend. Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on June 13, 2018, the Proposed Final Dividend will be distributed on or about July 13, 2018 to the Shareholders whose names appear on the register of members of the Company on June 25, 2018 (the "**Record Date**").

Report of the Board

The amount of final dividend distribution shall be calculated based on the total number of Shares in issue as of December 31, 2017 and the final cash dividend distribution shall be based on RMB0.15 per Share (inclusive of applicable tax). In order to qualify for the Proposed Final Dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) before 4:30 p.m. on June 19, 2018. For the purpose of ascertaining Shareholders who qualify for the Proposed Final Dividend, the register of members for H Shares will be closed from June 20, 2018 to June 25, 2018 (both days inclusive).

The Proposed Final Dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the Proposed Final Dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the Proposed Final Dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

For the year ended December 31, 2017, none of the Shareholders has waived or agreed to waive any dividends.

Report of the Board

Share Capital

Details of the movements in the share capital of the Company during the Reporting Period are set out in note (28) to the consolidated financial statements of Notes to the Financial Statements of this annual report.

Reserves

Details of movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in Shareholder's equity and note (29) to the consolidated financial statements of Notes to the Financial Statements of this annual report.

Distributable Reserves

As of December 31, 2017, details of the Company's reserves available for distribution are calculated in accordance with the PRC regulations, and the distributable reserves was RMB23.7 million, which was the retained earnings computed under China Accounting Standards for Business Enterprises.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note (10) to the consolidated financial statements of Notes to the Financial Statements of this annual report.

Major Customers and Suppliers

For the year ended December 31, 2017, the Group's largest customer and five largest customers combined contributed to 2.0% and 4.1%, respectively, of the Group's total revenue. For the year ended December 31, 2017, the Group's five largest customers contributed to less than 30% of the Group's total revenue for the year. The major customers of the Group are hospitals which are entrusted by us and patients of our owned hospitals. Due to the uniqueness of the business and high liquidity of patients of psychiatric specialty hospitals, our Company has no material reliance on large customers.

For the year ended December 31, 2017, the Group's largest supplier and five largest suppliers combined accounted for 18.7% and 43.3%, respectively, of the Group's total purchases of pharmaceutical products, medical consumables and construction and renovation services.

None of the Directors, the Supervisors or any of their respective close associates (as defined under the Hong Kong Listing Rules), or any Shareholders, which to the knowledge of the Directors, owning more than 5% of the Company's issued share capital has any interests in the Group's five largest customers or suppliers for the year ended December 31, 2017.

Report of the Board

Relocation of Cangnan Kangning Hospital

On July 7, 2016, the Company entered into a letter of intent with Wenzhou Dongjing Packaging Company Limited (as the vendor), pursuant to which the Company intended to acquire the vendor's land and property located in Lingxi Village, Cangnan County. However, the government did not approve the land and property to be used for hospital operation. In September 2016, the letter of intent was terminated by both parties without any further liability.

On February 28, 2017, Cangnan Kangning Hospital successfully bidded for land and plants located in Cangnan County at the online judicial auction held by the People's Court of Cangnan County. On July 13, 2017, the Company has completed the registration of the transfer of such land and property and obtained the real estate title certificate numbered Zhe (2017) Cangnan County Real Estate Title No.0018361.

Donations

For the year ended December 31, 2017, the charitable contributions and other donations made by the Group amounted to approximately RMB4.2 million in aggregate.

Subsidiaries

Details of the Company's principal subsidiaries as of December 31, 2017 are set out in "Notes to the Financial Statements – Interests in other entities – Interests in subsidiaries – The Group structure" of this annual report.

Directors

The Directors during the Reporting Period and up to the date of this annual report are:

Executive Directors

Mr. GUAN Weili *(Chairman)*
Ms. WANG Lianyue
Ms. WANG Hongyue

Non-executive Directors

Mr. YANG Yang
Ms. HE Xin *Note 1*
Mr. LIN Lijun *Note 2*

Note 1: Due to her work arrangement, Ms. HE Xin retired as the non-executive Director on June 14, 2017.

Note 2: Mr. LIN Lijun was appointed as the non-executive Director on June 14, 2017.

Report of the Board

Independent Non-executive Directors

Mr. CHONG Yat Keung
Mr. HUANG Zhi
Mr. GOT Chong Key Clevin

Supervisors

The Supervisors during the Reporting Period and up to the date of this annual report are:

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jingou
Mr. XIE Tiefan
Mr. QIAN Chengliang *Note 3*
Mr. MA Jinlong *Note 3*

Note 3: Mr. QIAN Chengliang and Mr. MA Jinlong were both appointed as the independent Supervisors on June 14, 2017.

Directors' and Supervisors' Interests in Transaction, Arrangement or Contracts of Significance

Save as disclosed in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report, no transaction, arrangement or contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director or a Supervisor, or any entity connected with any Director or Supervisor, had a material interest, whether directly or indirectly, subsisted as of December 31, 2017 or at any time during the Reporting Period.

Controlling Shareholders' Interests in Contracts of Significance

Save as disclosed in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report, neither of the Controlling Shareholders has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

Report of the Board

Management Contracts

During the Reporting Period, the Company did not enter into any management contracts with respect to the entire business or the core business of the Company.

Non-Competition Agreement

Pursuant to the Non-Competition Agreement, each of the Controlling Shareholders has agreed not to, and to procure that his/her respective close associate(s) (as appropriate) (other than the Group) not to, either directly or indirectly, compete with the Group's principal business (which is primarily to provide psychiatric specialty care through managing healthcare facilities and hospitals) and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights. During the period from the date of the Non-Competition Agreement to December 31, 2017, the Company did not receive any Offer Notice (as defined under the section headed "Relationship with our Controlling Shareholders" in the Prospectus of the Company) from the Controlling Shareholders.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Agreement for the year ended December 31, 2017 for disclosure in this annual report. The independent non-executive Directors have also reviewed the Controlling Shareholders' compliance with the Non-Competition Agreement for the year ended December 31, 2017.

Directors' and Chief Executives' Emoluments and Five Individuals with Highest Emoluments

Particulars of the Directors' and the chief executives' emoluments and five highest paid individuals for the year ended December 31, 2017 are set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report. The remuneration policy of the Company is set out in the section headed "Corporate Governance Report" of this annual report.

No Director has waived or has agreed to waive any emoluments during the Reporting Period.

Directors' Interests in Competing Business

During the Reporting Period, none of the Directors or their respective associates (as defined under the Hong Kong Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

Report of the Board

Directors', Supervisors' and Chief Executives' Interests in Securities

As of December 31, 2017, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under section 352 of the SFO, or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate Percentage in Shares of the Same Class(1)	Approximate Percentage of the Company's Total Issued Share Capital(1)
Mr. GUAN Weili	Domestic Shares	Beneficial owner	18,350,250(L)	22,144,750 (L)	41.94%	30.32%
		Interest of spouse	3,794,500(L) (2)			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750 (L)	41.94%	30.32%
		Interest of spouse	18,350,250(L) (2)			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	3,984,350(L)	5,527,350 (L)	10.47%	7.57%
		Interest in a controlled corporation	1,543,000(L) (3)			

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 73,040,000 Shares) issued by the Company as of December 31, 2017.

(2) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.

(3) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. ("**Xinshi Kangning**"), which is a limited partnership, and holds approximately 17.75% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in the Company.

Save as disclosed above, as of December 31, 2017, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Report of the Board

Interests of Substantial Shareholders

As of December 31, 2017, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities (other than the Directors, the Supervisors or chief executives of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[(1)]	Approximate Percentage of the Company's Total Issued Share Capital[(1)]
Guangzhou GL Capital Investment Fund L.P. (**"Defu Fund"**)	Domestic Shares	Beneficial owner	15,384,541 (L)	29.14%	21.06%
Guangzhou GL Capital GP L.P. [(2)]	Domestic Shares	Interest in a controlled corporation	15,384,541 (L)	29.14%	21.06%
Guangzhou Automobile Group Capital Co., Ltd. [(3)]	Domestic Shares	Interest in a controlled corporation	15,384,541 (L)	29.14%	21.06%
Mr. XU Yi [(4)]	Domestic Shares	Interest of spouse	5,527,350 (L)	10.47%	7.57%
Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,180 (L)	6.16%	4.45%
Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥))[(5)]	Domestic Shares	Interest in a controlled corporation	3,253,180 (L)	6.16%	4.45%
Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,179 (L)	6.16%	4.45%
Mr. ZHAO Yongsheng. [(6)]	Domestic Shares	Interest in a controlled corporation	3,253,179 (L)	6.16%	4.45%
Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) [(7)]	Domestic Shares	Interest in a controlled corporation	6,506,359 (L)	12.32%	8.90%
Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司)	Domestic Shares	Beneficial owner	2,780,000 (L)	5.27%	3.81%
Jinshi Investment Co., Ltd. (金石投資有限公司) [(8)]	Domestic Shares	Interest in a controlled corporation	2,780,000 (L)	5.27%	3.81%
Citigroup Inc.	H Shares	Interest in a controlled corporation/Person having a security interest	2,822,966 (L) 58,266 (S)	13.95% 0.29%	3.86% 0.08%

Report of the Board

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Baring Asset Management Limited	H Shares	Investment manager	3,052,400 (L)	15.08%	4.18%
Barings LLC (formerly known as Babson Capital Management LLC)	H Shares	Investment manager	3,034,200 (L)	14.99%	4.15%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Trustee	2,093,700 (L)	10.34%	2.87%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000 (L)	7.18%	2.00%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900 (L)	10.63%	2.94%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900 (L)	6.32%	1.75%
Prime Capital Management Company Limited	H Shares	Investment manager	2,803,800 (L)	13.85%	3.84%
OrbiMed Partners II, L.P.	H Shares	Beneficial owner	1,052,000 (L)	5.20%	1.44%
Morgan Stanley	H Shares	Interest in a controlled corporation	1,208,534 (L) 1,143,634 (S)	5.97% 5.65%	1.65% 1.57%
UBS Group AG	H Shares	Interest in a controlled corporation	3,102,700 (L)	15.33%	4.25%

Notes:

(L): Long position

(S): Short position

(1) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 73,040,000 Shares) issued by the Company as of December 31, 2017.

(2) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is a limited partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(3) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(4) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.

(5) Shanghai Lejin Investment L.P. （上海樂進投資合夥企業（有限合夥）） holds 99.99% equity interest in Shanghai Tanying Investment L.P.. （上海檀英投資合夥企業（有限合夥））Therefore, by virtue of Part XV of the SFO, Shanghai Lejin Investment L.P. （上海樂進投資合夥企業（有限合夥））is deemed to be interested in all the Domestic Shares held by Shanghai Tanying Investment L.P.（上海檀英投資合夥企業（有限合夥））in the Company.

(6) Mr. ZHAO Yongsheng holds 99.90% equity interest in Shanghai Qiangang Investent Management L.P.. (上海乾剛投資管理合夥企業（有限合夥）) Therefore, by virtue of Part VX of the SFO, Mr. ZHAO Yongsheng is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investent Management L.P (上海乾剛投資管理合夥企業（有限合夥）) in the Company.

Report of the Board

(7) Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is the general partner of Shanghai Qiangang Investent Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investent Management L.P. (上海乾剛投資管理合夥企業（有限合夥）) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業（有限合夥）)in the Company.

(8) Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司) is wholly held by Jinshi Investment Co., Ltd. (金石投資有限公司). Therefore, Jinshi Investment Co., Ltd. (金石投資有限公司) is deemed to be interested in the Domestic Shares held by Qindao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司) in the Company by virtue of Part XV of the SFO.

Save as disclosed above, as of December 31, 2017, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or chief executive of the Company) had, or was deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Directors' and Supervisors' Rights to Acquire Shares or Debt Securities

At no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, the Supervisors, or chief executives of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

Connected Transaction

The Board confirms that none of the related party transactions set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report constituted connected transactions or continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. During the Reporting Period, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Hong Kong Listing Rules.

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles or the PRC Company Law which oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

Report of the Board

Bank Borrowings

Details of the bank borrowings of the Group as of December 31, 2017 are set out in notes (18) and (25) to "Notes to the Financial Statements – Notes to the consolidated financial statements" of this annual report.

Charge on Assets

Details of the charge on assets of the Group as of December 31, 2017 are set out in note (18) and (25) to "Notes to the Financial Statements – Notes to the consolidated financial statements" of this annual report.

Corporate Governance

The Board is of opinion that the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the Reporting Period. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" of this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the Latest Practicable Date, the Company had maintained the minimum public float of the issued Shares as required under the Hong Kong Listing Rules.

Closure of the Register of Members

For determining the entitlement to attend and vote at the AGM

The register of members of the Company will be closed from May 14, 2018 to June 13, 2018, both days inclusive, during which period no transfer of the Shares will be effected. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's 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 not later than 4:30 p.m. on May 11, 2018.

Report of the Board

For determining the entitlement to the Proposed Final Dividend

The register of transfer of Shares of the Company will be closed from June 20, 2018 to June 25, 2018, both days inclusive, during which period no transfer of Shares will be affected. In order to qualify for receiving the Proposed Final Dividend (subject to the approval by the Shareholders at the AGM), all completed share transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on June 19, 2018.

Important Events after the Reporting Period

The important events after the Reporting Period are set out in "Notes to the Financial Statements - Events after the balance sheet date" of this annual report.

Auditor

The financial statements for the year ended December 31, 2017 have been audited by Pricewaterhouse Coopers Zhong Tian LLP who retire and being eligible offer themselves for re-appointment at the forthcoming annual general meeting.

Due to the change of accounting standards, the Company has decided not to re-appoint its original international auditor, PricewaterhouseCoopers, and has appointed PricewaterhouseCoopers Zhong Tian LLP as its auditor for the year ended December 31, 2017 on 14 June, 2017. PricewaterhouseCoopers has confirmed that there were no matters regarding its retirement that need to be brought to the attention of the Shareholders.

For and on behalf of the Board
GUAN Weili
Chairman

Zhejiang, the PRC
March 23, 2018

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee in compliance with the relevant laws, regulations and the Articles, and based on the attitude of being responsible to all Shareholders of the Company, has conducted its work in accordance with the fiduciary principle, played an active role to work seriously and with diligence, duly performed its supervisory functions, effectively supervised the perform a me of duties of Directors chief executives and other senior management members of the Company, and played a positive the in lawful operation and development of the Company.

During the Reporting Period, the Supervisory Committee reviewed cautiously the operation and development plans of the Company, carried out critical supervision and inspection on the lawful operation, financial condition, actual use of proceeds and related party from initial public offering and connected transactions etc. of the Company, and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they have complied with the laws and regulations and the Articles and in the interests of the Shareholders.

We have attended Board meetings and general meetings of the Company, kept abreast of the major decision-making matters and legitimacy of each decision-making procedure of the Company, so as to better protect the interests of the Shareholders. We consider that the Directors, the chief executives and other senior management members of the Company are able to strictly observe their fiduciary duties, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles. As of the date of approval of this report, none of the Directors and chief executives and other senior management members of the Company had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the Shareholders and employees of the Company. None of them was found to be in breach of any laws and regulations or the Articles. The Supervisory Committee considers that the Company has now established a more improved internal control system which has played a better role of risk prevention and control in all segments of operation and management of the Company, ensured the orderly and effective conduction of all business activities of the Company, and protected the interests of the Company and the Shareholders.

In 2018, each member of the Supervisory Committee will continue to satisfy his or her supervision responsibilities, inspect the lawful operation of the Company, and achieve every operating objectives with joint efforts of everyone of the Company and create value to the Shareholders of the Company.

For and on behalf of the Supervisory Committee
SUN Fangjun
Chairman

Zhejiang, the PRC
March 23, 2018

Corporate Governance Report

The Company recognizes the value and importance of achieving high standard of corporate governance and is committed to doing so. The Company has applied the principles as set out in the CG Code as its own code of corporate governance. The Directors are of the opinion that the Company had complied with all the code provisions set out in the CG Code during the Reporting Period and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

The Board

Board Composition

The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" of this annual report. The overall management and supervision of the Company's operation and the function of formulating overall business strategies were vested in the Board.

During the Reporting Period and up to the date of this annual report, the Board had met the requirements of Rules 3.10 and 3.10A of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, of accounting or related financial management expertise and the requirement that the independent non-executive Directors represent at least one-third of the Board.

The Company has received annual confirmation on independence from each independent non-executive Director pursuant to the requirements under the Hong Kong Listing Rules. The Company considers that each independent non-executive Director to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Hong Kong Listing Rules.

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

The CG Code requires the Directors to disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments as well as their identities and the time involved. The Directors have agreed to disclose to the Company their other commitments in a timely manner.

Corporate Governance Report

Role and Function of and Delegation by the Board

The Board is responsible for and has general powers for the management and conduct of the business of the Company. It delegates day-to-day management of the Company to the executive Directors and the senior management of the Company within the control and the authority framework set by the Board. The delegated functions and responsibilities are periodically reviewed by the Board.

The Board reserves for its decision of all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal supervision and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, recommendation for appointment of Directors and other significant financial and operational matters. For details, please refer to the Articles.

In addition, the Board has also delegated to the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee various responsibilities as set out in their respective terms of reference. Further details of these committees are set out in this annual report.

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

The Company has arranged appropriate liability insurance to indemnify its Directors in respect of legal actions against them.

Chairman and Chief Executives

Mr. GUAN Weili is an executive Director and the chairman of the Board, Ms. WANG Lianyue is an executive Director and the general manager of the Company, and Ms. WANG Hongyue is an executive Director and the chief financial officer of the Company. The three of them have separate roles.

Relationship between Directors and Chief Executives

Mr. GUAN Weili is the spouse of Ms. WANG Lianyue, and Ms. WANG Lianyue is the sister of Ms. WANG Hongyue. Save as disclosed above, there are no financial, business, familial or other material relationships among other members of the Board.

Corporate Governance Report

Role and Function of the Senior Management

The senior management is the execution body of the Company and is accountable to the Board. As of the Latest Practicable Date, the senior management of the Company comprises 6 members. For details of its composition and the biography of members, please see "Directors, Supervisors and Senior Management" of this annual report. There is a strict separation of powers between the senior management and the Board. The senior management determines the operation management and relevant decisions within its terms of reference as authorized by the Board. The Company regularly refines such authorization in accordance with its needs. The Board, in turn, conducts performance appraisal on senior management and its members in accordance with the Company's evaluation requirements, the results of which form the basis of their remuneration and performance arrangements.

Changes in Information of Directors, Supervisors and Chief Executives

On June 14, 2017, in 2016 annual general meeting of the Company, Mr. LIN Lijun was appointed as non-executive Director of the second session of the Board and a member of the Audit Committee with effect on June 14, 2017. Ms. HE Xin retired from the positions as a non-executive Director and a member of the Audit Committee because of work arrangement on June 14, 2017.

On Jun 14, 2017, in 2016 annual general meeting of the Company, Mr. GUAN Weili, Ms. WANG Lianyue, Ms. WANG Hongyue, Mr. YANG Yang, Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin were re-elected as Directors of the second session of the Board of the Company.

On June 14, 2017, in 2016 annual general meeting of the Company, Mr. QIAN Chengliang and Mr. MA Jinlong were appointed as independent Supervisors of the second session of the Supervisory Committee with effect on June 14, 2017.

On June 14, 2017, in 2016 annual general meeting of the Company, Ms. HUANG Jingou was re-elected as a Shareholder representative Supervisor of the second session of the Supervisory Committee. Other than that, in the meeting of employee representatives, Mr. SUN Fangjun and Mr. XIE Tiefan were re-elected as employee representative Supervisors of the second session of the Supervisory Committee on June 12, 2017.

Induction of and Continuous Professional Development for Directors

During the Reporting Period, the Company focused on the continuing professional development of the Directors by encouraging them to take part in and organizing training programs for them. All members of the Board continued to familiarize themselves with various regulatory information and the latest regulatory requirements, including relevant laws and regulations and regulatory documents in relation to corporate governance and the Hong Kong Listing Rules. They also updated their knowledge and skills, and improved their abilities to perform their duties through various methods, such as participating in relevant trainings organized by industry associations, professional bodies and the Company, and personally visiting domestic and foreign financial institutions and the Company, in order to ensure that they can contribute to the Board in a well-informed manner based on its actual needs. The major trainings attended by the Directors are as follows:

During the Reporting Period, all Directors of our Company, namely Mr. GUAN Weili, Ms. WANG Lianyue, Ms. WANG Hongyue, Mr. YANG Yang, Mr. LIN Lijun, Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin, had read through a number of written materials with regards to Director's duties and responsibilities. Furthermore, Mr. CHONG Yat Keung and Mr. GOT Chong Key Clevin had participated in the qualification training of the independent Director, which was organized by the Shanghai Stock Exchange, main content of which included the framework for the operation of the listed company, the construction of internal controls, the supervision of information disclosure, the standardized performance of independent Directors, and the rights, obligations and legal responsibilities of independent Directors.

Corporate Governance Report

Compliance with the Model Code

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions. Having made specific enquiry of all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the Reporting Period. The Company minimizes the scope of insiders before publication of such inside information. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period. The Company will file relevant information of such employees, including but not limited to the inside information, personal identity, securities account, the department such employees serve and their responsibilities, for Company's internal check and relevant regulatory authorities' inquiries. If such employees violate relevant laws and regulations, the Company will make the punishment decisions or transfer them to the judicial organs for handling, in accordance with the seriousness of the case.

Corporate Governance

The Board is of opinion that the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the Reporting Period.

Service Contracts of the Directors and Supervisors

Each of the Directors, except Mr. GOT Chong Key Clevin and Mr. LIN Lijun, entered into a service contract with the Company on April 8, 2015, according to these service contracts: each Director's term of office is (a) three years commencing from the date when their respective appointments were approved by the Shareholders; and (b) subject to termination in accordance with their respective terms. Mr. GOT Chong Key Clevin entered into a service contract with the Company on June 14, 2016, according to this service contract: his term of office is (a) commencing from the date of his appointment and ending on the expiry of the term of the first session of the Board; and (b) subject to termination in accordance with his terms. Mr. LIN Lijun entered into a service contract with the Company on June 14, 2017, according to this service contract: his term of office is (a) three years commencing from the date when his appointment was approved by the Shareholders; and (b) subject to termination in accordance with his terms.

Each of the Supervisors, except Mr. MA Jinglong and Mr. QIAN Chengliang, entered into a service contract with the Company on April 8, 2015, according to these service contracts: each Supervisor's term of office is (a) three years commencing from the date when their respective appointments were approved by the Shareholders; and (b) subject to termination in accordance with their respective terms. Mr. MA Jinglong and Mr. QIAN Chengliang entered into a service contract with the Company on June 14, 2017, respectively, according to these service contract: their term of office are (a) commencing from the date of their respective appointments and ending on the expiry of the term of the second session of the Supervisory Committee; and (b) subject to termination in accordance with their respective terms.

The service contracts may be renewed in accordance with the Articles and applicable laws, rules or regulations.

None of the Directors or the Supervisors has entered or is proposed to enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Corporate Governance Report

Auditors and Accounting Standards

The Company has been using the International Financial Reporting Standards during the financial year of 2016, and has complied with the disclosure requirements required in the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

The Company is a Hong Kong listed company incorporated in the Mainland, according to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Hong Kong Stock Exchange in December 2010 and the related amendments to the Hong Kong Listing Rules, Mainland incorporated issuers listed in Hong Kong are allowed to prepare their financial statements in accordance with China Accounting Standards for Business Enterprises, and mainland audit firms approved by the Ministry of Finance of the PRC and the CSRC are allowed to audit these financial statements in accordance with China Standards on Auditing. In view of such arrangement and in order to improve the efficiency and reduce the cost of disclosure, the Board has decided to abandon the International Financial Reporting Standards and prepare financial statements for the Company only under China Accounting Standards for Business Enterprises for any financial period commencing on or after January 1, 2017.

Due to the change of accounting standards, the Company has decided not to re-appoint its original international auditor, PricewaterhouseCoopers. At the annual general meeting of the Company for the year 2016, the Shareholders approved the appointment of PricewaterhouseCoopers Zhong Tian LLP as the independent auditor of the Company, which will hold office until the conclusion of the next annual general meeting of the Company. PricewaterhouseCoopers had confirmed that there were no matters regarding its retirement that need to be brought to the attention of the Shareholders. The Board confirmed that there was no matter regarding the retirement of PricewaterhouseCoopers that need to be brought to the attention of the Shareholders. The Board and the Audit Committee confirmed that there was no disagreement between the Company and PricewaterhouseCoopers regarding the retirement of PricewaterhouseCoopers.

Corporate Governance Report

Attendance at Board Meetings and General Meetings

The Company has adopted the practice of holding Board meetings for at least four times a year at approximately quarterly intervals pursuant to code provision A.1.1 of the CG Code. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting pursuant to code provision A.1.3 of the CG Code.

During the Reporting Period, seven Board meetings were held and the attendance of the Directors at the Board meetings was as follows:

Name of Directors	Number of Board meetings convened/attended
Executive Directors	
Mr. GUAN Weili *(Chairman)*	7/7
Ms. WANG Lianyue	7/7
Ms. WANG Hongyue	7/7
Non-executive Directors	
Mr. YANG Yang	7/7
Ms. LIN Lijun *Note 1*	4/3
Independent non-executive Directors	
Mr. CHONG Yat Keung	7/6
Mr. HUANG Zhi	7/7
Mr. GOT Chong Key Clevin	7/6
Retired Director during the Reporting Period	
Ms. HE Xin *Note 2*	3/1

Note 1: Mr. LIN Lijun was appointed as a non-executive Director on June 14, 2017 and therefore did not attend three Board meetings held before his appointment.

Note 2: Ms. HE Xin retired as a non-executive Director on June 14, 2017 and therefore did not attend four Board meetings held since her retirement.

Corporate Governance Report

All Directors are provided with agenda and relevant information in advance before the meeting. They have access to the senior management members and the joint company secretaries of the Company at all time and, upon reasonable request, can seek independent professional advice at the Company's expense.

Minutes of the meetings are kept by the secretary to the Board with copies circulated to all Directors for information and records. Minutes of the Board meetings and committee meetings record sufficient details of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which a meeting is held. The minutes of the Board meetings are open for inspection by Directors.

During the Reporting Period, one general meeting was held and the attendance of the Directors at the general meetings was as follows:

Name of Directors	Number of general meetings convened/attended
Executive Directors	
Mr. GUAN Weili *(Chairman)*	1/1
Ms. WANG Lianyue	1/1
Ms. WANG Hongyue	1/1
Non-executive Directors	
Mr. YANG Yang	1/1
Mr. LIN Lijun *Note 1*	0/0
Independent non-executive Directors	
Mr. CHONG Yat Keung	1/1
Mr. HUANG Zhi	1/1
Mr. GOT Chong Key Clevin	1/1
Retired Director during the Reporting Period	
Mr. HE Xin *Note 2*	1/0

Note 1: Mr. LIN Lijun was appointed as a non-executive Director on June 14, 2017 and therefore did not attend one general meeting held before his appointment.

Note 2: Ms. HE Xin retired as a non-executive Director on June 14, 2017.

Corporate Governance Report

Board Committees

The Board has established four committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee, to handle particular responsibilities of the Board and the Company's affairs. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Hong Kong Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

Audit Committee

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Audit Committee by the Board. The primary responsibilities of the Audit Committee are reviewing and supervising the Company's financial reporting procedures, including proposing on appointing or changing the external auditor; supervising the Company's internal audit system and its implementation; communication between the internal auditor and external auditor; auditing the financial information and its disclosure; reviewing the Company's internal control system and auditing the significant connected transactions; nominating the heads of the internal audit department; and other matters that the Board has authorized it to deal with.

As at the date of this report, the Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun. Four Audit Committee meetings were held during the Reporting Period to, among other matters, review annual results for the year 2016 and interim results for half year of 2017 of the Group.

The attendance of the Directors at the Audit Committee meeting held during the Reporting Period was as follows:

Directors	**Number of meetings convened/attended**
Mr. HUANG Zhi *(Chairman)*	4/4
Mr. GOT Chong Key Clevin	4/4
Mr. LIN Lijun *Note 1*	2/2
Retired Director during the Reporting Period	
Ms. HE Xin *Note 2*	2/0

Note 1: Mr. LIN Lijun was appointed as a non-executive Director on June 14, 2017 and therefore did not attend two committee meetings held before his appointment.

Note 2: Ms. HE Xin retired as a non-executive Director on June 14, 2017 and therefore did not attend two committee meetings held since her retirement.

Corporate Governance Report

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the requirements of the CG Code and the roles and the responsibilities delegated to the Nomination Committee by the Board. The primary responsibilities of the Nomination Committee are preparing the procedures and criteria for determining the candidates for Directors and the senior management of the Company and conducting preliminary review on their qualifications and credentials, including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for Directors and the general manager of the Company and making proposals to the Board; looking for the qualified candidates for Directors and general manager; reviewing and making proposals on the candidates for the Directors and general manager; reviewing and making proposals on the candidates for the other senior management such as the vice general managers, secretary to the Board and chief accountant, on which the Board needs to resolve and other matters that the Board has authorized it to deal with.

As of the date of this report, the Nomination Committee consists of one independent non-executive Director, Mr. GOT Chong Key Clevin (chairman of the Nomination Committee), one executive Director Mr. GUAN Weili, and one independent non-executive Director, Mr. CHONG Yat Keung. Two Nomination Committee meetings were held during the Reporting Period to review and recommend the proposed appointment of Mr. LIN Lijun as the non-executive Director and member of the Audit Committee of the Company for a term commencing from the date of appointment and ending on expiry of the term of the second session of the Board. Taking into account (i) the Company's Board diversity policy, (ii) the Company's internal policy on qualifications of non-executive Directors, and (iii) Mr. Lin's previous work experience, the Nomination Committee is of the view that Mr. Lin is an appropriate candidate for a non-executive Director as his previous experience can help the Company improve its marketing and branding and achieve strategic planning in the future.

The attendance of the Directors at the Nomination Committee meeting held during the Reporting Period was as follows:

Directors	**Number of meetings convened/attended**
Mr. GOT Chong Key Clevin *(Chairman)*	2/2
Mr. CHONG Yat Keung	2/1
Mr. GUAN Weili	2/2

The Board has adopted a Board diversity policy and discussed all measurable objectives set for implementing the policy. Please refer to section "Corporate Governance Report - Board Diversity Policy" of this annual report for more details.

Corporate Governance Report

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Remuneration Committee by the Board. The primary responsibilities of the Remuneration Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in the other comparable companies; the remuneration plans and proposals including but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company and other matters that the Board has authorized it to deal with.

As at the date of this report, the Remuneration Committee comprises two independent non-executive Directors, Mr. CHONG Yat Keung (chairman of the Remuneration Committee) and Mr. HUANG Zhi, and one non-executive Director, Mr. YANG Yang. The Remuneration committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Hong Kong Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Director and senior management member). One Remuneration Committee meeting was held during the Reporting Period to, among other matters, review the report of the general manager of the Company for the year 2016.

The attendance of the Directors at the Remuneration Committee meeting held during the Reporting Period was as follows:

Directors	**Number of meetings convened/attended**
Mr. CHONG Yat Keung *(Chairman)*	1/1
Mr. HUANG Zhi	1/1
Mr. YANG Yang	1/1

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their renumeration with their individual performance. The remuneration package includes basic salary, performance and/or discretional bonus and other benefits. Remuneration of the non-executive Directors and the independent non-executive Directors includes mainly the Directors' fee which is a matter for the Board to decide by reference to their duties and responsibilities.

The emoluments of each Director for the year ended December 31, 2017 are set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report.

Corporate Governance Report

Strategy and Risk Management Committee

The Company established the Strategy and Risk Management Committee with written terms of reference in compliance with the roles and responsibilities delegated to the Strategy and Risk Management Committee by the Board. The primary responsibilities of the Strategy and Risk Management Committee include reviewing and providing suggestions on the Company's long term strategic plan and significant investment decision, reviewing the Company's risk management policies and standards, and supervising and monitoring the Company's exposure to legal risks.

As of the date of this report, the Strategy and Risk Management Committee consists of one executive Director, Mr. GUAN Weili (chairman of the Strategy and Risk Management Committee), one non-executive Director, Mr. YANG Yang, and one independent non-executive Director Mr. HUANG Zhi. One Strategy and Risk Management Committee meetings were held during the Reporting Period to, among other things, review and recommend to the Board the report on internal control and risk management of the Group for the year 2016 and proposed extension of the validity period of the proposed A Share offering. The Strategy and Risk Management Committee has conducted annual review on the internal controls and considered the internal control and risk management report was satisfied as to the effectiveness of the Group's internal control system.

The attendance of the Directors at the Strategy and Risk Management Committee meeting held during the Reporting Period was as follows:

Directors	**Number of meetings convened/attended**
Mr. GUAN Weili Note 1 *(Chairman)*	0/0
Mr. HUANG Zhi	1/1
Mr. YANG Yang	1/1
Mr. GOT Chong Key Clevin Note 2	1/1

Note 1: Mr. GUAN Weili was appointed as the chairman of the Strategy and Risk Management Committee on June 14, 2017 and therefore did not attend one committee meeting held before his appointment.

Note 2: Mr. GOT Chong Key Clevin was not elected as the chairman of the Strategy and Risk Management Committee on June 14, 2017.

Corporate Governance Report

Board Diversity Policy

The Board has adopted a board diversity policy and discussed all measurable objectives set for implementing the policy. The Company recognizes and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of all Board appointments should be based on merit and contribution that the selected candidates will bring to the Board.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties including but not limited to:

(a) to review the Company's compliance with the CG Code and disclosure in the corporate governance report;

(b) to develop and review the Company's policies and practices on corporate governance;

(c) to develop, review and monitor the code of conduct applicable to employees and Directors;

(d) to review and monitor the training and continuous professional development of Directors, Supervisors and senior management; and

(e) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

During the Reporting Period, the Board, through its special committees, performed the following corporate governance functions: (1) modified the Articles in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; (3) reviewed the code of conduct for Directors, Supervisors and employees; (4) constantly assessed and optimized corporate governance and performed their duties in strict compliance with all requirements on corporate governance.

Corporate Governance Report

Directors' and Auditor's Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Company's performance, positions and prospects.

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

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

Risk Management and Internal Control

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

A defined management structure and process with specified limits of authority and responsibilities is developed for safeguarding assets against unauthorized use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations. An internal audit department has been established by the Company to perform regular financial and operational reviews and recommend necessary actions to the relevant management. The internal audit department's work is to ensure the internal controls are in place and function properly as intended. The results of the internal audit and reviews are reported to the Audit Committee. When the Group encounters any potential significant risk of the Group, the designated department will identify the risk, the management will assess the risks and consider the impact on the business and the likelihood of the occurrence. After the assessment, the management will determine the strategies and internal control process to mitigate the risk and to prevent similar risks in the future.

Corporate Governance Report

The Board conducts review of the effectiveness of the Group's risk management and internal control system one time per year and are satisfied with the adequacy of the system of risk management and internal control of the Group for the year ended December 31, 2017. There were no matters of material concerns relating to finance, operation or compliance controls.

In order to protect the interests and assets of Shareholders, the Group has developed risk management and internal control system of compreshenssiveness, clear hierarchies and reasonable job allocation to meet their needs and alleviate the risks. The Audit Committee was established under the Board, is responsible for the supervison of internal audit, evaluation and improvement of the internal control system, and risk evaluation of material investment projects operated by the Company. The Strategy and Risk Management Committee of the Board is responsible for studying and providing advice on the long term development strategy and material investment decision of the Company and it also performs the evaluation and control of the overall risk of the Company. In addition, the Company has established administrative measures on related party transaction and the Audit Committee monitors the compliance of these measures, in order to regulate the related party transaction and control the risk. The Company has also established administrative measures on inside information disclosure. Different operations inform any potential inside information to designated persons and the designated persons will determine further escalation and disclosure as required. The Supervisory Committee monitors the impletation of internal control by the Board and senior management. All levels of organs complement and reinforce each other, providing support for business development and risk management.

Senior Management's Remuneration

The annual remuneration of the senior management members of the Company whose particulars are contained in the section headed "Directors, Supervisors and Senior Management" in this annual report for the year ended December 31, 2017 by band is set out below:

Remuneration band (RMB)	**Number of individuals**
0-250,000	10
250,000-500,000	9

Corporate Governance Report

Auditor's Remuneration

For the year ended December 31, 2017, the Group's statutory auditor, PricewaterhouseCoopers Zhong Tian LLP, provided annual audit services, and PricewaterhouseCoopers Zhong Tian LLP was also the reporting accountant of the company in relation to its A share listing application. During the year ended December 31, 2017, the total fee paid/payable in respect of audit and non-audit services provided by the Group's auditors is set out below:

Audit services [Note]	RMB4,050,000
Non-Audit service	RMB68,000

Note: Including fees for statutory audit of annual financial statements of the Group and the audit service in relation to its A share listing application by the reporting accountant.

Joint Company Secretaries

Ms. NG Wing Shan, an employee of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as one of the joint company secretaries. Ms. Ng's primary contact person at the Company is Mr. WANG Jian, the secretary to the Board and the other joint company secretary.

During the Reporting Period and up to the date of this annual report, Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. Mr. Wang attended training relating to the roles, functions and duties of directors of a listed company in Hong Kong and was from time to time been updated and with training materials provided by the external lawyers during the Reporting Period, he has also undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. He will continue to attend relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ending December 31, 2018.

Communication with Shareholders and Investor Relations

The Board believes that effective communication with investors is essential for establishing investors' confidence and attracting new investors. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables investors to make the best investment decision.

Corporate Governance Report

The general meetings of the Company provide an important channel for communications between the Board and the Shareholders. The chairman of the Board, as well as chairmen of the four Board committees or, in their absence, other members of the respective committee and where appropriate, the independent Board committee, will be available to answer questions at the general meetings.

During the Reporting Period, one general meeting was held. Published documents together with the latest corporate information and news are available on the Company's website at http://www.knhosp.cn. Investors can also communicate with the Company through email at ir@knhosp.cn.

Shareholders' Rights

Procedures for Shareholder(s) to Convene an Extraordinary General Meeting ("EGM")

Shareholders requesting the convening of an EGM shall proceed in accordance with the procedures set forth below:

The Shareholders, individually or jointly holding over 10% of the Shares with the voting power at the proposed meeting, have the right to request the Board to hold the EGM or a class meeting in writing. According to laws, administrative regulations and the Articles, the Board shall give written feedback to agree or disagree to hold the EGM or the class meeting within ten days after receiving the proposal.

If the Board agrees to hold the EGM or the class meeting, a meeting notice shall be given within five days after the Board makes such a resolution. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board disagrees to hold the EGM or the class meeting or fails to give feedback within ten days after receiving the request, the Shareholders individually or jointly holding over 10% of the Shares have the right to request the Supervisory Committee to hold the EGM or the class meeting in writing.

If the Supervisory Committee agrees to hold the EGM or the class meeting, a meeting notice shall be given within five days after receiving the request. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Supervisory Committee fails to give the notice of the EGM within the specified period, it shall be deemed that the Supervisory Committee does not convene or preside over the Shareholders' meeting. Shareholders who individually or jointly hold 10% or more of the Shares for not less than 90 consecutive days may convene and preside over the EGM by themselves. Necessary expenses of the the general meeting held by the Supervisory Committee or Shareholders by themselves shall be borne by the Company.

Corporate Governance Report

Procedures for Shareholder(s) to Put Forward Proposals at a General Meeting

When a general meeting is convened by the Company, the Board, Supervisory Committee or Shareholders who individually or collectively hold more than 3% of the Shares shall be entitled to propose resolutions to the Company.

Shareholders who individually or collectively hold more than 3% of the Shares may submit ad hoc proposals in writing to the convener of the general meeting 10 days before the convening of the general meeting. The convener shall issue a supplemental notice of the general meeting within 2 days upon receipt of the proposals and announce the contents of the ad hoc proposals. The contact details to put forward proposals are as follows:

Address:
No.1 Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC
Fax: (86)577 8878 9117
Email: ir@knhosp.cn

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the secretary to the Board. The contact details are as follows:

Address:
No.1 Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC
Fax: (86)577 8878 9117
Email: ir@knhosp.cn

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Change in Constitutional Documents

During the Reporting Period, the Articles was amended once. The amendment was at the annual general meeting of the Company for the year 2016 held on June 14, 2017. The resolution on amending the Articles was reviewed and passed. The major amendments to the Articles include provisions related to the appointment of independent Supervisors and the reflection of the most recent share transfer of the Company. Please refer to Pages 13 to 16 of the Company's circular dated April 28, 2017 for the details of the amendments to the Articles. The amended Articles took effect since the date of the annual gereral meeting of the Company for the year 2016 (i.e. June 14, 2017).

Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. GUAN Weili (管偉立), aged 48, is the chairman of the Board and an executive Director. He is primarily responsible for the overall business operation and strategic planning of the Company. He founded the Company in February 1996 and became an executive Director then. Mr. Guan was appointed as the chairman of the Board and an executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, Mr. Guan served as a clinician at Wenzhou Mental Hospital (溫州市精神病院), a local hospital in Wenzhou, from August 1987 to December 1993, where he was primarily responsible for the medical treatment of psychiatric patients. Mr. Guan graduated from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州醫學院) in Wenzhou in August 1987, majoring in medical assistance. Mr. Guan obtained his senior business operator certificate from Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007. Mr. Guan is the spouse of Ms. WANG Lianyue and the brother-in-law of Ms. WANG Hongyue and Mr. XU Yi.

Ms. WANG Lianyue (王蓮月), aged 49, is our executive Director and our general manager. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as our general manager since September 2011 and our executive Director since April 2013. Ms. Wang was again appointed as our executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from August 1988 to December 1997, she was a nurse at Wenzhou Mental Hospital (溫州市精神病院), where she was primarily responsible for general patient care. Ms. Wang received two associate degrees from Wenzhou Medical University in Wenzhou in June 2004 and the School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校) in Wenzhou in June 2002, where she majored in nursing and economic administration, respectively. She graduated from Xi'an Jiaotong University Education College (西安交通網絡教育學院), through long-distance education, with a bachelor's degree in law in July 2007. She also completed part-time hospital management courses at the China Europe International Business School (中歐國際工商學院) in Shanghai in September 2006. She was accredited as secondary psychological consultant (二級心理諮詢師) by the Ministry of Human Resources and Social Security of China (人力資源和社會保障部) in December 2004. Ms. Wang is the spouse of Mr. GUAN Weili, the sister of Ms. WANG Hongyue and the sister-in-law of Mr. XU Yi.

Directors, Supervisors and Senior Management

Ms. WANG Hongyue (王紅月), aged 45, is our executive Director and our chief financial officer. She is primarily responsible for the overall financial management and capital investment of the Company. She joined the Company in January 1996 and worked in our finance department from January 1996 to December 1999. She became the head of our finance department in January 2000. Ms. Wang was appointed as an executive Director in April 2013 and after the Company was converted into a joint stock limited liability company, she was appointed as an executive Director again and as chief financial officer in September 2014. Ms. Wang also served as our Supervisor from September 2011 to April 2013. Prior to joining the Company, from July 1994 to December 1995, she worked in the finance department of Wenzhou City Kangning Medicine Wholesale Company of Longwan District (溫州市龍灣區康寧醫藥批發公司), which engages in the medicine wholesale business, where she was responsible for accounting work. Ms. Wang graduated from Xi'an Jiaotong University Online Education College (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in accounting in July 2007. She graduated from Shanghai University of Finance and Economics with a master's degree in EMBA in May 2017. Ms. Wang is the sister of Ms. WANG Lianyue, the spouse of Mr. XU Yi and the sister-in-law of Mr. GUAN Weili.

Non-executive Directors

Mr. YANG Yang (楊揚), aged 62, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of the Company. He joined the Company in April 2015 and has served as our non-executive Director since then. Since January 2010, Mr. Yang has also been serving as an executive director of GL Capital Investments HK Limited, a company engaging in private equity services for investment business, where he is primarily responsible for hospital management and investments. Prior to joining the Company, from May 1988 to December 2009, Mr. Yang served as the general manager of Long Nice Industries Ltd. (長立實業有限公司), a company in Hong Kong engaging in the business of trading and the provision of investment services, where he was primarily responsible for businesses involving investment, foreign trade and manufacturing. Mr. Yang graduated from the Naval College of the Chinese People's Liberation Army (中國人民解放軍海軍學院), majoring in operational commanding, in Nanjing in March 1982.

Directors, Supervisors and Senior Management

Mr. LIN Lijun (林利軍), aged 43, is our non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Lin joined the Company in June 2016 and has served as our non-executive Director since then. He has been the chairman of Loyal Valley Innovation Capital since September 2015. Since April 2016, Mr. Lin has been a director of Yintech Investment Holdings Limited, a company listed on the NASDAQ Stock Market (ticker symbol: YIN.US) engaging in the provision of spot service for bulk commodity, where he is primary responsible for monitoring the strategic development of company. Since March 2016, he has been a director of TANSH Global Food Group, a company listed on the Hong Kong Stock Exchange (stock code: 03666.HK) engaging in the operation of mid-to-high end Chinese cuisine full-service chain restaurants, where he is primary responsible for monitoring the strategic development of company. Since November 2015, he has been a director of Yunfeng Financial Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 00376.HK) engaging in the provision of financial services, where he is primary responsible for monitoring the strategic development of company. From November 2015 to March 2017, he also has been a director of Shanghai Chengtou Holding Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600649.SH) mainly responsible for provision of raw water to Shanghai Water Shinan, Shibei, Pudong Veolia. He found China Universal Asset, a fixed-income investment professional institution, in April 2004, and served as president since then until April 2015. He also successively served as an assistant to office officer and an assistant to director of listing department at Shanghai Stock Exchange from July 1997 to July 2001, during of which he also worked in the growth enterprise board preparation work unit and the listed company supervision department at the CSRC. Mr. Lin graduated from Fudan University with a bachelor's degree in world economy in Shanghai in June 1994. He graduated from Fudan University with a master's degree in world economy in Shanghai in June 1997. He also graduated from Harvard University with a master of business administration degree in U.S. in 2013.

Independent Non-executive Directors

Mr. CHONG Yat Keung (莊一強), aged 54, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Chong joined the Company in April 2015 and has served as our independent non-executive Director since then. From February 2012 to February 2015, Mr. Chong served as the deputy secretary-general of Chinese Hospital Association (中國醫院協會), and form October 2015 to December 2016, he serverd as the part-time deputy secretary-general of Chinese Hospital Association, where he was primarily responsible for hospital accreditation. From January 2004 to January 2012 and since March 2015, he served and has again been serving as the president of Guangzhou Ailibi Management Consulting Co., Ltd. (廣州艾力彼管理顧問有限公司) which is a company engaging in the provision of hospital consultation services, where he was primarily responsible for hospital management consulting, training and hospital rating. From November 1994 to May 2000, he held various positions in a number of pharmaceutical companies including AstraZeneca Pharmaceutical Co., Ltd (阿斯利康(中國)) and Beijing Novartis Pharmaceuticals Co., Ltd. (北京諾華製藥有限公司), which are companies engaging in the sales and marketing of medicine, where he was primarily responsible for the sales and marketing of medicine. Mr. Chong graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in medical science in Guangzhou in July 1986. He graduated from Northwestern University Kellogg School of Management-Hong Kong University of Science and Technology Business School with an executive master of business administration degree in Hong Kong and Evanston, Illinois in May 2004, where he majored in business administration. He also graduated from ISCTE-Lisbon University Institute with a doctorate degree in management in November 2013.

Directors, Supervisors and Senior Management

Mr. HUANG Zhi (黃智), aged 35, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Huang joined the Company in April 2015 and has served as our independent non-executive Director since then. From June 2014 to present, Mr. Huang has been served as independent director of Anhui Korrun Co., Ltd. (安徽開潤股份有限公司), (a company listed on Shenzhen Stock Exchange (stock code: 300577.SZ) engaging in sales and research and development of bags), where he is primarily responsible for the supervising of its internal audit system and its implementation. Since November 2014, Mr. Huang has also been serving as an independent director of Wuhan East Lake High-tech Group Co., Ltd. (武漢東湖高新集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600133.SH) engaging in the investment and operation in the high-tech industry, where he is primarily responsible for supervising its internal audit system and its implementation. Since January 2016, he has also been serving as an independent director of Tibet Tianlu Co., Ltd. (西藏天路股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600326. SH) engaging in highway infrastructure construction. Since September 2014, Mr. Huang has also been serving as a partner at Shanghai Infaith Consulting Co., Ltd. (上海信公企業管理諮詢有限公司), which is a company engaging in the provision of consultation services for listed companies, where he is primarily responsible for general management of the business. From March 2016 to December 2016, he served as an independent director of Zigong Huaqi Techology Co. Ltd (自貢華氣科技股份有限公司), a company engaging in pressure vessel manufacturing (limited to underground high-pressure gas storage well) and gas station equipment manufacturing. Prior to joining the Company, from August 2013 to July 2014, he served as the general manager of merger and financing department at Tianfeng Securities Co., Ltd., (天風證券股份有限公司), which is a company engaging in the provision of services including securities brokerage, investment and asset management for futures companies, where he was primarily responsible for the management of the merger and financing department. From July 2011 to July 2013, he served as the manager of the first department of listed companies' regulation at the Shanghai Stock Exchange, where he was primarily responsible for supervising the compliance of listed companies. From July 2004 to June 2011, he served as a manager at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for risk and quality management. Mr. Huang graduated from Fudan University (復旦大學) with a bachelor's degree in economics in Shanghai in July 2004. He was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 2011.

Directors, Supervisors and Senior Management

Mr. GOT Chong Key Clevin (葛創基), aged 59, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Got joined the Company in June 2016 and has served as our independent non-executive Director since then. He has been acting as the chief executive officer of Hong Kong Breast Cancer Foundation (香港乳癌基金會) from March 2016 to October 2016. From September 1980 to June 1984, he was the assistant secretary of the Community Service Division of the Tung Wah Group of Hospitals (東華三院) in Hong Kong, where he was responsible for the management and promotion of the youth and children services. From July 1984 to June 1985, he was the director of the social service center of the Chinese Neighborhood society of Montreal, overseeing all service operations. From July 1987 to December 1998, he assumed various roles in administration, strategic planning, marketing, and sales division of, and later became the managing director of, the Sime Darby Hong Kong's Wallace Harper & Company Ltd. (香港森那美集團夏巴公司), a distributor of vehicles. From January 1999 to December 2015, he was the general manager and senior corporate director of Dah Chong Hong Holdings Ltd. (大昌行集團有限公司) (stock code: 1828. HK), whose shares are listed on the Main Board of Hong Kong Stock Exchange. Mr. Got was the chairman for the Hong Kong Motor Traders Association from January 2011 to December 2013. Mr. Got obtained a bachelor's degree in social work from McGill University (麥基爾大學) in Montreal in June 1980. He became a member of the Ontario Association of Professional Social Workers in February 1987 and a Registered Social Worker under the Hong Kong Social Workers Registration Ordinance (Chapter 505 of the Laws of Hong Kong) in May 2016.

SUPERVISORS

Mr. SUN Fangjun (孫方俊), aged 67, is the chairman of the Supervisory Commitee. He is primarily responsible for supervising our daily operations and management. Mr. Sun joined the Company in May 2011 and served as the vice president of the Company from May 2011 to September 2014. He was appointed as the chairman of the Supervisory Commitee in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1996 to October 2010, Mr. Sun worked at the Health Bureau of Lucheng District, Wenzhou (溫州市鹿城區衛生局) where he was primarily responsible for medical administrative management. From April 1992 to April 1996, he was the president of Wenzhou Hongqi Hospital (溫州市紅旗醫院), a local hospital in Wenzhou, where he was primarily responsible for the overall operations of the hospital. From August 1988 to April 1992, he served as the vice president of the Eighth People's Hospital of Wenzhou (溫州市第八人民醫院), a local hospital in Wenzhou, where he was primarily responsible for various medical affairs. Mr. Sun graduated from Jixi Medical School in Heilongjiang Province (黑龍江省雞西衛校) with a secondary vocational diploma in Jixi City, Heilongjiang Province in August 1974, where he majored in medicine. He was accredited as chief physician in internal medicine by Wenzhou Municipal Bureau of Personnel (溫州市人事局) in January 1995.

Directors, Supervisors and Senior Management

Ms. HUANG Jingou (黃靖歐), aged 39, is a Supervisor. She is primarily responsible for supervising our daily operations and management. Ms. Huang joined the Company in April 2013 and has served as our Supervisor since then. She was again appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Since November 2011, Ms. Huang has been serving as the vice president of GL Capital Group (德福資本), which is a company engaging in private equity investment, where she is primarily responsible for investment. Prior to joining the Company, from August 2009 to November 2011, she served as the project director of the China Medical Board (美國中華醫學基金會), which is a trust foundation in the U.S. focusing on medical charity affairs, where she was primarily responsible for project implementation. From June 2003 to December 2006, she was an attorney at Woo Kwan Lee & Lo (胡關李羅律師行) where she was primarily responsible for various legal affairs. Ms. Huang graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in law in Guangzhou in July 2001.

Mr. MA Jinlong (馬津龍), aged 68, is an independent Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Ma joined the company in June 2017 and has served as our independent Supervisor since then. Prior to joining the Company, from April 2014 to March 2017, Mr. Ma served as an independent director of Zhejiang Connaught Fluid Control Technology Co., Ltd., a high-new technology enterprise in China listed on the NEEQ (NEEQ: 830985) striving for the research & development, design, production and sales of fluid control equipment. He served as an independent director of Ningxia Pingluo Rural Commercial Bank Co., Ltd. (寧夏平羅農村商業銀行股份有限公司) from October 2012 to July 2016. He served as an independent director of Ruian Rural Commercial Cooperative Bank (瑞安農村商業合作銀行) from December 2011 to December 2014, where he was primarily responsible for the supervision of internal audit system and its operation. From January 2009 to November 2011, he also served as an independent director of Zhejiang Cangnan Rural Cooperative Bank (浙江蒼南農村合作銀行), a joint stock cooperative local financial institution. From August 1985 to November 2009, he successively served as deputy officer, officer and researcher in the Policy Study Institute of Wenzhou Municipal Committee of the Communist Party as well as deputy officer and officer of the Commission for the Restructuring of the Economic System of Wenzhou. Mr. Ma graduated from the School of Zhejiang Provincial Committee of the Communist Party with a bachelor's degree in economy in 1985.

Directors, Supervisors and Senior Management

Mr. QIAN Chengliang (錢成良), aged 65, is an independent Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Qian joined the company in June 2017 and has served as our independent Supervisor since then. Prior to joining the Company, from May 2007 to May 2012, he served as a deputy officer at the Standing Committee of Wenzhou Municipal People's Congress. From February 2003 to April 2007, he served as a vice mayor of Wenzhou. From October 1996 to January 2003, he served as a member of Standing Committee and officer of the organization division in Lishui. From November 1995 to September 1996, he served as an executive deputy officer of the organization division of the municipal committee of the Communist Party in Wenzhou.

Mr. XIE Tiefan (謝鐵凡), aged 38, is a Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie joined the Company in May 2000 and from May 2010 to September 2014, he held a variety of positions in the Company including the deputy director of the information department, the deputy director of the equipment department, and the director of the equipment department, where he was primarily responsible for equipment purchase and management. He was appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Xie graduated from the Open University of China (中央廣播電視大學) with an associate degree in finance in Beijing in December 2004. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

SENIOR MANAGEMENT

Mr. WANG Qian (王謙), aged 53, is our deputy general manager. He is primarily responsible for assisting the general manager in the management of medical service of the Company. Mr. Wang joined the Company in July 2014 and has served as the deputy general manager since then. Prior to joining the Company, from February 1990 to June 2014, Mr. Wang served as various positions at the People's Hospital of Wenzhou (溫州市人民醫院) which is a local hospital in Wenzhou; from December 2005 to June 2014, he served as the vice president where he was primarily responsible for assisting the president in hospital management; from January 2000 to November 2005, he served as the head of the internal medicine department where he was primarily responsible for the management of internal medicine department; from January 1995 to December 1999, he served as the doctor in charge where he was primarily responsible for hematology; from February 1990 to December 1994, he served as a physician where he was primarily responsible for pediatrics. From August 1987 to January 1990, Mr. Wang served as a physician in pediatrics at the People's Hospital of Taishun County (泰順縣人民醫院), which is a local hospital in Wenzhou, where he was primarily responsible for providing medical treatment to children. Mr. Wang obtained a bachelor's degree from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州醫學院)), majoring in medicine, in Wenzhou in July 1987. Mr. Wang was accredited as associate chief physician in internal medicine by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in December 2004.

Directors, Supervisors and Senior Management

Mr. ZHOU Chaoyi (周朝毅), aged 55, is our vice general manager. He is primarily responsible for assisting the general manager in managing the infrastructure of our Company. Mr. Zhou joined our Group in February 2005 and has served as our vice general manager since then. He was again appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital (溫州心血管醫院) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief (科長) of human resources and social security section at Wenzhou Traditional Chinese Medicine Hospital (溫州市中醫院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium (溫州市氣功療養院) in Wenzhou, where he was primarily responsible for human resources and youth work organization. Mr. Zhou completed the advanced study class (高級研修班) for modern health management at Zhejiang University in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as radiologist by Wenzhou Municipal Bureau of Health (溫州市衛生局) in December 1989 and was accredited as clinical assistant medical practitioner by Zhejiang Health Bureau (浙江省衛生廳) in April 2000. Mr. Zhou was accredited as senior business operator by Wenzhou Municipal Human Resources and Social Security Bureau in November 2015.

Mr. YE Minjie (葉敏捷), aged 44, is our vice general manager. He is primarily responsible for assisting the general manager in the management of research and teaching of the Company. He joined the Company in October 2013 as the vice president. Mr. Ye was appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from July 1994 to September 2013, he was the section chief (科長) at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, where he was primarily responsible for research and teaching. Mr. Ye graduated from Xinxiang Medical College (新鄉醫學院) with a master's degree in psychiatry and mental health in Xinxiang, Henan Province in July 2007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in January 2014.

Directors, Supervisors and Senior Management

Mr. XU Yi (徐誼), aged 43, is our vice general manager. He is primarily responsible for assisting the general manager in facility and logistics management of the Company. Mr. Xu joined the Company in October 2002 and served as the section chief (科长) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of the Company. He was appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1999 to September 2002, he was a teacher at the School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校), where he was primarily responsible for teaching information and technology courses. Mr. Xu graduated from the Beijing Institute of Economics and Management (北京經濟管理職業學院) with a college diploma in art design through long-distance education in July 2005. Mr. Xu is the souse of Ms. WANG Hongyue and the brother-in-law of MR. GUAN Weili and Ms. WANG Lianyue.

Ms. ZHANG Feixue (章飛雪), aged 48, is our vice general manager. She is primarily responsible for handling the nursing work of the Company. Ms. Zhang joined the Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang served as the vice president of the Company and was primarily responsible for assisting the president in managing nursing affairs. Ms. Zhang has been serving as the vice general manager of the Company since March 2015. Prior to joining the Company, Ms. Zhang held various positions at the Fifth People's Hospital of Yueqing (樂清市第五人民醫院): from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, and from January 1993 to September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management. Ms. Zhang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a bachelor's degree in nursing through long-distance education in July 2005. Ms. Zhang obtained the certificate of advanced study class for modern health management at Zhejiang University (浙江大學現代衛生管理高級研修班) in Hangzhou, Zhejiang Province in November 2014. Ms. Zhang was admitted as the candidate of master of public administration by Zhejiang Normal University (浙江師範大學) in Jinhua, Zhejiang Province in May 2015. She was accredited as senior nurse by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in November 2013.

Directors, Supervisors and Senior Management

Mr. WANG Jian (王健), aged 33, is our vice general manager and the secretary to our Board. He is primarily responsible for overseeing public affairs and investment relationship, corporate financing and listing-related matters. Mr. Wang joined our Group in July 2014 and has served as the secretary to our Board since then. Mr. Wang was again appointed as the secretary to our Board in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Wang was appointed as our vice general manger in June 2017. Mr. Wang serves as independent director in Zhejiang Liyuan Communication Technologies Co., Ltd. (浙江立元通信技術股份有限公司), a company listed on National Equities Exchange and Quotations (stock code: 831499), since March 4, 2017. Prior to joining the Company, from June 2009 to July 2014, he served as a staff member (科員) and a senior staff member (副主任科員) in the CSRC Xiamen Regulatory Bureau (中國證監會廈門監管局) where he was primarily responsible for monitoring the corporate governance and information disclosure supervision of listed companies in the Xiamen area. From February 2008 to March 2009, he was a senior auditor at Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合夥)), where he was primarily responsible for audit work. From August 2005 to February 2008, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for audit work. Mr. Wang obtained a bachelor's degree in management from Guanghua School of Management at Peking University in Beijing in July 2005, where he majored in business administration. Mr. Wang was recognized as a non-practicing certified public accountant (註冊會計師非執業會員) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Directors, Supervisors and Senior Management

Save as disclosed in the following table, during the Reporting Period, other Directors, Supervisors or senior management of the Company did not hold any positions in any members of the Group:

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of office
GUAN Weili	Qingtian Kangning Hospital	Executive director, General manager	From April 2011 to present
	Cangnan Kangning Hospital	Executive director, General manager	From June 2012 to present
	Yongjia Kangning Hospital	Executive director, General manager	From December 2012 to present
	Yueqing Kangning Hospital	Executive director, General manager	From September 2013 to present
	Shenzhen Yining Hospital	Executive director	From September 2014 to present
	Linhai Kangning Hospital	Executive director, Manager	From February 2015 to present
	Geriatric Hospital	Executive director	From November 2015 to present
	Geriatric Hospital	General manager	From November 2015 to January 2018
	Pingyang Kangning Hospital	Executive director, Manager	From November 2015 to January 2018
	Shenzhen Yining Medical Investment Co., Ltd.	Executive director, General manager	From September 2015 to present
	Quzhou Yining Hospital	Chairman, Manager	From November 2015 to present
WANG Lianyue	Nanchang Kangning Hospital	Director	From April 2016 to present
	Yiwu Kangning Hospital Management Co., Ltd.	Executive director, Manager	From January 2017 to present
WANG Hongyue	Cangnan Kangning Hospital	Supervisor	From June 2012 to present
	Quzhou Yining Hospital	Director	From November 2015 to present
	Pingyang Kangning Hospital	Supervisor	From November 2015 to present
	Zhejiang Huangfeng Hosptial Management Co., Ltd.	Director	Form August 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Sihui Kangning Hospital	Director	From August 2016 to present
	Hangzhou Cining Hospital	Supervisor	From November 2017 to present

Directors, Supervisors and Senior Management

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of office
WANG Qian	Langfang Yining Hospital	Executive director, General manager	From December 2015 to present
XU Yi	Qingtian Kangning Hospital	Supervisor	From April 2011 to present
	Yueqing Kangning Hospital	Supervisor	From September 2013 to present
	Shenzhen Yining Hospital	Supervisor	From September 2014 to present
	Geriatric Hospital	Supervisor	From November 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Supervisor	From September 2015 to present
	Quzhou Yining Hospital	Supervisor	From November 2015 to present
	Langfang Yining Hospital	Supervisor	From December 2015 to present
	Zhejiang Huangfeng Hospital Management Co., Ltd.	Chairman	Form August 2016 to present
	Nanchang Kangning Hospital	Chairman	From April 2016 to May 2017
	Nanchang Kangning Hospital	Director	From May 2017 to present
	Taizhou Kangning Hospital	Executive Director	From June 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Zhejiang Kangning Hospital Management Co., Ltd.	Executive director, General manager	From July 2016 to present
	Hangzhou Yining Hospital	Executive director, General manager	From August 2016 to April 2017
	Hangzhou Yining Hospital	Chairman, General manager	From April 2017 to present
	Luqiao Yining Hospital	Executive director, Manager	From December 2016 to present
	Hangzhou Cining Hospital	Executive director, General manager	From November 2017 to present
ZHOU Chaoyi	Wenzhou Guoda	Chairman	From July 2016 to present
	Yiwu Kangning Hospital Management Co., Ltd.	Supervisor	From January 2017 to present
WANG Jian	Quzhou Yining Hospital	Director	From November 2015 to present
	Sihui Kangning Hospital	Chairman	From August 2016 to present
	Hangzhou Yining Hospital	Director	From April 2017 to present
	Wenzhou Kangning Hospital Hangzhou Branch	Person in charge	From April 2017 to present

Auditor's Report

PwC ZT Shen Zi (2018) No. 15019
(Page 1 of 6)

To the Shareholders of Wenzhou Kangning Hospital Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Wenzhou Kangning Hospital Co., Ltd. (hereinafter "Wenzhou Kangning Hospital"), which comprise:

- the consolidated and company balance sheets as at 31 December 2017;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Wenzhou Kangning Hospital as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Wenzhou Kangning Hospital in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

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

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

- Determination of control over the hospitals with which the Group has management contracts
- Impairment assessment of contractual rights to provide management services to YanJiao Furen

Auditor's Report

PwC ZT Shen Zi (2018) No. 15019
(Page 2 of 6)

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Determination of control over the hospitals with which the Group has management contracts	
Refer to note 2(28) (b) 'Critical judgements in applying the Company's accounting policies' to the consolidated financial statements. The Group entered into agreements with several hospitals to provide management services for certain periods. These hospitals are not-for-profit hospitals owned by third parties. The Group is entitled to receive either performance-based management fees or the portion of profit over the annual minimum performance target undertaken by the Group during the periods. In determining whether the Group has control over these hospitals, management exercised significant judgements in relation to (i) whether the Group has power to direct the relevant activities of those hospitals under the management contracts; and (ii) whether the magnitude and variability of returns from those hospitals would indicate that the Group has substantive power and thus has control over these hospitals. Management concluded that the Group does not have control over these hospitals. We focused on this matter because the control assessment involved significant judgement.	We discussed with management the basis of assessment, including analysis of the governing power and variable returns they considered when assessing the control over these hospitals. We conducted interview with the owners of the hospitals and members of the governing committees regarding their duties and governing power to corroborate with the views of the management, including how these committees exercised their power in directing the hospitals' relevant activities. We obtained and reviewed the agreements entered into by the Group and the hospitals, and Articles of Association and other equivalent constitutional documents of the hospitals. We focused on the composition of the governing committees which oversee the operations of those hospitals, and the power attained by those committees and granted to the Group. We also analysed monetary and non-monetary variable returns received and receivable by different parties resulting from their involvement in the hospitals. Based on the work performed, we found the management's assessment is supported by available evidence.

Auditor’s Report

PwC ZT Shen Zi (2018) No. 15019
(Page 3 of 6)

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment assessment of contractual rights to provide management service to Yanjiao Furen	
Refer to note note 2(28) (a) ‘Critical accounting estimates and key assumptions’ and note 4(12) ‘intangible assets’ to the consolidated financial statements. At 31 December 2017, the carrying amount of contractual rights to provide management service to Yanjiao Furen was RMB80,177,100. For the year ended 31 December 2017, Yanjiao Furen did not achieve the minimum performance target. This indicated that the contractual rights related to Yanjiao Furen may be impaired, management was therefore required to perform an impairment assessment. As the Group’s management fee income is linked to the hospital’s performance, management used value-in-use method to assess the recoverable amount of the contractual rights, which is determined based on the cash flow projections of Yanjiao Furen. The value-in-use calculations require significant estimation on the assumptions, including average number of beds in operation, average in - patient spending per day per bed, gross margin and discount rate. Based on the management’s assessment, no impairment provision is required. We paid special attention to this matter because management applied significant estimates in the assessment.	We evaluated the appropriateness of the value-in-use method adopted by the Group. We evaluated the reasonableness of the underlying forecast prepared by the management of Yanjiao Furen and endorsed by directors’ of the Group. We examined the key assumptions including average number of beds in operation, average in-patient spending per day per bed and gross margin by referencing to similar hospitals within the Group. We involved our internal valuation expert to assess the reasonableness of the discount rates used, taking into account the cost of capital of the Group and the comparable organisations. We compared prior year budgets and actual results to assess the quality of management’s cash flow projections. We performed sensitivity analysis on the above key assumptions to ascertain the extent to which adverse changes, either individually or in aggregate, would result in the contractual rights being impaired. Based on the work performed, we found the management’s assessment is supported by available evidence.

Auditor's Report

PwC ZT Shen Zi (2018) No. 15019
(Page 4 of 6)

Other Information

Management of Wenzhou Kangning Hospital is responsible for the other information. The other information comprises all of the information included in 2017 annual report of Wenzhou Kangning Hospital other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit Committee for the Financial Statements

Management of Wenzhou Kangning Hospital is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee are responsible for overseeing Wenzhou Kangning Hospital financial reporting process.

Auditor's Report

PwC ZT Shen Zi (2018) No. 15019
(Page 5 of 6)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Wenzhou Kangning Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Wenzhou Kangning Hospital to cease to continue as a going concern.

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

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

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

Auditor's Report

PwC ZT Shen Zi (2018) No. 15019
(Page 6 of 6)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	Kong Yu (Engagement Partner)
Shanghai, the People's Republic of China 23 March 2018	Signing CPA	Chen Yi

Consolidated Balance Sheet

As at 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand	4(1)	**279,334,159**	496,614,542
Accounts receivable	4(2)	**232,179,323**	142,938,440
Other receivables	4(3)	**43,447,939**	54,672,733
Advance to suppliers	4(4)	**11,132,676**	22,283,987
Inventories	4(5)	**23,532,469**	162,827,694
Current portion of non-current assets	4(6)	**12,688,704**	12,688,704
Total current assets		**602,315,270**	892,026,100
Non-current assets			
Available-for-sale financial assets	4(7)	**50,000,000**	50,000,000
Long-term equity investments	4(8)	**89,683,865**	22,429,070
Investment properties	4(9)	**128,568,963**	72,191,872
Fixed assets	4(10)	**502,649,528**	97,666,540
Construction in progress	4(11)	**22,290,670**	198,066,153
Intangible assets	4(12)	**151,842,863**	125,865,371
Goodwill	4(13)	**4,823,557**	8,533,389
Long-term prepaid expenses	4(14)	**96,335,653**	88,855,792
Deferred tax assets	4(15)	**22,571,944**	20,300,383
Other non-current assets	4(16)	**19,318,211**	27,447,253
Total non-current assets		**1,088,085,254**	711,355,823
TOTAL ASSETS		**1,690,400,524**	1,603,381,923

Consolidated Balance Sheet

As at 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2017	31 December 2016
Current liabilities			
Short-term borrowings	4(18)	**90,000,000**	30,000,000
Accounts payable	4(19)	**83,787,338**	43,271,014
Advances from customers	4(20)	**7,511,284**	71,147,900
Employee benefits payable	4(21)	**23,714,318**	19,552,350
Taxes payable	4(22)	**34,912,381**	41,195,655
Other payables	4(23)	**99,796,754**	38,922,694
Non-current liabilities due within one year	4(24)	**22,751,104**	54,180,304
Total current liabilities		**362,473,179**	298,269,917
Non-current liabilities			
Long-term borrowings	4(25)	**110,000,000**	149,950,190
Long-term payables	4(26)	**86,932,300**	86,738,600
Deferred income	4(27)	**10,556,851**	10,632,800
Deferred tax liabilities	4(15)	**9,941,379**	16,420,433
Total non-current liabilities		**217,430,530**	263,742,023
Total liabilities		**579,903,709**	562,011,940
Owners' equity			
Share capital	4(28)	**73,040,000**	73,040,000
Capital surplus	4(29)	**808,244,186**	795,604,861
Surplus reserve	4(30)	**23,710,012**	18,548,942
Retained earnings	4(31)	**146,840,254**	121,190,550
Total equity attributable to owners of the parent company		**1,051,834,452**	1,008,384,353
Non-controlling interests		**58,662,363**	32,985,630
Total owners' equity		**1,110,496,815**	1,041,369,983
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,690,400,524**	1,603,381,923

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Balance Sheet

As At 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand		**226,701,946**	445,980,786
Accounts receivable	15(1)	**92,294,344**	82,359,131
Advances to suppliers		**2,549,714**	4,941,566
Other receivables	15(2)	**440,908,039**	263,651,111
Inventories		**6,905,196**	6,115,311
Dividends receivable		**18,000,000**	10,000,000
Current portion of non-current assets		**12,688,704**	12,688,704
Total current assets		**800,047,943**	825,736,609
Non-current assets			
Available-for-sale financial assets	4(7)	**50,000,000**	50,000,000
Long-term equity investments	15(3)	**124,740,272**	115,854,920
Fixed assets	15(4)	**327,445,436**	59,318,225
Construction in progress	15(5)	**3,294,872**	165,085,994
Intangible assets	15(6)	**101,238,786**	106,549,041
Long-term prepaid expenses		**14,645,580**	25,035,472
Deferred tax assets		**5,126,991**	4,833,044
Other non-current assets		**—**	4,058,271
Total non-current assets		**626,491,937**	530,734,967
TOTAL ASSETS		**1,426,539,880**	1,356,471,576

Balance Sheet

As At 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2017	31 December 2016
Current liabilities			
Short-term borrowings		**50,000,000**	30,000,000
Accounts payable		**31,368,328**	21,549,595
Advances from customers		**2,560,379**	2,997,368
Employee benefits payable		**14,111,913**	15,533,171
Taxes payable		**4,266,616**	18,302,075
Other payables		**53,048,128**	22,931,803
Non-current liabilities due in one year		**22,751,104**	17,480,304
Total current liabilities		**178,106,468**	128,794,316
Non-current liabilities			
Long-term borrowings		**110,000,000**	130,000,000
Long-term payables		**86,932,300**	86,738,600
Deferred income		**10,556,851**	10,632,800
Total non-current liabilities		**207,489,151**	227,371,400
Total liabilities		**385,595,619**	356,165,716
Owners' equity			
Share capital		**73,040,000**	73,040,000
Capital surplus	15(8)	**807,109,474**	799,821,777
Surplus reserve		**23,710,012**	18,548,942
Retained earnings	15(9)	**137,084,775**	108,895,141
Total owners' equity		**1,040,944,261**	1,000,305,860
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,426,539,880**	1,356,471,576

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Consolidated Income Statement

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2017	2016
1. Revenue	4(32)	**666,435,528**	415,408,969
Less: Cost of sales	4(32)、4(34)	**(449,331,902)**	(272,071,264)
Taxes and surcharges	4(33)	**(9,780,313)**	(1,169,328)
Selling and distribution expenses	4(34)	**(1,752,173)**	(3,144,314)
General and administrative expenses	4(34)	**(91,754,247)**	(69,855,467)
Finance (expenses)/income-net	4(35)	**(24,262,625)**	24,764,573
Asset impairment losses	4(36)	**(19,104,920)**	(3,902,289)
Add: Investment losses	4(37)	**(6,111,760)**	(1,661,152)
Including: Share of losses of associates		**(6,461,760)**	(6,201,867)
Losses on disposal of assets	4(38)	**(505,331)**	(115,556)
Other gains	4(39)	**9,417,463**	—
2. Operating profit		**73,249,720**	88,254,172
Add: Non-operating income	4(40)	**9,814,600**	8,567,750
Less: Non-operating expenses	4(41)	**(13,201,645)**	(4,683,423)
3. Total profit		**69,862,675**	92,138,499
Less: Income tax expenses	4(42)	**(22,026,917)**	(26,587,505)
4. Net profit		**47,835,758**	65,550,994
Net profit generated from			
Continuing operation		**47,835,758**	65,550,994
Discontinued operation		**—**	—
Net profit attributable to			
Shareholder of the Company		**49,070,774**	68,831,490
Non-controlling interests		**(1,235,016)**	(3,280,496)
5. Total comprehensive income		**47,835,758**	65,550,994
Attributable to			
Shareholder of the Company		**49,070,774**	68,831,490
Non-controlling interests		**(1,235,016)**	(3,280,496)
6. Earnings per share			
(expressed in RMB per share)			
– Basic	4(43)	**0.67**	0.94
– Diluted	4(43)	**0.67**	0.94

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Income Statement

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2017	2016
1. Revenue	15(10)	**314,816,680**	280,519,255
Less: Cost of sales	15(10)、15(12)	**(199,812,811)**	(192,542,440)
Taxes and surcharges		**(1,368,268)**	(669,980)
Selling and distribution expenses	15(12)	**(885,822)**	(1,213,702)
General and administrative expenses	15(12)	**(48,591,900)**	(38,122,771)
Finance (expenses)/income-net	15(11)	**(21,630,904)**	24,726,885
Asset impairment losses	15(14)	**(3,101,603)**	(1,165,685)
Add: Investment income	15(13)	**18,169,667**	17,340,563
Losses on disposal of assets		**(372,693)**	(108,370)
Other gains		**7,030,240**	—
2. Operating profit		**64,252,586**	88,763,755
Add: Non-operating income		**9,771,216**	6,781,325
Less: Non-operating expenses		**(9,778,737)**	(3,522,746)
3. Total profit		**64,245,065**	92,022,334
Less: Income tax expenses	15(15)	**(12,634,361)**	(19,968,574)
4. Net profit		**51,610,704**	72,053,760
Net profit generated from			
Continuing operation		**51,610,704**	72,053,760
Discontinued operation		**—**	—
5. Total comprehensive income		**51,610,704**	72,053,760

The accompanying notes form an integral part of these financial statements.ngbuneng

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2017	2016
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**502,692,532**	415,653,362
Cash received relating to other operating activities		**35,442,492**	28,832,288
Sub-total of cash inflows		**538,135,024**	444,485,650
Cash paid for goods and services		**(172,416,737)**	(168,939,165)
Cash paid to and on behalf of employees		**(158,956,031)**	(118,573,469)
Payments of taxes and surcharges		**(47,590,827)**	(25,779,704)
Cash paid relating to other operating activities		**(77,672,510)**	(81,326,450)
Sub-total of cash outflows		**(456,636,105)**	(394,618,788)
Net cash flows generated from operating activities	4(44) (a)	**81,498,919**	49,866,862
2. Cash flows used in investing activities			
Cash received from disposal of investments		**5,675,000**	1,075,000
Net cash received from disposal of other long-term assets		—	2,039,728
Net cash received from disposal of subsidiaries or other undertaking		—	1,500,000
Cash received relating to other investing activities		**310,446,972**	256,999,636
Sub-total of cash inflows		**316,121,972**	261,614,364
Cash paid to acquire fixed assets and other long-term assets		**(208,923,550)**	(183,852,005)
Cash paid to acquire investments		**(60,498,286)**	(71,708,000)
Net cash paid to acquisition of subsidiaries and other undertakings		—	(280,995)
Cash paid relating to other investing activities		**(270,328,000)**	(98,561,000)
Sub-total of cash outflows		**(539,749,836)**	(354,402,000)
Net cash flows used in investing activities		**(223,627,864)**	(92,787,636)

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2017	2016
3. Cash flows (used in)/generated from financing activities			
Cash received from capital contributions		**27,020,000**	9,200,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries		**27,020,000**	9,200,000
Cash received from borrowings		**90,000,000**	160,000,000
Cash received relating to other financing activities		**300,000**	—
Sub-total of cash inflows		**117,320,000**	169,200,000
Cash repayments of borrowings		**(107,650,190)**	(67,496,810)
Cash payments for interest expenses and distribution of dividends or profits		**(27,084,188)**	(18,260,000)
Cash payments relating to other financing activities		**(4,485,351)**	(14,362,579)
Sub-total of cash outflows		**(139,219,729)**	(100,119,389)
Net cash flows (used in)/generated from financing activities		**(21,899,729)**	69,080,611
4. Effect of changes in foreign exchange rate		**(5,596,209)**	12,546,534
5. Net (decrease)/increase in cash and cash equivalents		**(169,624,883)**	38,706,371
Add: Cash and cash equivalents at beginning of the year	4(44) (a)	**407,163,542**	368,457,171
6. Cash and cash equivalents at end of the year	4(44) (a) (b)	**237,538,659**	407,163,542

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Cash Flow Statement

For the year ended 31 December 2017
(All amounts in RMBYuan unless otherwise stated)

Item	Note	Year Ended 31 December 2017	2016
1. Cash flows used in operating activities			
Cash received from sales of goods or rendering of services		**302,473,516**	275,820,561
Cash received relating to other operating activities		**17,225,507**	24,129,854
Sub-total of cash inflows		**319,699,023**	299,950,415
Cash paid for goods and services		**(92,186,996)**	(103,222,637)
Cash paid to and on behalf of employees		**(92,849,834)**	(83,236,405)
Payments of taxes and surcharges		**(28,382,923)**	(7,662,618)
Cash paid relating to other operating activities		**(225,250,018)**	(182,544,758)
Sub-total of cash outflows		**(438,669,771)**	(376,666,418)
Net cash flows used in operating activities		**(118,970,748)**	(76,716,003)
2. Cash flows used in investing activities			
Cash received from disposal of investments		**5,675,000**	11,900,000
Cash received from returns on investments		**10,000,000**	15,000,000
Cash received relating to other investing activities		**309,456,144**	290,446,016
Sub-total of cash inflows		**325,131,144**	317,346,016
Cash paid to acquire fixed assets and other long-term assets		**(79,154,601)**	(96,863,568)
Cash paid to acquire investments		**(2,000,000)**	(137,472,948)
Cash paid relating to other investing activities		**(263,418,000)**	(90,161,663)
Sub-total of cash outflows		**(344,572,601)**	(324,498,179)
Net cash flows used in investing activities		**(19,441,457)**	(7,152,163)

Cash Flow Statement

For the year ended 31 December 2017
(All amounts in RMBYuan unless otherwise stated)

Item	Note	Year Ended 31 December 2017	2016
3. Cash flows (used in)/generated from financing activities			
Cash received from borrowings		**50,000,000**	160,000,000
Sub-total of cash inflows		**50,000,000**	160,000,000
Cash repayments of borrowings		**(50,000,000)**	(50,000,000)
Cash payments for interest expenses and distribution of dividends or profits		**(23,129,575)**	(18,260,000)
Cash payments relating to other financing activities		**(4,485,351)**	(3,795,956)
Sub-total of cash outflows		**(77,614,926)**	(72,055,956)
Net cash flows (used in)/generated from financing activities		**(27,614,926)**	87,944,044
4. Effect of changes in foreign exchange rate		**(5,596,209)**	12,546,534
5. Net (decrease)/increase in cash and cash equivalents		**(171,623,340)**	16,622,412
Add: Cash and cash equivalents at beginning of the year		**356,529,786**	339,907,374
6. Cash and cash equivalents at end of the year		**184,906,446**	356,529,786

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Consolidated Statement of Changes in Shareholders's Equity

For the year ended 31 December 2017
(All amounts in RMBYuan unless otherwise stated)

		Equity attributable to owners of the parent company					
	Note	Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 1 January 2017		73,040,000	795,604,861	18,548,942	121,190,550	32,985,630	1,041,369,983
Movements for the year ended 31 December 2017							
Total comprehensive income							
Net profit		—	—	—	49,070,774	(1,235,016)	47,835,758
Capital contribution and withdrawal by owners							
Capital contribution by non-controlling shareholders		—	—	—	—	27,020,000	27,020,000
Share-based payment	9	—	412,805	—	—	—	412,805
Others	4(29)	—	12,226,520	—	—	(108,251)	12,118,269
Profit distribution							
Appropriation for surplus reserve	4(30)	—	—	5,161,070	(5,161,070)	—	—
Profit distribution to equity owners	4(31)	—	—	—	(18,260,000)	—	(18,260,000)
Balance at 31 December 2017		73,040,000	808,244,186	23,710,012	146,840,254	58,662,363	1,110,496,815
Balance at 1 January 2016		73,040,000	797,510,642	11,343,566	77,824,436	2,512,383	962,231,027
Movements for the year ended 31 December 2016							
Total comprehensive income							
Net profit		—	—	—	68,831,490	(3,280,496)	65,550,994
Capital contribution and withdrawal by owners							
Capital contribution by non-controlling shareholders		—	—	—	—	9,200,000	9,200,000
Share-based payment	9	—	2,311,135	—	—	—	2,311,135
Others	4(29)	—	(4,216,916)	—	—	15,946,066	11,729,150
Business combinations involving enterprises not under common control		—	—	—	—	8,607,677	8,607,677
Profit distribution							
Appropriation for surplus reserve	4(30)	—	—	7,205,376	(7,205,376)	—	—
Profit distribution to equity owners	4(31)	—	—	—	(18,260,000)	—	(18,260,000)
Balance at 31 December 2016		73,040,000	795,604,861	18,548,942	121,190,550	32,985,630	1,041,369,983

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

	Item	Share capital	Capital surplus	Surplus reserve	Retained earnings	Total owners' equity
Balance at 1 January 2017		**73,040,000**	**799,821,777**	**18,548,942**	**108,895,141**	**1,000,305,860**
Movements for the year ended 31 December 2017						
Total comprehensive income						
Net profit		—	—	—	**51,610,704**	**51,610,704**
Capital contribution and withdrawal by owners		—	—	—	—	—
Share-based payment	9	—	**412,805**	—	—	**412,805**
Other	4(29)	—	**6,874,892**	—	—	**6,874,892**
Profit distribution						
Appropriation for surplus reserve	4(30)	—	—	**5,161,070**	**(5,161,070)**	—
Profit distribution to equity owners	4(31)	—	—	—	**(18,260,000)**	**(18,260,000)**
Balance at 31 December 2017		**73,040,000**	**807,109,474**	**23,710,012**	**137,084,775**	**1,040,944,261**
Balance at 1 January 2016		73,040,000	797,510,642	11,343,566	62,306,757	944,200,965
Movements for the year ended 31 December 2016						
Total comprehensive income						
Net profit		—	—	—	72,053,760	72,053,760
Capital contribution and withdrawal by owners						
Share-based payment	9	—	2,311,135	—	—	2,311,135
Profit distribution						
Appropriation for surplus reserve	4(30)	—	—	7,205,376	(7,205,376)	—
Profit distribution to equity owners	4(31)	—	—	—	(18,260,000)	(18,260,000)
Balance at 31 December 2016		73,040,000	799,821,777	18,548,942	108,895,141	1,000,305,860

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

1. General information

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital (溫州市康寧精神康復醫院) in the PRC on 7 February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

On 15 October 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The principle activities of the Company and its subsidiaries (the "Group") are operating psychiatric hospitals and providing management services to hospitals in the PRC, also the Group has property development and investment property holding operation.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on 20 November 2015.

The Group has expanded its network of operation during the year through setting up new subsidiaries (Note 5), investing in associates (Note 4(8)) and providing management services to other hospitals (Note 4(12)).

The financial statements have been approved for issue by the Company's Board of Directors on 23 March 2018.

2. Summary of significant accounting policies and accounting estimates

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard and 38 specific accounting standards issued by the Ministry of Finance on 15 February 2006 (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

The new "Companies Ordinance" of Hong Kong became effective in 2016. Certain disclosures in this financial statement have been adjusted according to requirements of the Companies Ordinance.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and company's financial position of the Company as at 31 December 2017 and their financial performance and cash flows for the year then ended.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combination

Business combination involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated statement of comprehensive income.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(6) **Preparation of consolidated financial statements** (continued)

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' shareholders' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under shareholders' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which concerns the Group as an accounting entity is different from that concerns the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(7) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(8) Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on The Group's intention and ability to hold the financial assets. During the reporting period, The Group held receivables and available-for-sale financial assets.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are subsequently measured at amortised cost using the effective interest method, with gains and losses from its amortisation or impairment recognised in profit or loss for the current period. Receivables mainly include accounts receivable and other receivable, etc(Note 2(10)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the statement of financial position if management intends to dispose of them within 12 months after the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(9) **Financial instruments** (continued)

(a) Financial assets (continued)

(ii) Recognition and measurement

Financial assets are recognised at fair value on the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts. A financial asset is derecognised when the contractual right to receive the cash flows form the financial asset expire or the risks and rewards of the ownership of the financial asset has been transferred to the transferee substantially. Accounts receivable is subsequently measured at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably. Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(9) **Financial instruments** (continued)

(a) Financial assets (continued)

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

The objective evidence that a financial asset is impaired refers to events occurred after the initial recognition of the financial assets, which has an effect on the estimated cash flows of the financial assets and the effect can be reliably measured by the Group.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is reclassified to profit or loss. If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is reversed through equity.

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (3) the financial asset has been transferred and The Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in owners' equity, is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(9) **Financial instruments** (continued)

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings, etc.

Payables comprise accounts payable, other payables and long-term payables and are recognised at fair value at initial recognition and are subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities of which the period is within one year (inclusive) are classified as the current liabilities; the period is over one year while will be due within one year (inclusive) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(c) Determination of fair value

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In the valuation, the Group adopted applicable valuation techniques with adequate available data and other information support in the circumstances, and selected inputs that have consistent characteristics with assets and liabilities in the transactions which are also considered by other market participants, and give priority to the use of relevant observable inputs. When relevant observable inputs cannot be obtained or obtaining the observable inputs is not feasible in the circumstances, unobservable inputs are adopted.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivables are amounts due from patients, governments' social insurance schemes and others for pharmaceutical sales and services rendered in the ordinary course of business, along with amounts due from the buyers for real estate properties sales.

Trade and other receivable are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made at the difference between its carrying amount and the present value of its estimated future cash flows.

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have notbeen found impaired are classified into certain categories based on their credit risk characteristics. Provision for bad debts is determined based on the historical loss experience for categories of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

In 2017, the percentage of accounts receivable provision based on aging analysis is as follows:

	% of account receivable
Within 1 year	5%
1 – 2 years	10%
2 – 3 years	50%
3 – 4 years	100%
4 – 5 years	100%
Over 5 years	100%

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(10) **Receivables** (continued)

In 2017, the method of other receivable provision is as follows for provision assessment purpose.

The balance is categoried as below for provision assessment purpose:

Group 1	Other receivables rather than rental deposit for the hospital
Group 2	Rental deposit for the hospital

The methods of accruing bad debts provision for groups is as below:

Group 1	Aging analysis
Group 2	3% of balance on other receivables

For Group 1, the provision for bad debts based on aging analysis is listed as follows:

	% of other receivables
Within 1 year	3%
1 – 2 years	10%
2 – 3 years	20%
3 – 4 years	50%
4 – 5 years	80%
Over 5 years	100%

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(11) Inventories

(a) *Classification*

Inventories comprised pharmaceuticals, medical consumables and poperties (including the relating land use right) and are stated at the lower of cost and net realisable value

(b) *Valuation method for inventory issued*

Inventories are accounted using the method of first-in first-out when issued.

Inventories are measured initially at cost. The developing cost of properties under development includes the cost of land, construction cost and other costs. The borrowings costs that meet the capitalized conditons can also be counted into the cost of properties under development.

(c) *Basis for determining the net realisable value of inventories and provision for decline in the value of inventories*

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) *The Group adopts the perpetual inventory system.*

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in associates.

Subsidiaries are the investees over which the Company is able to exercise control. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements, and investments in joint ventures and associates are accounted for using the equity method.

(a) Determination of investment costs

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the acquirer's share of the carrying amount of owners' equity of the acquiree at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition methods of gains and losses

For long-term equity investments accounted for using the cost method, cash dividend or profit distribution declared by the investees is recognised as investment income in profit or loss.

For long-term equity investments that are accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(12) Long-term equity investments (continued)

(b) Subsequent measurement and recognition methods of gains and losses (continued)

Under the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of the net losses of an investee after the carrying amounts of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, The Group continues recognising the investment losses and the provisions. The changes of the Group's share of the investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognised in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the transactions between the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, to arrive the amount on which the investment gain or losses are recognised. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are not eliminated.

(c) Basis for determining existence of control and significant influence over investees

Control means having power over an investee, enjoying variable returns through involvement in relevant activities of the investee, and being able to impact the amount of such variable returns by using the power over the investee.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that are being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the fair value model for subsequent measurement of investment properties and does not provide depreciation or amortision. The carrying amount of investment properties is adjusted to their fair value at the balace sheet date and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period.

When investment properties are transferred to owner-occupied property, they are reclassified to fixed assets or intangible assets with the carrying amount determined at the fair value of the investment properties at the date of transfer and the difference between the fair value and the original carrying amount of the investment properties is recognized in profit or loss for the current period. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed assets or intangible assets are transferred to investment properties with the carrying amount determined at the fair value at the date of transfer. If the fair vaue at the date of transfer is less than the original carrying amount of the fixed asset or the intangible asset, the difference is recognised in profit or loss for the current period, otherwise, it is included in other comprehensive income.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, medical equitments, motor vehicles, electronic equipments and other equipments, etc.

Fixed assets are recognised when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation method for fixed assets

Depreciation of fixed assets is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives. For the fixed assets for which impairments have been made, the amount of depreciation are determined by the book value after deducting the impairment provision over the useful lives in the future.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	35 years	5%	2.7%
Medical equitments	3-10 years	0%~5%	9.5%-33.3%
Motor vehicles	4-10 years	5%	9.5%-23.8%
Electronic and other equipment	3-10 years	0%~5%	9.5%-33.3%

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(14) Fixed assets (continued)

(b) Depreciation method for fixed assets (continued)

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

The carrying amounts of fixed assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

(c) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowings costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below its carrying amount (Note 2(19)).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(16) Borrowings costs

The borrowings costs that are directly attributable to the acquisition and construction of a asset that needs a substantially long period of time for its intended use is capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowings costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowings costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowings costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowings costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For special borrowings for the acquisition and construction of qualifying assets, the capitalised amount of the special borrowings is determined by the interest expenses incurred in the period less interest income of the unused borrowings deposited at bank or investment income from temporary investment.

For general borrowings occupied for the acquisition or construction of qualifying assets, the capitalised amount of the general borrowings is determined by the weighted average of the difference between accumulated capital expenditure and capital expenditure of the special borrowings multiplies by the weighted average effective interest rate of the occupied general borrowings. The effective interest rate is the interest rate used when the future cash flows of the borrowings over the estimated remaining deposit period or a shorter applicable period are discounted into the initial recognised amount of the borrowings.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(17) Intangible assets

Intangible assets include land use rights, software use rights, contractual rights to provide management services and concession intangible assets and are measured at cost.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period 50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Software use rights

Software use rights are amortised on the straight-line basis on 5 years.

(c) Contractual rights to provide management services

Contractual rights to provide management services is the right to manage a hospital that are carried at costs less accumulated amortization and any accumulated impairment losses.

Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over the contractual terms as below:

	Contractual terms
Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital("Yanjiao Furen Hospital")	19.75 years
Pujiang Huangfeng Psychiatric Hospital("Pujiang Hospital")	30 years
Chunan Huangfeng Kangen Hospital ("Chunan Hospital")	30 years
Yiwu Mental Health Center("Yiwu Health Center")	20 years

(d) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(e) Impairment of intangible assets

The carrying amounts of intangible assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(20) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which The Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, The Group's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

(c) Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(21) Dividend distribution

Cash dividends distribution is recognised as a liability in the period in which the dividends are approved by the shareholders' meeting.

(22) Share-based payments

(a) The types of share-based payments

Share-based payment transactions include equity-settled share-based payments and cash-settled share-based payments. Where the Group uses shares or other equity instruments as consideration for services received from the employees at the grant date, the share-based payments are classified to equity-settled share-based payments. Where the Group receives services from employees by incurring a liability to deliver cash or other equity intruments, the share-based payments are classified to cash-settled share-based payments. For the year ended 31 December 2017 and 2016, the Group did not hold any cash-settled share-based payments.

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments(restricted shares) of the Group. The payment is measured at the fair value of the equity instruments granted to employees at the grant date. The equity instruments granted to employees do not vest until the completion of services for a vesting period, the Group, at each balance sheet date during the vesting period, makes the best estimation according to the latest information of the number of employees who are granted to vest and revises the number of equity instruments expected to vest. Based on such estimation, the Group recognises the services received for the current period as related costs or expenses, with a corresponding increase in capital reserve, at an amount equal to the fair value of the equity instruments at the grant date.

(b) Method to determine the fair value of equity instruments

The restricted shares are recognized for the difference between the grant price and the fair value of the restricted shares at the grant date.

(c) Basis of the best estimate of the number of equity instruments expected to vest

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

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(23) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts, rebates and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below.

(a) Service income - Treatments and general healthcare services and ancillary hospital services

Revenue from service income including medical treatments income, general healthcare services and ancillary hospital services income are recognized when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured. Transactions are settled by payment of social security card, bank card or cash.

(b) Pharmaceutical sales

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

(c) Management service fee

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

(d) Rental income

Rental income from properties leasing under operating leases is recognised on a straight-line basis over the lease terms.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(23) Revenue recognition (continued)

(e) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured.

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as advanced proceeds received from customers under current liabilities.

(24) Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. A government grant in monetary asset is recognised at the amount received or to be received. A government grant in non-monetary asset is recognised at its fair value; if the fair value is not reliably measured, the grant is measured at nominal amount.

A government grant related to an asset is recognised as a deduction of related asset, or recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.. The group use same presentation for the same type of government grant.

If a government grant is related to the normal operation, it would be recognised before operating profit, otherwise would be recognised as non-operating income.

The government loans with preferential interest rate are initially recognised at the amounts received by the Group, and borrowing costs are calculated based on the principal and the preferential interest rate. The government subsidies towards interst directly received by the Group should be offset the related borrowing costs.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where The Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within The Group and the same taxation authority; and,
- that tax payer within The Group has a legally enforceable right to offset current tax assets against current tax liabilities.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(26) Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

Lease income from operating leases are recognized on a straight-line basis over the period of the lease.

(b) Finance leases

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(27) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenue and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to The Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

(a) Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Estimated impairment of contractual rights to provide management services

As at 31 December 2017, the carrying amounts of contractual right to provide management services to Yanjiao Furen Hospital was RMB80,177,100(31 December 2016: RMB84,839,100). Management performs review for impairment of such assets whenever events or changes in circumstances indicate that the carrying amounts of contractual rights to provide management services may not be recoverable. For the year ended 31 December 2017, Yanjiao Furen Hospital did not meet the minimum performance target, so the manangement tested the impairment of the operational rights to provide management service. The recoverable amount of the contractual right to provide management service was recognized baesd on the discounted cash flow method and the calcutions of this method required the use of significant estimates and assumptions on the projections of cash flows from the continuous use of contractual rights to provide management services.

As at year ended 31 December 2017, the key assumpitons adopted to recognise the recoverable amount of the the contractual right to provide management service include mainly:

Average number of beds in operation *	430
Average in patient spending per day per bed *	317
Gross profit rate*	40.3%
Discount rate	14.0%

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(i) Estimated impairment of contractual rights to provide management services (continued)

As at year ended 31 December 2016, the key assumpitons adopted to recognise the recoverable amount of the the contractual right to provide management service include mainly:

Average number of beds in operation *	395
Average in patient spending per day per bed *	228
Gross profit rate *	37.4%
Discount rate	14.0%

* It represents the average number in upcoming five years.

As for the year ended 31 December 2017 and the year ended 31 December 2016, the management did not make any provision for impairment based on the impairment estimating result.

(ii) Provision of bad debts for accounts receivable and other receivables

Impairment of accounts receivable and other receivables is made based on an assessment of the recoverability of accounts receivable and other receivables. The identification of doubtful debts requires management's judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables and the amount of doubtful debt expenses or write-back of provision for impairment of receivables in the period in which such estimate has been changed.

The accounts receivable that are individually insignificant divided to several groups with the tested non-impairment receivable by credit-risk characteristics. Based on the actual loss rate of the similar credit-risk characteristics receivable group in the past years, determine the provison for doubtful debts of the Group by analyse the current situation.

As for the year ended 31 December 2016, the Group has certain receivables overdue but considered not impaired. These balances were due from local social insurance bureau and other government departments who are responsible for the reimbursement of medical expenses of patients who are covered by government medical insurance schemes. The management considered that based on past payment history those amount can be recovered in reasonable time.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(ii) Provision of bad debts for accounts receivable and other receivables (continued)

For remaining balance not covered by social insurance scheme, the management assessed the collectability based on historical patterns and data. Based on the Group's assessment on the collectability of trade receivables, the amount of provision for bad debts in accounts receivable for the year ended 31 December 2016 is 8,104,505.

In addition, based on The Group's assessment on the collectability of other receivables, impairment provision of approximately RMB1,210,030 was provided as at 31 December 2016.

During the year ended 31 December 2017, with the accumulated experience gained from practices, the Group has been making continuous efforts in improving and perfecting its management of receivables. The Group made a change in accounting estimate regarding the provision percentage of bad debts arising from receivables (including accounts receivable and other receivables) after considering the industry features and the accounting approaches taken by other listed companies within the same industry, the extension of collection period for receivables, especially the obvious growth of reimbursement period related to medical insurance and the expansion of the Group business location. The amount of provision for bad debts in accounts receivable for the year ended 31 December 2017 is RMB15,348,262, and the amount of provision for bad debts in other receivables for the year ended 31 December 2017 is RMB4,091,422.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(iii) Measurement of investment property at fair value

For investment property, the fair value was determined by using income approach. The Group engaged Wenzhou Huaxin Assets Evaluation Co.,Ltd to estimate the fair value of the investment properties and the method of estimating adopted is the income modal. The input value adopted were the growth rate of rental, the return on rental and vacancy rate, etc.

The related information of fair value measurement is as followings:

	31 December 2017 Fair value	technical of valuation	Unobservable materially inputs Item	Scope/ Weighted Average	Relationship with the fair value	Observable/ Unobservable
Phase I of Business Center in Higher Education Park	62,546,153	Income approach	Return rate/ capitalization rate	5.05%	(a)	Unobservable
			Monthly rental (RMB/square/month)	33.6-42.88		
			Vacancy rate	2.74%		
Phase II of Business Center in Higher Education Park	66,022,810	Income approach	Return rate/ capitalization rate	4.75%	(a)	Unobservable
			Monthly rental(RMB/ square/month)	30-30.5		
			Vacancy rate	—		

	31 December 2016 Fair value	technical of valuation	Unobservable materially inputs Item	Scope/ Weighted Average	Relationship with the fair value	Observable/ Unobservable
Phase I of Business Center in Higher Education Park	72,191,872	Income approach	Return rate/ capitalization rate	4.81%	(a)	Unobservable
			Monthly rental (RMB/square/month)	32-40.84		
			Vacancy rate	2.74%		

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(iii) Measurement of investment property at fair value (continued)

(a) The relationship between the unobservable inputs and the fair value

- The higher of the final return rate/capitalization rate, the lower of the fair value
- The higher of the estimated vacancy rate, the lower of the fair value
- The higher of the monthly rental, the higher of the fair value

(b) Critical judgments in applying the Company's accounting policies

(i) Control over the hospitals with which the Group has management contracts

The Group entered into agreements with hospitals which Group obtain contractual rights to provide management services of relevant hospitals for certain periods. The Group is entitled to receive performance-based management fees during the periods.

In making their judgment, the management considered the composition of the internal governance bodies and also certain committees which oversee the operations of those hospitals and power attained by those committee and granted to the Group respectively. After assessment, the management concluded that the Group does not obtain the decision making power over these bodies and committees to direct the relevant activities of the hospitals, so the Group does not control and thus does not consolidate those hospitals. Instead, agreements are considered as management contracts to generate management service income.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(iii) Measurement of investment property at fair value (continued)

(b) Critical judgments in applying the Company's accounting policies (continued)

(ii) Determing of the minimum lease term in lease contract

The Group leased several properties from third parties as operating premises. The lease contracts usually contain break clause, where the Group is allowed to terminate the lease agreement by paying certain amount of penalties to the lessor, usually ranging from one to three months rentals.

The Group determined the minimum non-cancellable terms of lease by considering the following factors:

– the amount of penalties to be paid;

– the balance of leasehold improvements to be written off;

– the availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts;

If any of these factors changes in the futures, the minimum non-cancellable lease term will be revised and accordingly impact the Group's accounting for these operating lease.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

2. Summary of significant accounting policies and accounting estimates (continued)

(29) Change in accounting policies

In 2017, the Ministry of Finance released the 'Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations', revised 'Accounting Standard for Business Enterprises No. 16—Government Grants' and the 'Circular on Amendment to Formats of Financial Statements of General Industry' and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

		Amount of impact	
Content and reason for change in accounting policies	**Impacted financial statement item**	**For the year ended 31 December 2017**	For the year ended 31 December 2016
The Group included the government grants by the year ended 31 December 2017 that related to ordinary course of business in other income (Note 4(39)). The comparative financial statements for the year ended 31 December 2016 is not restated.	Other gains	**9,417,463**	—
	Non-operating income	**(9,417,463)**	—
The Group included the gains/loss from disposal of fixed assets and intangible assets for the year ended 31 December 2017 in assets disposal gains/losses, the comparative financial statements for the year ended 31 December 2016 is adjusted retrospectively.	Losses on disposal of assets	**505,331**	115,556
	Non-operating expenses	**(505,331)**	(115,556)

(30) Change in accounting estimates

For the year ended 31 December 2017, with the accumulated experience gained from practices, the Group has been making continuous efforts in improving and perfecting its management of receivables. The Group made a change in accounting estimate regarding the provision percentage of bad debts arising from receivables (including accounts receivable and other receivables) with the approval from the Board of Directors on 29 Dec 2017, after considering the industry features, the accounting approaches taken by other listed companies within the same industry, and key factors influencing settlement time for accounts receivable, especially the evident lengthened period for medical insurance reimbursement and the expansion of the Group business scale. The above-mentioned change becomes effective for the period ended 30 September 2017 and afterwards, see Note 4(2) and Note 4(3) in the report.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

3. Taxation

The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax rate	Tax base
Corporate income tax	25%	Taxable profit
Value-added tax (a)	3%,5% or 6%	Taxable turnover amount
Business tax (b)	5%	Taxable turnover amount
City maintenance and construction tax	7%	The amount of turnover tax actually paid
Educational surcharge	3%	The amount of turnover tax actually paid
Local educational surcharge	2%	The amount of turnover tax actually paid
Property tax	1.2% or12%	The 70% of the original value of the property or the rental income
Land use tax(c)	5 per square metre	The square of the land
Land value-added tax	30%-60%	The amount of value-added

(a) Pursuant to the "*Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax*" (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, since 1 May 2016, the revenue from providing medical service of the Company and its subsidariy, Qingtian Kangning Hospital Co., Ltd ('Qingtian Kangning Hospital'), Cangnan Kangning Hospital Co., Ltd (Cangnan Kangning Hospital),Yongjia Kangning Hospital Co., Ltd (Yongjia Kangning Hospital), Yueqing Kangning Hospital Co., Ltd (Yueqing Kangning Hospital), Linhai Kangning Hospital Co., Ltd (Linhai Kangning Hospital) and Wenzhou Yining Geriatric Hospital Co., Ltd (Wenzhou Yining Geriatric Hospital) were exempted from value-added tax.

Pursuant to the relevant tax regulations, the revenue of judicial forensic service from the Company's subsidiary, Wenzhou Kangning Judicial Forensic Center(Judicial Forensic Center) was subject to value-added tax with a tax rate of 3%.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

3. Taxation (continued)

Pursuant to the relevant tax regulations, since 1 May 2016, the rental income of the Company's subsidiary, Wenzhou Guoda Investment, arising from the rental of the properties purchased before 30 April 2016 was subject to the simple value-added tax calculation method with the rate of 5%, the sales of the properties built before 30 April 2016 was subject to the simple value-added tax rate of 5%. The advance proceeds from the sales of real estate is subject to the advance tax rate of 3% and should be prepaid.

The management service income is subject to 6% rate value-added tax.

(b) Pursuant to the "Provisional Regulations of the People's Republic of China on Business Tax"(the State Council Decree No 540), the income of providing medical service from the Company, Qingtian Kangning Hospital, Cangnan Kangning Hospital,Yongjia Kangning Hopital and Leqing Kanging Hospital were exempted from business tax from 1 January 2013 to 30 April 2016.

(c) Pursuant to the "Notice on Taxation Affairs" (Ping Di Shui Kun Tong[2017]No. 930 and Ping Di Shui Kun Tong[2017]No. 931) issued by Pingyang County Local Tax Bureau Kunyang Branch on 13 April 2017, Pingyang Kangning Hospital Limited Liability Company enjoyed exemption of real-estate tax for 3 years since 1 July 2016.

(d) Pursuant to the "Implementation plan on adjustment of urban land use tax policy in Wenzhou city to promote land intensive use and utilization" issued by Wenzhou Municipal People 's Government Office on 9 May 2016 and the Notice of tax matters(Wen Dishui Tong[2017]No.45068) issued by Wenzhou Local Taxation Bureau Lucheng Tax Branch, the Company enjoyed 100% exemption on urban land use tax for the year ended 2016 and 2017.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2017	31 December 2016
Cash on hand	**466,947**	106,398
Cash at bank	**278,829,862**	496,508,144
Other cash balances	**37,350**	—
	279,334,159	496,614,542

As at 31 December 2017,the term deposits that over three months was HKD50,000,000, equivalent to RMB41,795,500 (31 December 2016: HKD100,000,000, equivalent to RMB89,451,000).

(2) Accounts receivable

	31 December 2017	31 December 2016
Due from related parties(Note8(5) (a))	**2,250,000**	—
Due from third parties	**245,277,585**	151,042,945
Subtotal	**247,527,585**	151,042,945
Less: Provision for bad debts	**(15,348,262)**	(8,104,505)
	232,179,323	142,938,440

According to the Group's terms of business, all bills are payable upon issued.

(a) The aging analysis of accounts receivable based on the billing date is as follows:

	31 December 2017	31 December 2016
Within 1 year	**215,379,873**	137,552,824
1 - 2 years	**29,274,942**	10,835,771
2 - 3 years	**2,441,995**	2,211,065
Over 3 years	**430,775**	443,285
	247,527,585	151,042,945

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(2) Accounts receivable (continued)

(a) The aging analysis of accounts receivable based on the billing date is as follows: (continued)

As at 31 December 2017, there is no accounts receivable overdue and no provision was made against(31 December 2016: RMB128,826,301). The aging analysis of these accounts receivable are set out as follows:

	31 December 2017	31 December 2016
Within 1 year	—	119,860,159
1 - 2 years	—	6,900,829
2 - 3 years	—	2,065,313
	—	128,826,301

(b) Accounts receivable analysed by categories is as follows:

	31 December 2017	31 December 2016
Bills not presented	**20,954,840**	13,164,576
Receivable from govermment medical insurance schemes and other schemes	**71,525,134**	50,687,984
Receivable from patients	**118,758,850**	72,718,747
Receivable from management fee	**23,588,211**	14,471,638
Receivable from real estate sales	**12,700,550**	—
	247,527,585	151,042,945

As stated in Note 2(30), the Group changed the ways to category balances for impairment assessment purpose and ratio for each category to reflect latest business development and align with the industry practice. The change in the accounting estimate resulted an increase in impairment loss of RMB4,894,536 for the year ended 31 December 2017.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(3) Other receivables

	31 December 2017	31 December 2016
Loans to third parties(i)	**16,020,000**	20,935,000
Prepayments(ii)	**16,770,285**	9,565,195
Receivable from related parties (Note8(5) (a))	**3,393,867**	7,842,858
Deposit and guarantee	**6,818,311**	12,164,863
Others	**4,536,898**	5,374,847
	47,539,361	55,882,763
Less: Provision for bad debts	**(4,091,422)**	(1,210,030)
	43,447,939	54,672,733

(i) As at 31 December 2017, the amount that the Company lent to the Pujiang Hospital and Chunan Hospital was RMB8,660,000 and RMB7,360,000 (31 December 2016: RMB7,550,000 and RMB1,560,000) respectively, bearing an interest rate of 7.2% per annum.

(ii) Included in prepayments were mainly the payments to Housing Maintenance Fund and the receivables from Yanjiao Furen Hospital.

As at 31 December 2017, the Housing Maintenance Fund of RMB3,420,200 (31 December 2016: RMB681,265) were paid by Wenzhou Guoda Investment to Wenzhou Ouhai Real Estate Administrative Bureau before obtaining legal title of properties it developed. Such amount was a one-off contribution at a rate of RMB53 per square, which would be recovered from property buyers when the property is sold.

As at 31 December 2017, the Group had an advance payment amounting to RMB8,301,901(2016: RMB2,960,000) to Yanjiao Furen. Such advance will be repaid to the Group by Yanjiao Furen when its cash flow allows as agreed by both parties.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(a) The aging of other receivables are analysed as follows:

	31 December 2017	31 December 2016
Within 1 year	**22,335,964**	39,382,666
1 - 2 years	**19,649,626**	14,816,163
2 - 3 years	**4,722,068**	884,508
Over 3 years	**831,703**	799,426
	47,539,361	55,882,763

As at 31 December 2017, there is no other receivables overdue but not impaired. As at 31 December 2016, except those assessment for impairment, remaining overdue balances were considered as not impaired. Those aged over one year were mainly the loan principal of RMB11,825,000 receivable from Chengdu Yining Hospital(previously known as Chengdu Renyi Hospital), which in 2017 was transferred to investment (Note4(8)).

As stated in Note 2(30), the Group changed the ways to category balances for impairment assessment purpose and ratio for each category to to reflect latest business development and align with the industry practice. The change in the accounting estimate resulted in the increase in asset impairment loss of RMB2,614,349 for the year ended 31 December 2017.

(4) Advances to suppliers

	31 December 2017		31 December 2016	
	Amount	**%**	Amount	%
Within 1 year	**11,089,576**	**100%**	22,267,736	100%
1 - 2 years	**43,100**	**—**	16,251	—
	11,132,676	**100%**	22,283,987	100%

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(5) Inventories

(a) Inventories are summarised by category as follows:

	31 December 2017	31 December 2016
Pharmaceuticals	**11,272,632**	7,564,623
Medical consumables	**2,865,031**	1,740,424
Properties under development	**—**	153,522,647
Properties held for sale (i)	**9,394,806**	—
	23,532,469	162,827,694

As at 31 December 2017 and 31 December 2016, the management assessed and are of view that no provision for the inventories is required.

During the year ended 31 December 2017, the capitalized interest included in the properties held for sale was RMB883,356 (2016: RMB2,424,256 in properties under development).

(i) Properties held for sale

Project Name	Commencing Date	Completion Date	Total budgeted cost	Opening balance	Additions	Transfer to Cost of revenue (Note4(33))	Fixed assets (Note4(10))	Investment property (Note4(9))	Ending balance
Phase II of Business Center in Higher Education Park	November 2012	June 2017	173,507,594	–	195,840,496	(93,079,858)	(27,343,022)	(66,022,810)	9,394,806

As at 31 December 2017, the Group had no properties held for sale pledged.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(5) **Inventories** (continued)

(b) Analysis of book balance movement of inventory for the year is as follows:

	31 December 2016	**Increase**	**Decrease**	**31 December 2017**
Pharmaceuticals	7,564,623	111,153,097	(107,445,088)	**11,272,632**
Medical consumables	1,740,424	28,293,254	(27,168,647)	**2,865,031**
Properties under development	—	195,840,496	(186,445,690)	**9,394,806**
Properties held for sale	153,522,647	42,317,849	(195,840,496)	**—**
	162,827,694	377,604,696	(516,899,921)	**23,532,469**

(6) Current portion of non-current assets

	31 December 2017	31 December 2016
Deposits(i)	**12,688,704**	12,688,704

(i) Included in deposits as of 31 December 2016 and 2017 was a deposit of RMB 12,688,704 to the contractor of the new hospital construction work as the guarantee for fulfillment of obligation of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group's obligation has been discharged, the management are of view that such settlement will be completed in 2018.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(7) Available-for-sale financial assets

	31 December 2017	31 December 2016
Measured at fair value		
– Others(a)	**50,000,000**	50,000,000

(a) On 22 February 2016, the Company entered into a partnership agreement with Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd("Jinpu Jianfu") in relation to the establishment of a limited liability partnership ("LLP") to run an investment fund which focuses on the healthcare industry investments in PRC. As at 31 December 2017, the total asset managed by the investment fund was RMB1,406,000,000. The Company, being a limited partner of the LLP, injected RMB50,000,000 as the subscription to the investment fund, owning 3.56% interest of LLP.

Such financial asset will be accounted for, from 1 January 2018, as a financial asset at fair value through profit and loss under the accounting standard effective on that date.

(8) Long-term equity investment

	31 December 2017	31 December 2016
Associates (a)	**89,683,865**	22,429,070
Less: Provision for impairment of long-term equity investments	**—**	—
	89,683,865	22,429,070

The Group did not have significant restrictions on the realization of long-term equity investments.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(8) **Long-term equity investment** (continued)

(a) Associates

	31 December 2016	Initial investment	Share of net profit/(loss) under equity method	Other equity movement	31 December 2017
Shandong Yining Hospital Co., Ltd ("Shandong Yining")	14,565,336	—	327,116	—	14,892,452
Beijing Yining Hospital (i)	3,890,715	—	(3,699,354)	5,243,377	5,434,738
Hangzhou Anken Information Technology Co., Ltd ("Hangzhou Anken") (ii)	2,096,698	—	(507,449)	6,874,892	8,464,141
Chongqing Hechuan Kangning Hospital Co., Ltd ("Hechuan Kangning") (iii)	1,876,321	10,444,000	(1,208,632)	—	11,111,689
Shanxi Shanda Hospital Management Co., Ltd ("Shanxi Shanda") (iv)	—	25,714,286	(411,166)	—	25,303,120
Heze Yining Hospital Co.,Ltd ("Heze Yining Hospital) (v)	—	7,440,000	(512,757)	—	6,927,243
Chengdu Yining Hospital Co., Ltd("Chengdu Yining") (vi)	—	18,000,000	(449,518)	—	17,550,482
	22,429,070	61,598,286	(6,461,760)	12,118,269	89,683,865

(i) Beijing Yining was set up in August 2015 as an associate of the Group. The capital contribution of RMB14,700,000 by the Group was settled in cash, representing 49% equity. In Janurary 2017, the Company entered into a capital increase agreement with Beijing Yining Hospital, Ningbo Meishan Bonded Port Kuanzhan Investment Management Partnership (Limited Liabilties Partnership) (hereinafter referred to as "Ningbo Meishan Kuanzhan") and Chongqing Jinpu Medical&Health Service Industry Equity Investment Fund Partnership (Limited Liabilties Partnership) (hereinafter referred to as "Chongqing Jinpu"), to inject capital into Beijing Yining with Chongqing Jinpu Fund subscribing additional registered capital RMB15,000,000, accounting for 33.33% of equity interest,at a price of RMB20,000,000. The transaction diluted the Group's equity holding in Beijing Yining from 49% to 32.67%, but the Group retained significant influence on it.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(8) **Long-term equity investment** (continued)

(a) Associates (continued)

(ii) On 14 September 2016 the Company sold 30% equity of Hangzhou Anken to Ningbo Meishan Bonded Port Area Honglan Investment Management Partnership (Limited Liability Partnership) ("Ningbo Meishan Honglan") at a cash consideration of RMB1,500,000. On 20 September 2016, Ningbo Meishan Honglan injected additional investment of RMB5,000,000 in cash to Hangzhou Anken. As a result, the Group's equity interest in Hangzhou Anken was diluted to 35%, and lost control but maintained significant influence on it. Therefore, the Group accounted Hangzhou Anken as an associate.

Subsequently, on 30 November 2017, the Company sold 3.5% of equity of Hangzhou Anken to Ningbo Meishan Honglan at cash consideration of RMB350,000. In addition, RMB30,000,000 was injected by Shanghai Shengzhong Investment Management Partnetship(Limited Liability Partnership and Shanghai Guoyao Equity Mergers and Acquisitions Fund Partnership (Limited Liability Partnership), the Company's interest in it was diluted from 31.5% to 21.48% on 27 December 2017.

(iii) On 12 October 2016, the Group acquired 40% equity interest of Hechuan Kangning. As at 31 December 2017, the Group had paid RMB10,444,000, representing 17.4% of interest.

(iv) The Group acquired 30% equity interest of Shanxi Shanda Hospital Management Co., Ltd at a consideration of RMB25,714,286 on 27 March 2017.

(v) Heze Yining Hospital Co.,Ltd was set up in April 2017, the Group agreed to contribute RMB9,300,000 for its 31% equity interest, of which RMB7,440,000 was contributed as at 31 December 2017, representing 24.8% of interest.

(vi) The Group acquired 41.67% equity interest of Chengdu Yining Hospital at a cash consideration of RMB15,000,000 in September 2017. RMB8,000,000 of the consideration was satisfied by net-off with the amounts the investee due to the Group(Note4(3)). Consequently, in December 2017, the Group entered into a capital increase agreement with Chengdu Yining Hospital, Ningbo Meishan Kuanzhan and Chongqin Jinpu and further injected RMB3,000,000 in Chengdu Yining Hospital, while others agreed to acquire 52% equity interest of Chengdu Yining Hospital from another existing shareholder at a cash consideration of RMB39,000,000. As at 31 December 2017, the capital transfer and increase was not completed and the Group's equity interest in Chengdu Yining remained at 41.67%.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(9) Investment properties

	Properties and land use right
Cost	
31 December 2016	72,191,872
Additon	
Transfered from properties held for sale (i)	66,022,810
Disposal	
Transfered to fixed assets (Note(4) (10))	(9,645,719)
31 December 2017	128,568,963

(i) The transfer from properties held for sale was recognised at fair value on the transferred date, which is approximated to its carrying amount under inventory(Note 4(5) (i)).

As at 31 December 2017, the Group's investment property with amount of RMB62,546,153 was pledged, alongside with a certain fixed asset (Note 4(9)), against the loan of RMB40,000,000 of Zhejiang Kangning Hospital Management Ltd. (a subsidiary of the Group, "Zhejiang Kangning") from Zheshang Bank in May 2015 (Note 4(17)). The maximum amount of debt secured over the property in the contract is RMB106,520,000. The loan period is from 9 May 2017 to 9 May 2018. As at 31 December 2017, the outstanding loan was RMB40,000,000.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(10) Fixed assets

	Bulidings	Medical equitment	Motor vehicles	Electronic and other equitment	Total
Cost					
31 December 2016	81,833,617	41,309,353	3,577,462	23,613,424	150,333,856
Additon					
Purchase	63,543,235	22,131,620	562,020	12,745,268	98,982,143
Transfered from construction in progress	288,751,568	—	—	—	288,751,568
Transfered from properties held for sale	27,343,022	—	—	—	27,343,022
Transfered from Investment properties	9,645,719	—	—	—	9,645,719
Decrease					
Disposal	(927,612)	(279,848)	—	(1,690,282)	(2,897,742)
31 December 2017	470,189,549	63,161,125	4,139,482	34,668,410	572,158,566
Accumulated depreciation					
31 December 2016	17,281,554	20,011,884	1,583,698	13,790,180	52,667,316
Addition					
Charge for the year	5,910,041	7,620,929	551,397	4,551,766	18,634,133
Decrease					
Disposal	(57,424)	(310,041)	—	(1,424,946)	(1,792,411)
31 December 2017	23,134,171	27,322,772	2,135,095	16,917,000	69,509,038
Net book value					
31 December 2017	447,055,378	35,838,353	2,004,387	17,751,410	502,649,528
31 December 2016	64,552,063	21,297,469	1,993,764	9,823,244	97,666,540

The depreciation charged during the year ended 31 December 2017 was RMB18,634,133 (2016: RMB10,854,452) and the amount charged to cost of sales and general and administrative was RMB11,667,335 and RMB6,966,798, respectively (2016: RMB5,973,137 and RMB4,881,315).

As at 31 December 2017, buildings of Wenzhou Guoda Investment with amount of RMB9,645,719, alongside with certain investment property(Note 4(9)), was pledged against the loan of RMB40,000,000. As at 31 December 2016, the Group had no fixed assets pledged.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(10) Fixed assets (continued)

During the year ended 31 December 2017, the cost of fixed assets transferring from construction in progress was RMB288,751,568 (2016: Nil).

(11) Construction in progress

(a) The change of construction in progress

Project name	31 December 2016	Increase in the year ended 31 December 2017	Transfer to fixed assets/long-term prepaid expenses	31 December 2017	Accumulative amount of capitalised borrowings costs	Including: Borrowings costs capitalised in the year ended 31 December 2017	Capitalisation rate
The expansion project of Wenzhou Kangning Hospital	164,228,489	96,708,686	(260,937,175)	–	9,382,803	4,148,491	4.78%
The decoration project of Wenzhou Kangning Hospital	–	2,313,767	–	2,313,767	–	–	–
The decoration project of Wenzhou Yining Geriatric Hospital	668,020	2,999,986	(3,668,006)	–			
The decoration project of Pingyang Kangning Hospital	16,285,626	10,178,767	(26,464,393)	–	–	–	–
The decoration project of Shenzhen Yining Hospital	10,248,479	9,826,420	(19,930,899)	144,000	–	–	–
The decoration project of Quzhou Yining Hospital	4,878,405	3,119,447	(7,997,852)	–	–	–	–
The decoration project of Langfang Yining Hospital Management	–	3,236,627	–	3,236,627	–	–	–
The decoration project of Taizhou Kangning Hospital	–	2,022,773	–	2,022,773	–	–	–
The decoration project of Hangzhou Yining Hospital	458,670	12,382,679	–	12,841,349	–	–	–
Others	1,298,464	3,930,057	(3,496,367)	1,732,154			
	198,066,153	146,719,209	(322,494,692)	22,290,670	9,382,803	4,148,491	4.78%

As at 31 December 2017 and 31 December 2016, the management of the Group considered that there did not exitst the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(12) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Total
Cost				
31 December 2016	23,602,729	3,312,145	112,863,219	139,778,093
Addition (a)	—	1,482,420	32,190,794	33,673,214
31 December 2017	23,602,729	4,794,565	145,054,013	173,451,307
Accumulated amortisation				
31 December 2016	3,336,274	1,830,033	8,746,415	13,912,722
Addition	472,055	725,445	6,498,222	7,695,722
31 December 2017	3,808,329	2,555,478	15,244,637	21,608,444
Net book value				
31 December 2017	19,794,400	2,239,087	129,809,376	151,842,863
31 December 2016	20,266,455	1,482,112	104,116,804	125,865,371

The amortisation charge during the year ended 31 December 2017 was RMB7,695,722(2016: RMB6,270,533) and the amount charges to cost of sales and general and administrative RMB6,855,916 and RMB839,806, respectively (2016: RMB5,551,152 and RMB719,381).

As at 31 December 2017 and 31 December 2016, the Group had no intangible assets pledged.

The amount of the research and development expenditure during the year ended 31 December 2017 was RMB1,573,650 (2016: RMB2,876,911), all charged to the income statement (2016: same).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(12) **Intangible assets** (continued)

(a) The Group entered into an entrustment management agreement with Yiwu Health Center and Yiwu Health and Family Planning Commission in March 2017. The Group agreed to pay RMB30,000,000 as investment to Yiwu Health Center in exchange of the contractual rights to provide management service to Yiwu Health Center. The contract period is from April 2017 to March 2037, during which the Group is entitled to revenue generated from the management services according to the agreement. The contractual rights of management during the service period will be transfer to the government of Yiwu without repayment. The Group recognized the contractual rights of management and charging service fee as intangible assets at an initial cost of RMB30,000,000, which would be amortized using the straight-line method over the agreement period.

As at 31 December 2017 and 2016, the management assessed and are of view that no provision for the contractual right to provide management service is required (Note 2(28) (a)).

(13) Goodwill

	31 December 2016	**Addition**	**Decrease**	**31 December 2017**
Goodwill – Wenzhou Guoda Investment	8,533,389	—	—	**8,533,389**
Less:impairment provision	—	(3,709,832)	—	**(3,709,832)**
	8,533,389	(3,709,832)	—	**4,823,557**

The management has performed the impairment test on 31 December 2017 and recognised an impairment loss of RMB3,709,832. The key assumpitons adopted to determine the recoverable amount of the asset portfolio include mainly rental growth rate and discount rate.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(14) Long-term prepaid expense

	31 December 2016	Addition	Amortization	Disposal(i)	**31 December 2017**
Leasehold improvements	88,125,992	33,743,124	(18,894,239)	(7,214,824)	**95,760,053**
Others	729,800	—	(154,200)	—	**575,600**
	88,855,792	33,743,124	(19,048,439)	(7,214,824)	**96,335,653**

(i) Due to the early termination of certain operating leases of one clinic facility in July 2017, RMB7,214,824 were written off to non-operating expenses consequently (Note 4 (41)).

(15) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	31 December 2017		31 December 2016	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deductible tax losses	58,340,142	14,585,036	58,113,688	14,528,423
Provision for asset impairments	19,413,884	4,853,471	10,190,840	2,547,710
Payroll accrual expenses	3,151,612	787,903	5,115,896	1,278,974
Share-based payment	5,720,813	1,430,203	5,590,960	1,397,740
Amortization of intangible assets	3,534,669	883,667	2,190,144	547,536
Advances received from real estate sales	126,654	31,664	—	—
	90,287,774	22,571,944	81,201,528	20,300,383
Including:				
Expected to be recovered within one year (inclusive)		9,630,231		8,423,811
Expected to be recovered after one year		12,941,713		11,876,572
		22,571,944		20,300,383

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities (continued)

(b) Deferred tax liabilities

	31 December 2017		31 December 2016	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Appreciation of assets revalued	39,765,516	9,941,379	65,681,732	16,420,433
Including:				
Expected to be recovered within one year (inclusive)		554,037		2,351,146
Expected to be recovered after one year		9,387,342		14,069,287
		9,941,379		16,420,433

(c) Deductible temporary differences and deductible losses for which that no deferred tax assets recognised are analysed as follows:

	31 December 2017	31 December 2016
Deductible temporary differences	**831,348**	—
Deductible losses	**1,672,966**	5,914,753
	2,504,314	5,914,753

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(15) **Deferred tax assets and deferred tax liabilities** (continued)

(d) *Deductible losses for which no deferred tax assets are recognized will be expired as follows:*

	31 December 2017	31 December 2016
2021	**11,973**	5,914,753
2022	**1,660,993**	—
	1,672,966	5,914,753

(16) Other non-current assets

	31 December 2017	31 December 2016
Prepaid tax	**300,773**	3,864,010
Prepaid rental	**9,550,288**	14,913,078
Prepayments for construction and fixed assets	**2,267,150**	8,670,165
Prepayments for investment(i)	**7,200,000**	—
	19,318,211	27,447,253

(i) The Group entered into an agreement with Luqiao Minimally Invasive Hospital, Lan Hairong and Xie Huashou (the existing shareholder) on 29 March 2017, tentively agreed to acquire the whole ownership of the hospital at an estimated value of RMB5,200,000, pending on the due dillgence outcome.

The Group entered into an agreement with Zheng Xiangbao and Fu Yaotang on 22 November 2017, planning to acquire 45% equitiy share of Huainan Kangning Hospital Co., Ltd, at a consideration of RMB27,000,000. As at 31 December 2017, the Group prepaid RMB2,000,000 as a deposit.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(17) Provision for assets impairment

	31 December 2016	Addition	Decrease Recovery	Decrease Written-off	31 December 2017
Provision for bad debts	9,314,535	15,395,088	—	(5,269,939)	**19,439,684**
Including: for accounts receivable	8,104,505	12,513,696	—	(5,269,939)	**15,348,262**
for other receivables	1,210,030	2,881,392	—	—	**4,091,422**
Goodwill impairment	—	3,709,832	—	—	**3,709,832**
	9,314,535	19,104,920	—	(5,269,939)	**23,149,516**

(18) Short-term borrowings

	31 December 2017	31 December 2016
Guaranteed borrowings (Note8(4) (h))	**50,000,000**	30,000,000
Pledged borrowings(i)	**40,000,000**	—
	90,000,000	30,000,000

(i) The loan was guaranteed by Wenzhou Guoda, a subsidiary of the Group, along with Guan Weili, Wang Lianyue, the shareholders of the Company. In addition, the loan was secured by the investment property(Note 4(9)) with carrying amount of RMB62,546,153 and fixed assets(Note 4(10)) of RMB9,645,719 owned by Wenzhou Guoda.

As at 31 December 2017, the interest rate of short-term borrowings was 4.35%-6.003% annually (31 December 2016: 4.35%).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(19) Accounts payable

(a) The aging analysis of accounts payable is as follows:

	31 December 2017	31 December 2016
Within 3 months	**42,078,771**	39,665,783
3- 6 months	**7,390,442**	2,933,736
6-12 months	**20,557,648**	223,574
1 - 2 years	**13,579,346**	103,052
2 - 3 years	**27,315**	344,869
Over 3 years	**153,816**	—
	83,787,338	43,271,014

(20) Advances from customers

	31 December 2017	31 December 2016
Advances from real estate buyers	**1,215,741**	66,046,983
Advances from patients	**2,056,546**	3,772,073
Advances from leasees	**4,238,997**	1,328,844
	7,511,284	71,147,900

As at 31 December 2017, there is no advances from customers with aging over one year (31 December 2016: RMB29,299,970).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(21) Employee benefits payable

	31 December 2017	31 December 2016
Short-term employee benefits payable (a)	**19,679,161**	13,537,978
Defined contribution plans payable (b)	**4,035,157**	6,014,372
	23,714,318	19,552,350

(a) Short-term employee benefits payable

	31 December 2016	**Increase**	**Decrease**	**31 December 2017**
Wages and salaries, bonus, allowances and subsidies	13,286,552	141,849,782	(135,953,833)	**19,182,501**
Staff welfare	—	3,430,476	(3,429,876)	**600**
Social security contributions	251,426	5,308,377	(5,064,055)	**495,748**
Including: Medical insurance	210,780	4,720,768	(4,486,736)	**444,812**
Work injury insurance	25,325	216,300	(225,407)	**16,218**
Maternity insurance	15,321	371,309	(351,912)	**34,718**
Housing funds	—	6,853,415	(6,853,103)	**312**
Labour union funds and employee education funds	—	563,544	(563,544)	**—**
	13,537,978	158,005,594	(151,864,411)	**19,679,161**

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(21) Employee benefits payable (continued)

(b) Defined contribution plans

	31 December 2016	**Increase**	**Decrease**	**31 December 2017**
Basic pensions	5,998,514	5,684,454	(7,670,030)	**4,012,938**
Unemployment insurance	15,858	27,951	(21,590)	**22,219**
	6,014,372	5,712,405	(7,691,620)	**4,035,157**

(c) Termination benefits payable

During the year ended at 31 December 2017 and 2016, the Group had no termination benefits incurred for termination of employment contracts.

(22) Taxes payable

	31 December 2017	31 December 2016
Corporate income tax payable	**13,480,775**	27,734,872
Property tax payable	**1,373,863**	605,565
Valued-added tax payable	**1,518,242**	48,208
Land value-added tax payable	**17,937,693**	12,436,229
Others	**601,808**	370,781
	34,912,381	41,195,655

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(23) Other payables

	31 December 2017	31 December 2016
Payables for construction	**57,374,586**	14,573,424
Accrued listing expenses of H share	**—**	1,039,887
Payables to related party (Note 8(5) (b)) (i)	**16,199,172**	—
Advance received from a non-controlling shareholder (Note 8(5) (b)) (ii)	**3,410,000**	3,110,000
Rental payables	**6,058,569**	2,112,614
Borrowings from individual (iii)	**6,000,000**	7,000,000
Guarantee deposits(iv)	**2,318,220**	1,008,870
Deposits for sales of real estate	**2,200,234**	4,467,433
Interest payable	**336,902**	789,686
Others	**5,899,071**	4,820,780
	99,796,754	38,922,694

As at 31 December 2017 and 31 December 2016, The Group had no other significant payables aged over one year except note(ii), (iii), (iv).

(i) It mainly represented the capital investment due to Yiwu Health Center for the contractual rights to provide management service.

(ii) It represented the advances received from a non-controlling shareholder of one of Group's subsidiaries.

(iii) It represented the borrowings of Wenzhou Guoda Investment from its employees. The interest rate is 6.16% per annum.

(iv) It represented the rental guarantee deposits received by Wenzhou Guoda Investment from the tenants.

(24) Current portion of non-current liabilities

	31 December 2017	31 December 2016
Current portion of long-term borrowings (Note 4(25))	**—**	36,700,000
Current portion of long-term payables(Note 4(26))	**22,751,104**	17,480,304
	22,751,104	54,180,304

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(25) Long-term borrowings

	31 December 2017	31 December 2016
Pledged borrowings	—	56,650,190
Guaranteed borrowings (i)	**110,000,000**	130,000,000
	110,000,000	186,650,190
Less: Current portion of long-term borrowings (Note 4(24))		
Pledged borrowings	—	(36,700,000)
	110,000,000	149,950,190

(i) In January 2016, the Company obtained the fixed assets loan credit line of RMB130,000,000 with fixed interest rate of 4.75%. The loan period is from 5 January 2016 to 5 January 2021. As at 31 December 2017, the balance of the loan is RMB110,000,000(31 December 2016:RMB130,000,000), and was guaranteed jointly by Guan Weili, Wang Lianyue and Wang Hongyue, shareholders of the Company(Note8(4) (h)).

As at 31 December 2017, the weighted average interest rate for long-term borrowings was 4.86% (31 December 2016:5.61%).

(26) Long-term payable

	31 December 2017	31 December 2016
Guarantee payable(i)	**12,688,704**	12,688,704
Long-term payable to the contractual right to provide management service(Note4(12) (a))	**96,994,700**	91,530,200
	109,683,404	104,218,904
Less: Current portion of long-term payables	**(22,751,104)**	(17,480,304)
	86,932,300	86,738,600

(i) The amount was provided by the contractor of the new hospital construction to the Group. The amount will be repaid to the contractor after it discharges all its obligations under the contract, including but not limited to full settlement of construction workers' wages and salaries.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(27) Deferred income

	31 December 2016	**Increase**	**Decrease**	**31 December 2017**
Government grants	10,632,800	—	(75,949)	**10,556,851**

Government grants projects	31 December 2016	**Increase of grants amount**	**Amount charged to other operation revenue/ other gains**	**31 December 2017**	**Related to assets/ income**
The expantion project of the inpatient building (i)	10,632,800	—	(75,949)	10,556,851	**Related to assets**

(i) The deferred income related to the assets is the government grant of RMB10,632,800 for the expansion project of the inpatient building of the Company received from Wenzhou Financial Bureau in 2013. The Company credited it into the deferred income when receiving the grant and allocate it over the useful life of the assets to the income statements since the buildings was in use.

The extension project was completed in Septemer 2017, the depreciation and corresponding deferred income amortization recognised for the year ended 31 December 2017 was RMB75,949.

(28) Share capital

	31 December 2016	Increase	**31 December 2017**
Share capital	73,040,000	—	**73,040,000**

	31 December 2015	Increase	31 December 2016
Share capital	73,040,000	—	73,040,000

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(29) Capital surplus

	31 December 2016	Increase	Decrease	31 December 2017
Share premium	760,289,830	—	282,952	**760,572,782**
Other capital surplus				
– Share-based payment(Note 9)	5,590,960	412,805	(282,952)	**5,720,813**
– Others(i)	29,724,071	12,226,520	—	**41,950,591**
	795,604,861	12,639,325	—	**808,244,186**

	31 December 2016	Increase	Decrease	31 December 2017
Share premium	760,289,830	—	—	**760,289,830**
Other capital surplus				
– Share-based payment (Note 9)	3,279,825	2,311,135	—	**5,590,960**
– Others(ii)	33,940,987	—	(4,216,916)	**29,724,071**
	797,510,642	2,311,135	(4,216,916)	**795,604,861**

(i) The increase during the year representated the dilution gain on equity shares in below investees as a result of other investors' injection capital at a premium.

Hangzhou Yining	108,251
Beijing Yining(Note4(8)).	5,243,377
Hangzhou Anken(Note4(8)).	6,874,892
Total	12,226,520

Above dilution gain from the associates is recored in capital reserve under Chinese Accounting Standard, and will be recycled to profit and loss upon disposal of associates entity.

(ii) On 19 August 2016, the Group entered into a capital increment agreement with a subsidiary, Guoda Investment, and its minority shareholder to obtain a further 24% by injection of RMB32,841,600 at a price of RMB3.11 for one share. By the completion of the capital increment above, the registered captial of Guoda Investment changed to RMB21,560,000, and the Group's equity interest in it increased from 51% to 75%. The difference between the consideration paid for this 24% of Guoda's equity interest and the share of carrying amount of net asset acquired, amounting to RMB4,216,916 was debited to reserve.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(30) Surplus reserve

	31 December 2016	Appropriation	Decrease	31 December 2017
Statutory surplus reserve	18,548,942	5,161,070	—	**23,710,012**

	31 December 2016	Appropriation	Decrease	31 December 2017
Statutory surplus reserve	11,343,566	7,205,376	—	**18,548,942**

In accordance with the Company Law of PRC and the Articles of Association of the Company, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the losses or transferred to capital upon approval. The Company appropriate to surplus reserve of RMB5,161,170 for the year ended 31 December 2017(2016: 7,205,376).

(31) Retained earning

	Year ended 31 December 2017	2016
Retained earnings at beginning of year	**121,190,550**	77,824,436
Add: Net profit attributable to shareholders of the parent company	**49,070,774**	68,831,490
Less: Appropriation to statutory surplus reserve	**(5,161,070)**	(7,205,376)
Ordinary share dividends payable	**(18,260,000)**	(18,260,000)
Retained earnings at end of the year	**146,840,254**	121,190,550

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(31) Retained earning (continued)

Pursuant to the shareholders' approval on 14 June 2016, the Company declared a 2015 final cash dividend of RMB18,260,000, being RMB0.25 per share for issued and outstanding shares of 73,040,000. The dividend was paid in July 2016.

Pursuant to the shareholders' approval on 14 June 2017, the Company declared a 2016 final cash dividend of RMB18,260,000, being RMB0.25 per share for issued and outstanding shares of 73,040,000. The dividend was paid in July 2017.

Pursuant to the Board of Directors' approval on 23 March 2018, the Board of Directors proposed a 2017 cash dividend of RMB10,956,000, being RMB0.15 per share for issued and outstanding shares of 73,040,000. The proposed dividend is subject to approval by the Annual General Meeting of shareholders (Note 11).

(32) Revenue and cost of sales

	Year ended 31 December 2017		Year ended 31 December 2016	
	Revenue	**Cost**	Revenue	Cost
Main businesses	**546,561,325**	**354,933,687**	410,447,911	270,663,677
Other businesses	**119,874,203**	**94,398,215**	4,961,058	1,407,587
	666,435,528	**449,331,902**	415,408,969	272,071,264

(a) Revenue and cost of sale from main businesses

	Year ended 31 December 2017		Year ended 31 December 2016	
	Revenue	**Cost**	Revenue	Cost
Pharmaceutical sales	**130,681,392**	**107,405,332**	105,905,729	86,970,397
Treatments and general healthcare services	**389,493,815**	**235,838,816**	285,599,012	174,138,929
Management service fee	**26,386,118**	**11,689,539**	18,943,170	9,554,351
	546,561,325	**354,933,687**	410,447,911	270,663,677

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(32) Revenue and cost of sales (continued)

(b) Revenue and cost of sale from other businesses

	Year ended 31 December 2017		Year ended 31 December 2016	
	Revenue	**Cost**	Revenue	Cost
Real estate sales	**111,196,703**	**93,079,858**	—	—
Rental income	**6,359,631**	**—**	2,006,434	—
Others	**2,317,869**	**1,318,357**	2,954,624	1,407,587
	119,874,203	**94,398,215**	4,961,058	1,407,587

(33) Taxes and surcharges

	Year ended 31 December		
	2017	2016	Basis
Land value-added tax	**6,728,017**	—	Referred to Note3
Property tax	**2,098,736**	818,064	Referred to Note3
City maintenance and construction tax	**443,794**	47,257	Referred to Note3
Educational surcharge	**190,250**	21,463	Referred to Note3
Land use tax	**133,863**	74,303	Referred to Note3
Local educational surcharge	**64,645**	14,308	Referred to Note3
Others	**121,008**	193,933	
	9,780,313	1,169,328	

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(34) Expenses by nature

The cost of sales, selling and distribution expenses, and general and administrative expenses in the income statement are listed as follows by nature:

	Year ended 31 December	
	2017	2016
Employee and welfare benefits	**162,460,177**	119,466,960
Pharmaceutical and medical consumables used	**134,266,394**	106,616,602
Cost of real estate sold	**93,079,857**	—
Depreciation of fixed assets	**18,634,133**	10,854,452
Amortisation of intangible assets	**7,695,722**	6,270,533
Amortisation of long-term prepayment	**19,048,439**	13,960,766
Operating lease expenses	**34,826,630**	26,361,732
Canteen expenditure	**17,401,136**	14,017,525
Consumables	**12,718,189**	7,349,879
Outsourcing expenses	**2,637,244**	6,125,060
Testing fee	**9,975,292**	6,062,076
Consulting expense	**7,274,448**	3,270,980
Auditor's remuneration		
– Audit services	**4,050,000**	1,800,000
– Non - audit services	**68,000**	—
Promotion expenses	**1,752,173**	3,144,314
Travel and transportation expenses	**4,649,589**	3,788,999
Office expenses	**3,908,563**	2,513,651
Share-based payment(Note 9)	**412,805**	2,311,135
Others	**7,979,531**	11,156,381
	542,838,322	345,071,045

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(35) Financial (expenses)/income

	Year ended 31 December	
	2017	2016
Net exchange (loss)/gain	**(14,930,009)**	25,139,523
Interest income	**4,959,972**	5,665,636
Interest expense	**(14,161,353)**	(6,703,046)
Less: capitalised interest	**5,789,949**	6,593,818
The amortization of unrecognized financial expenses(i)	**(5,464,500)**	(5,636,005)
Others	**(456,684)**	(295,353)
	(24,262,625)	24,764,573

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method (Note 4(25)).

(36) Assets impairment losses

	Year ended 31 December	
	2017	2016
Bad debts provision	**15,395,088**	3,902,289
Goodwill impairement losses	**3,709,832**	—
	19,104,920	3,902,289

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(37) Investment losses/(gain)

	Year ended 31 December	
	2017	2016
Share of losses of investees under the equity accounting method (Note4(8))	**6,461,760**	6,201,867
Net gains arising from disposal of long-term equity investments (i)	**(350,000)**	(4,540,715)
	6,111,760	1,661,152

(i) For the year ended 31 December 2017, the investment gains RMB350,000 was generated from the disposal of 3.5% equity interest of Hangzhou Anken (previously known as Hangzhou Honglan).

The gain in 2016 arose from the disposal and deemed disposal of 65% in the same entity by the Group. That transaction resulted the lose of control over Hangzhou Anken.

(38) Losses on disposal of assets

	Year ended 31 December	
	2017	2016
Losses on disposal of fixed assets	**505,331**	115,556

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(39) Other gains

	Year ended 31 December		Revalant to
	2017	2016	assets/income
Subsidy for resident doctors standardized training (i)	**1,020,000**	—	Relavant to income
Private medical institutions award (ii)	**5,398,600**	—	Relavant to income
Individual income tax refund	**2,492,863**	—	Relavant to income
Other	**506,000**	—	Relavant to income
	9,417,463	—	

(i) The Company received the government grant of RMB1,020,000 from Wenzhou Finance Bureau in April 2017, according to the Notes on Payment of General Transfer Subsidy for Health and Family Planning in 2017 issued by Wenzhou Health and Family Planning Commission.

(ii) The Company received the city level subsidy of RMB5,398,600 for private medical institutions award in 2017, according to Notice on the Issuance of Municipal Grant Subsidy Funds for Private Medical Institutions in 2016 (Wen Cai She[2016]No.600), Notice on Municipal Grant Subsidy Funds for Private Medical Institutions in 2017 (Wen Cai She[2017]No.642) issued by Wenzhou Finance Bureau and Wenzhou Health and Family Planning Commission.and Notice on the Issuance of Grant Subsidy Funds for Comprehensive Reform of Private Medical Institutions in 2016 (Yue Cai She [2016]No.454) issued by Yueqing Health Bureau and Yueqing Finance Bureau.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(40) Non-operating income

	Year ended 31 December	
	2017	2016
Government grants	**9,618,421**	8,019,172
Others	**196,179**	548,578
	9,814,600	8,567,750

(41) Non-operating expenses

	Year ended31 December	
	2017	2016
Written-off of long-term prepaid expenses(Note 4(14)	**7,214,824**	—
Donation to charities	**4,165,610**	4,478,538
Medical liability compensation cost	**1,103,637**	—
Others	**717,574**	204,885
	13,201,645	4,683,423

(42) Income tax expenses

	Year ended31 December	
	2017	2016
Current income tax	**30,123,517**	32,874,281
Deferred income tax	**(8,096,600)**	(6,286,776)
	22,026,917	26,587,505

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(42) **Income tax expenses** (continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the statement of comprehensive income to the income tax expenses is listed below:

	Year ended 31 December	
	2017	2016
Profit before tax	**69,862,675**	92,138,499
Income tax expenses calculated at the effect tax rate of 25%	**17,465,669**	23,034,625
Expenses not deductible for tax purposes	**3,741,704**	2,394,514
Adjustment of income tax	**579,395**	(320,322)
Income not subject to tax	**(42,417)**	—
Tax effect of unrecognized tax losses	**415,248**	1,478,688
Tax effect of unrecognized temporary differences	**207,837**	—
Utilization of previous unrecognized tax losses	**(340,519)**	—
Income tax expenses	**22,026,917**	26,587,505

(43) **Earning per share**

(a) Basic earning per share

	Year ended 31 December	
	2017	2016
The profit attributed to the ordinary shareholders of the Company	**49,070,774**	68,831,490
Weighted average number of outstanding ordinary shares of the Company	**73,040,000**	73,040,000
Basic earning per share	**0.67**	0.94

(b) Diluted earning per share

Diluted earning per share is calculated by the profit attributed to the ordinary shareholders of the Company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. The Company did not have any potential dilutive shares throughout the year ended 31 December 2017 and 2016. Accordingly, diluted earning per share is the same as the basic earnings per share.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(44) Supplementary information to the statement of cash flows

(a) Supplementary information to the statement of cash flows

Reconciliation from net profit to cash flows from operating activities

	Year ended 31 December	
	2017	2016
Net profit	**47,835,758**	65,550,994
Add: Asset impairment losses	**19,104,920**	3,902,289
Depreciation of fixed assets	**18,634,133**	10,854,452
Amortisation of intangible assets	**7,695,722**	6,270,533
Amortisation of long-term prepaid expenses	**19,048,439**	13,960,766
Net losses on disposal of fixed assets,intangible assets and other long-term assets	**505,331**	115,556
Written-off of long-term prepaid expenses	**7,214,824**	—
Finance expenses/(income)	**20,058,641**	(12,576,165)
Investment loss	**6,111,760**	1,661,152
Decrease in deferred income	**(75,949)**	(3,651,472)
Increase in deferred tax assets	**(2,271,561)**	(6,286,776)
Decrease in deferred tax liabilities	**(6,479,054)**	—
Decrease/(increase) in inventories	**45,574,109**	(32,553,007)
Share-based payment expense	**412,805**	2,311,135
Increase in operating receivables	**(86,592,974)**	(14,891,174)
(Decrease)/increase in operating payables	**(15,277,985)**	15,198,579
Net cash flows generated from operating activities	**81,498,919**	49,866,862

Significant non-cash transactions in relation to investing and financing activities.

As stated in Note4(8), part of investment in associates during the year were satisfied by net-off with a loan of RMB8,000,000 made to the investee by the Group in prior year.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(44) Supplementary information to the statement of cash flows

(a) Supplementary information to the statement of cash flows (continued)

The net change of the cash

	Year ended 31 December 2017	2016
Cash at end of the year	**237,538,659**	407,163,542
Less: Cash at beginning of the year	**(407,163,542)**	(368,457,171)
Net (decrease)/increase in cash and cash equivalents	**(169,624,883)**	38,706,371

(b) Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand		
Including: Cash	**466,947**	106,397
Cash at bank that can be readily drawn on demand	**237,034,362**	407,057,145
Other cash balances	**37,350**	—
Cash at end of the year	**237,538,659**	407,163,542

(c) Acquisition of subsidiaries

For the year ended 31 December 2017, there is no significant acquisition of subsidiaries.

5. Changes in the consolidation scope

The wholly-owned subsidiaries Yiwu Kangning Hospital Management Limited Liability Company ("Yiwu Kangning Hospital Management") was set up on 22 January 2017 with a registered capital of RMB30,000,000.

Hangzhou Cining Hospital Co., Ltd ("Hangzhou Cining Hospital") was set up on 18 November 2017 with a registered capital of RMB1,000,000.

The paid-in capital of the subsidiaries above-mentioned were stated in Note15(3).

As the transactions stated in Note4(8), the Group's equity interest in Hangzhou Anken was diluted to 35%, and loss control but still maintains significant influence on it. After the transaction, Hangzhou Anken was out of the consolidation scope.

Notes to the Financial Statements
For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities

(1) Interests in subsidiaries

(a) The Group structure

Name of the subsidiaries	Category	Major business location	Place of registration	Nature of business	Shareholding (%) Direct	Shareholding (%) Indirect	Method of acquisition
Qingtian Kangning Hospital	Business entity	Qingtian	Qingtian	Medical service	100%	—	Incorporation
Cangnan Kangning Hospital	Business entity	Cangnan	Cangnan	Medical service	100%	—	Incorporation
Yongjia Kangning Hospital	Business entity	Yongjia	Yongjia	Medical service	100%	—	Incorporation
Nanchang Kangning Hospital	Business entity	Nanchang	Nanchang	Medical service	51%	—	Incorporation
Yueqing Kangning Hospital	Business entity	Leqing	Leqing	Medical service	100%	—	Incorporation
Linhai Kangning Hospital	Business entity	Linhai	Linhai	Medical service	80%	—	Incorporation
Langfang Yingning Hospital Management	Business entity	Langfang	Langfang	Hospital Management	100%	—	Incorporation
Zhejiang Huangfeng	Business entity	Hangzhou	Hangzhou	Hospital Management	51.22%	—	Asset acquisition
Judicial Forensic Center	Business entity	Wenzhou	Wenzhou	Forensic psychiatric identification	100%	—	Incorporation
Shenzhen Yining Medical Investment	Business entity	Shenzhen	Shenzhen	Investment	100%	—	Incorporation
Shenzhen Yining Hospital	Business entity	Shenzhen	Shenzhen	Medical service	—	52%	Incorporation
Sihui Kangning Hospital	Business entity	Sihui	Sihui	Medical service	—	51%	Incorporation
Zhejiang Kangning	Business entity	Ningbo	Ningbo	Hospital Management	100%	—	Incorporation
Hangzhou Yining Hospital	Business entity	Hangzhou	Hangzhou	Medical service	—	60%	Incorporation
Quzhou Yining Hospital	Business entity	Quzhou	Quzhou	Medical service	—	60%	Incorporation
Wenzhou Yining Geriatric Hospital	Business entity	Wenzhou	Wenzhou	Medical service	—	100%	Incorporation
Pingyang Kangning Hospital	Business entity	Pingyang	Pingyang	Medical service	—	100%	Incorporation
Taizhou Kangning Hospital	Business entity	Taizhou	Taizhou	Medical service	—	51%	Business combinations involving enterprises not under common control
Wenzhou Guoda Investment	Business entity	Wenzhou	Wenzhou	Real estate	—	75%	Business combinations involving enterprises not under common control
Luqiao Yining Hospital	Business entity	Taizhou	Taizhou	Medical service	—	51%	Incorporation
Yiwu Kangning Hospital Management	Business entity	Yiwu	Yiwu	Hospital Management	—	100%	Incorporation
Hangzhou Cining Hospital	Business entity	Hangzhou	Hangzhou	Medical service	—	100%	Incorporation

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(1) **Interests in subsidiaries** (continued)

(b) Subsidiaries with significant non-controlling interests

Subsidiaries	Shareholding % of non-controlling shareholders	Net profit or loss attributable to non-controlling shareholders for year ended 31 December 2017	Dividends paid to non-controlling shareholders for year ended 31 December 2017	Non-controlling interests as at 31 December 2017
Zhejiang Huangfeng	48.78%	777,808	—	13,777,235
Wenzhou Guoda Investment	25%	2,240,506	—	14,610,786
Hangzhou Yining	40%	(2,047,129)	—	13,844,620
		971,185	—	42,232,641

The summarised financial information of the above subsidiaries of the Group is listed below:

	31 December 2017					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Zhejiang Huangfeng	22,595,017	21,140,780	43,735,797	663,571	—	663,571
Wenzhou Guoda Investment	32,137,461	165,950,590	198,088,051	77,795,170	9,941,379	87,736,549
Hangzhou Yining	19,808,940	16,915,496	36,724,436	2,112,883	—	2,112,883
	74,541,418	204,006,866	278,548,284	80,571,624	9,941,379	90,513,003

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

(b) Subsidiaries with significant non-controlling interests (continued)

	Year ended 31 December 2017			
	Revenue	**Net Profit/(loss)**	**Total comprehensive income**	**Cash flows from operating activities**
Zhejiang Huangfeng	4,556,828	1,594,522	1,594,522	(128,469)
Wenzhou Guoda Investment	117,517,585	8,962,025	8,962,025	13,394,994
Hangzhou Yining	—	(5,117,823)	(5,117,823)	(2,538,344)
	122,074,413	5,438,724	5,438,724	10,728,181

	31 December 2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Zhejiang Huangfeng	22,193,811	—	22,193,811	1,063,054	—	1,063,054
Wenzhou Guoda Investment	164,833,734	80,085,130	244,918,864	158,413,104	36,370,623	194,783,727
	187,027,545	80,085,130	267,112,675	159,476,158	36,370,623	195,846,781

	Year ended 31 December 2016			
	Revenue	Net loss	Total comprehensive income	Cash flows from operating activities
Zhejiang Huangfeng	4,393,630	2,604,092	2,604,092	(239,119)
Wenzhou Guoda Investment	2,006,434	(273,151)	(273,151)	14,740,903
	6,400,064	2,330,941	2,330,941	14,501,784

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(2) Interests in associates

(a) Summarised information of significant associates

	Principal Place of Business	Registry Place	Bustiness Nature	Is it Strategic to Group Business	Shareholding ratio Direct	Shareholding ratio Indirect
Chengdu Yining	Chengdu	Chengdu	Medical Service	No	—	41.67%
Shanxi Shanda	Xi'an	Xi'an	Hospital management	No	—	30%

The Group adopted the equity model as accounting method for the equity investments above.

(b) Financial information of significant associates

	Year ended 31 December 2017 Chengdu Yining	Year ended 31 December 2017 Shanxi Shanda
Current assets	836,087	17,178,188
Non-current assets	62,618,069	70,471,565
Total assets	63,454,156	87,649,753
Current liabilities	32,525,348	3,883,073
Non-current liabilities	8,307,000	14,403,900
Total liabilities	40,832,348	18,286,973
Non-controlling interests	—	—
Equtiy attributable to shareholders of company	22,621,808	69,362,780
Net asset proportion calculated by shareholding ratio(i)	9,426,507	20,808,834
Adjustment		
– Goodwill	5,024,000	4,494,286
– Advance payment to investee(ii)	3,000,000	—
– Other	99,975	—
The Carrying amount of equity investment in the associates	17,550,482	25,303,120
Revenue	153,047	8,904,463
Net Profit and total comprehensive income	(7,801,832)	1,743,413

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(2) Interests in associates (continued)

(b) Financial information of significant associates (continued)

(i) The Group calculated asset proportion by shareholding ratio based on the amount attributable to the parent in the associates's consolidated financial statements. The amounts on the associate's consodidated financial statement take into account adjustments on the fair value of identifiable assets and liabilities when obtaining the investment and the effects of the uniform accounting policies into consideration.

(ii) Pursuant to the capital increase agreement with Chengdu Yining Hospital, Ningbo Meishan Kuanzhan and Chongqin Jinpu, the Group injected RMB3,000,000 in advance to Chengdu Yining Hospital(Note 4(8) (vi)).

(c) Summarised information of insignificant associates

The name of the associates of the Company were stated as in Note4(8) and there were non significant associates in the Group.

	Year ended 31 December	
	2017	2016
Aggregated carrying amount of investments	**46,830,263**	22,429,070
Aggregated of the following items in proportion:		
Net loss (i)	**(5,251,077)**	(6,201,867)
Total comprehensive income	**(5,251,077)**	(6,201,867)

(i) Net profits or losses have taken into the account the adjustment of the fair value of the identifying assets and liabilities at the time of acquisition and the accounting policy.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

7. Segment information

The reportable segments of the Group are the business units that provide different services. Different businesses require different technologies and marketing strategies. The Group, therefore, independently manages the productions and operations of reportable segments and evaluates their operating results, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group has two operating segments:

– Healthcare service, specialised in providing healthcare and related service; and

– Property investment and development, specialised in providing the property development, leasing and rental service.

There is no inter-segment sales during the year.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Indirect income attributed to each segment are allocated based on the revenue ratio of the segment.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

7. Segment information (continued)

(a) The segment information for the year ended 31 December 2017 is as bellow:

	Healthcare and related service	Property investment and development	Total
Revenue from external customers	548,917,943	117,517,585	666,435,528
Cost of revenue	(356,252,044)	(93,079,858)	(449,331,902)
Interest income	4,932,579	27,393	4,959,972
Interest expenses	(7,019,586)	(1,351,818)	(8,371,404)
Investing profit in associates	(6,111,760)	—	(6,111,760)
Impairment of assets	(14,382,577)	(4,722,343)	(19,104,920)
Depreciation and amortisation	(45,276,381)	(101,913)	(45,378,294)
Profit before income tax	61,603,648	8,259,027	69,862,675
Income tax expense	(19,020,083)	(3,006,834)	(22,026,917)
Net profit	42,583,565	5,252,193	47,835,758
Total assets	1,496,022,305	194,378,219	1,690,400,524
Total liabilities	(492,167,160)	(87,736,549)	(579,903,709)
Other non-cash charges except Depreciation and amortisation	(412,805)	—	(412,805)
Investment in associates	89,683,865	—	89,683,865
Additions of non-current assets (i)	221,512,998	85,690,077	307,203,075

(i) The amount exclude the financial assets, long-term equity investment and deferred tax assets.

(b) The Group did not have the revenue generated from other countries or regions.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions

(1) General information of the Company

The Company doesn't not have a parent company. In the reporting period, the equity of the Company held by Guan Weili and his spouse Wang Lianyue were over 30%, therefore they were regarded as actual controlling persons.

(2) The information of the subsidiaries

The basic information of the subsidiaries was stated as in Note 6(1).

(3) The information of other related party

The related parties of the compay except those disclosed in other place of the financial statement are as follows:

	Relationship
Wenzhou Sunshine Shelter Center	Not-for-profit organisation established by the Company
Pingyang Sunshine Shelter Center	Not-for-profit organisation established by the Company
Cangnan Sunshine Shelter Center	Not-for-profit organisation established by the Company
Yongjia Sunshine Shelter Center	Not-for-profit organisation established by the Company
Qingtian Sunshine Shelter Center	Not-for-profit organisation established by the Company
Wenzhou Kangning Medical Health Institute	Not-for-profit organisation established by the Company
Hangzhou Yuhang Yining Disabled Care Center	Not-for-profit organisation established by the Company
Yiwu Mental Health Center	Not-for profit organisation invested and council members nominated by the Company
Chen Xianfa	Non-controlling shareholders of subsidiaries
Qu Kaisheng	Non-controlling shareholders of subsidiaries
Other individuals	Including: the directors, supervisors and their close relatives

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(4) Related party transactions

(a) Pricing policies

The price of providing service or rental payment to the related party is determined based on the negotiation.

(b) Revenue from providing services

	Year ended 31 December	
	2017	2016
Yiwu Mental Health Center	**2,250,000**	—
Beijing Yining Hospital	—	1,700,000
Other individuals	**222,485**	110,466
	2,472,485	1,810,466

(c) Rental expenses

	Year ended 31 December	
	2017	2016
Other individuals	**28,800**	28,800

(d) Payments on behalf of related parties

	Year ended 31 December	
	2017	2016
Hangzhou Anken	**1,652,193**	504,907
Non-for-profit organisation established by the Company	**2,666,365**	707,271
Beijing Yining Hospital	**506,213**	9,715,306
Yiwu Mental Heaith Center	**1,701,300**	—
Chengdu Yining Hospital	**35,438**	—
Chongqing Hechuan Kangning Hospital Co., ltd	**66,958**	—
Shandong Yining Hospital	—	1,800,000
	6,628,467	12,727,484

Notes to the Financial Statements
For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(4) **Related party transactions** (continued)

(e) Payments by the related parties on behalf of the Group

	Year ended 31 December	
	2017	2016
Chen Xianfa	**300,000**	—
Qu Kaisheng	**864,945**	—
	1,164,945	—

(f) Payments for related parties on organization costs

	Year ended 31 December	
	2017	2016
Hangzhou Yuhang Yining Disabled Care Center	**100,000**	—

(g) Key management compensation

	Year ended 31 December	
	2017	2016
Salaries and bonus	**4,128,977**	3,725,719
Share-based payment expense	**412,805**	854,486
	4,541,782	4,580,205

(h) Accepting the guarantee

	Year ended 31 December	
	2017	2016
Guan Weili\Wang Lianyue\Wang Hongyue	**252,000,000**	252,000,000
Guan Weili\Wang Lianyue	**44,000,000**	—
	296,000,000	252,000,000

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(5) Balances with related parties

(a) Receivables

	31 December 2017		31 December 2016	
	Balances	Provision for bad debts	Balances	Provision for bad debts
Accounts receivable				
Yiwu Mental Health Center	2,250,000	(112,500)	—	—
Other receivables				
Beijing Yining Hospital	—	—	6,306,892	—
Chengdu Yining Hospital(i)	955,686	(83,315)	—	—
Not-for-profit organisations established by the Group	2,438,181	(98,458)	1,535,966	—
	3,393,867	(181,773)	7,842,858	—

(i) Chengdu Yining Hospital became an associate of the Group since September 2017 (Note 4(8) (vi).

(b) Other Payables

	31 December 2017	31 December 2016
Hangzhou Anken	34,227	—
Chen Xianfa	300,000	—
Qu Kaisheng	4,274,945	3,110,000
Yiwu Mental Heaith Center	15,000,000	—
	19,609,172	3,110,000

The balance of the accounts were free of interest, unsecured and did not have fixed repayment term.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(6) Key management compensation

(a) Emoluments of the directors, supervisor and senior management of the Company

As for 2017, The compensation paid to key management for employee services is shown below.

Name	Fees	Salaries	Contributions to pension plans	Bonus	Other staff welfare expenses	Total
Executive directors						
Guan Weili	—	396,435	21,722	69,416	33,530	521,103
Wang Lianyue	—	324,435	21,722	69,416	33,530	449,103
Wang Hongyue	—	181,635	21,722	69,416	29,210	301,983
Non- Executive directors						
Lin Lijun	—	—	—	—	—	—
Yang Yang	—	—	—	—	—	—
Independent directors						
Ge Chuangji	70,000	—	—	—	—	70,000
Zhuang Yiqiang	70,000	—	—	—	—	70,000
Huang Zhi	70,000	—	—	—	—	70,000
Supervisiors						
Sun Fangjun	—	120,435	—	69,013	—	189,448
Xie Tiefan	—	47,829	9,408	52,067	10,566	119,870
Huang Jing'ou	—	—	—	—	—	—
Qian Chengliang	—	—	—	—	—	—
Ma Jinlong	—	—	—	—	—	—
Total	210,000	1,070,769	74,574	329,328	106,836	1,791,507

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(6) Key management compensation

(a) Emoluments of the directors, supervisor and senior management of the Company (continued)

As for 2016, The compensation paid to key management for employee services is shown below.

Name	Fees	Salaries	Contributions to pension plans	Bonus	Other staff welfare expenses	Total
Executive directors						
Guan Weili	—	356,000	19,652	65,399	33,905	474,956
Wang Lianyue	—	289,000	19,652	65,399	33,905	407,956
Wang Hongyue	—	156,200	19,652	65,399	26,705	267,956
Non- Executive directors						
Lin Lijun	—	—	—	—	—	—
He Xin	—	—	—	—	—	—
Independent directors						
Wong Raymond Fook Lam	35,000	—	—	—	—	35,000
Ge Chuangji	35,000	—	—	—	—	35,000
Zhuang Yiqiang	70,000	—	—	—	—	70,000
Huang Zhi	70,000	—	—	—	—	70,000
Supervisors						
Sun Fangjun	—	48,000	—	31,490	—	79,490
Xie Tiefan	—	19,302	3,654	24,640	7,174	54,770
Huang Jing'ou	—	—	—	—	—	—
Total	210,000	868,502	62,610	252,327	101,689	1,495,128

Other welfare except listed was mainly Share-based payment expense.

In June 2017, Miss He Xin was replaced by Mr.Lin Lijun.

In addition, the Company newly appoint two independent Supervisors: Mr. Qian Chengliang and Mr. Ma Jinlong with term of three years.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(7) The five individuals whose emoluments were the highest in the Group for the year included one (2016: two) directors whose emouluments were reflected in the analysis shown in Note 8(6). The emoluments payable to the remaining four (2016: three) individuals during the year are as follows:

	Year ended 31 December	
	2017	2016
Salaries, bonus and other allowance	**2,309,187**	1,394,865
Contributions to pension plans	**40,664**	96,337
	2,349,851	1,491,202

The emoluments fell within the following bands

	Year ended 31 Decembert	
	2017	2016
Range:		
RMB0 – 500,000	**—**	1
RMB500,000 – 1,000,000	**4**	2

9. Share-based payment

Following the shareholders'approval on 21 July 2014, the Company has adopted an employee share incentive plan (the "Restricted Shares Scheme").

The main terms of the Restricted Shares Scheme are set out below:

(1) Instruments granted under the Scheme: To furnish the Restricted Shares Scheme, three limited liability partnerships ("LLP") were established, namely Ningbo Renai Kangning Investment Management Partnership(Limited Partnership) ("Renai Kangning"), Ningbo Enci Kangning Investment Management Partnership (Limited Partnership) ("Enci Kangning") and Ningbo Xinshi Kangning Investment Management Partnership (Limited Partnership) ("Xinshi Kangning"). The general partner of Renai Kangning and Enci Kangning is Ms. Wang Biyu (the relative of the actual controlling persons and the employee of the Company); the general partner of Xinshi Kangning is Ms. Wang Hongyue. The qualified employees participating the Restricted Shares Scheme contributed the capital at the grant price and become the limited partner of the LLP. After the establishment of the LLPs mentioned above, the original shareholder of the Company, Guan Weili and Wang Hongyue, transferred their share capital of RMB1,120,959 (4% of the equity of the Company) to the above three LLPs at price of RMB18.684 per share.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

9. Share-based payment (continued)

(2) Vesting period: since the day becoming the partners of the LLP, those participating employees who will contributed the capital over RMB150,000 committed to serve the Company for 36 months while those contributed below RMB150,000 for 12 months from the date the Company was listed in a stock exchange. They would not resign during this period.

(3) If any employee resign before the end of the selling restricted period set by CSRC after the shares of the Company listed in the stock exchange, the following rules will be applied:

(i) The employees with 12 month vesting period resigning before the expiration of the selling restricted period do not have to withdraw from the LLP but their equity is freezed. After the expiration of the selling restricted period, the general partner or the third party designated by the general partner acquire their equity shares.

(ii) The employees with 36 month vesting period resigning within 12 months after listing, the same rule as above will be applied. If resigning between 12 month and 36 month, the general partner or the third party designated by the general partner acquire the equity share. The purchase price is set at 60% of the average stock price of 20 transaction days preceding the day approval for the resignation.

The Group does not have any repurchase arrangement or commitment with the LLPs or the employees.

The above transaction was considered as equity-settled share-based payment to employees. The fair value of the Company's shares granted to employees on grant date, 21 July 2014, as determined by a professional valuation firm, was RMB5,869,000.

Share-based payment expense of RMB412,805 was recognized for the year ended 31 December 2017(2016: RMB2,311,135).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

10. Commitments

(1) Capital commitments

Capital expenditures contracted for by The Group at the balance sheet date but are not yet necessary to be recognised on the statement of financial position are as follows:

	31December 2017	31December 2016
Buildings, machinery and equipments	**81,578,700**	153,326,228
Intangible assets	**654,970**	—
	82,233,670	153,326,228

(2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	31December 2017	31December 2016
Within 1 year	**24,701,992**	27,197,148
1 to 2 years	**30,390,094**	23,537,604
2 to 3 years	**29,861,213**	21,793,250
Over 3 years	**249,229,427**	116,902,176
	334,182,726	189,430,178

(3) External investment commitments

According to the agreement signed by the Group with Zheng Xiangbao and Fu Yaotang on 22 November 2017, the Group commited to acquire 45% equitiy share of Huainan Kangning at a consideration of RMB27,000,000. As at 31 December 2017, the Group has outstanding commitment of RMB25,000,000, with RMB2,000,000 prepaid as a deposit (Note 4(16) (i)).

As at 31 December 2016, the Group has no external investment commitments outstanding.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

11. Events after the balance sheet date

On 23 March 2018, the Board proposed a final dividend of RMB10,956,000 (RMB0.15 per share) for the year ended 31 December 2017 which was calculated based on 73,040,000 issued shares as at 31 December 2017. The proposed dividend was not reflected as a dividend payable in the consolidated financial statements as at 31 December 2017, as the proposed dividend is subject to approval by Annual General Meeting of Shareholders (Note 4(31)).

12. Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB.The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

As at 31 December 2017 and 31 December 2016, the foreign currency financial assets hold by the Group was analysed below(presented in RMB):

	31 December 2017		
	HKD	**USD**	**Total**
Financial assets denominated in foreign currency -			
Cash at bank and on hand	**142,173,662**	**14,995,675**	**157,169,337**

	31 December 2016		
	HKD	USD	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	275,233,096	17,222,504	292,455,600

As at 31 December 2017, had RMB strengthened/weakened by 3% against the HKD while all other variables had been held constant, the Group's profit after tax for the year would have been approximately RMB3,198,907(31 December 2016: RMB6,193,000) lower/higher for various financial assets and liabilities denominated in HKD.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk

(1) **Market risk** (continued)

(a) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings from banks. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2017, The Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates, amounting to RMB110,000,000 (31 December 2016: RMB149,950,190).

The Group continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowings and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions.

As at 31 December 2017, if the long-term borrowing rate calculated by floating interest rate increased or decreased by 50 basis points while all other variables held constant, the net profit of the Group would decrease or increase by RMB14,328 for the year. (2016: RMB71,667).

(2) **Credit risk**

Credit risk is managed on the portfolio basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables and long-term receivables, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management expects that there will be low risk of significant losses from non-performance by these counterparties.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk

(2) **Credit risk** (continued)

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors portfolio, as majority patients will claim their medical bills from governments' social insurance schemes. Certain patients' costs will be reimbursed by other government bodies. The reimbursement from these organisations may take one to six months or not fully reimbursed. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billings and claim status to minimum the credit risk. For those balance not covered by social insurance scheme, the management assessed the collectability based on historical patterns and data. Based on the Group's assessment on the collectability of trade receivables, impairment provision of approximately RMB8,104,505 was provided as at 31 December 2016 (Note4(2) (b)).

Other receivables include the guarantee and deposit of the lease contract, employees deposit, prepayment for the employees social insurance, the loan to third party and receivables from the related-party. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.after considering their credit status and the guarantees they provided.

Long-term receivables is the depoist of payment to project contractors and the directors of the Company believe that there is no material credit risk

(3) **Liquidity risk**

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarter. The Group's finance department at its headquarter monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and cash equivalent to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowings facilities from major financial institutions so that The Group does not breach borrowings limits or covenants on any of its borrowings facilities to meet the short-term and long-term liquidity requirements.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk

(3) **Liquidity risk** (continued)

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2017				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Accounts payable	**83,787,338**	**—**	**—**	**—**	**83,787,338**
Other payables	**99,796,754**	**—**	**—**	**—**	**99,796,754**
Long-term payables	**22,751,104**	**5,797,800**	**21,109,900**	**60,024,600**	**109,683,404**
Bank borrowings	**96,419,260**	**5,225,000**	**5,239,315**	**110,071,575**	**216,955,150**
	302,754,456	**11,022,800**	**26,349,215**	**170,096,175**	**510,222,646**

	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Accounts payable	43,271,014	—	—	—	43,271,014
Other payables	38,922,694	—	—	—	38,922,694
Long-term payables	17,480,304	5,270,800	19,190,800	62,277,000	104,218,904
Bank borrowings	75,513,491	27,256,120	142,451,507	—	245,221,118
	175,187,503	32,526,920	161,642,307	62,277,000	431,633,730

Bank and other borrowings are analysed by repayment terms as follows:

	31 December 2017		31 December 2016	
	Bank borrowings	**Other borrowings**	Bank borrowings	Other borrowings
Within 1 year	**90,000,000**	**60,000,000**	66,700,000	70,000,000
1 - 2 years	**—**	**—**	19,950,190	—
2 - 5 years	**—**	**—**	130,000,000	—
Over 5 years	**110,000,000**	**—**	—	—
	200,000,000	**60,000,000**	216,650,190	70,000,000

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

13. Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Assets and liabilities measured at fair value on a recurring basis

As at 31 December 2017 and 31 December 2016, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

		31December2017		
	Level1	**Level2**	**Level3**	**Total**
Financial assets -				
Available-for-sale financial assets	—	—	**50,000,000**	**50,000,000**
Non-financial assets				
Investment properties	—	—	**128,568,963**	**128,568,963**
Total assets	—	—	**178,568,963**	**178,568,963**

		31December2016		
	Level1	Level2	Level3	Total
Financial assets -				
Available-for-sale financial assets	—	—	50,000,000	50,000,000
Non-financial assets				
Investment properties	—	—	72,191,872	72,191,872
Total assets	—	—	122,191,872	122,191,872

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

13. Fair value estimates (Continued)

(1) Assets and liabilities measured at fair value on a recurring basis (continued)

The Group engaged Wenzhou Huaxin Assets Valuation Co.,Ltd to determine the fair value of the investment properties and the method of valuation adopted is the income based method. The input value adopted were the growth rate of rental, the return on rental and vacancy rate. Refer to Note 2(28) (a) (iv) for details.

The financial department of the Group is responsible for determining the fair value of the financial assets and liabilities. The financial department of the Group verified and accounted the assesement result mentioned above and prepared the disclosure information relating to the fair value based on the verified value assesement result.

(2) Assets and liabilities not measured at fair value but disclosed

The financial assets and liabilities that measured at amortized cost of the Group include: receivables, payables, long-term payables and borrowings.

The diffirence between the carrying amount of such financial assets and liabilities and their fair value is not material.

14. Capital management

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

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

The Group's total capital is calculated as 'owners' equity' as shown in the consolidated statement of financial position. The Group is not subject to external mandatory capital requirements.

As at 31 December 2017 and 31 December 2016, the Group's gearing ratio is as follows:

	31 December 2017	31 December 2016
Gearing ratio	**34.31%**	35.05%

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements

(1) Accounts receivable

	31 December 2017	31 December 2016
Due from the third parties	**98,105,432**	87,584,278
Less: Provision for bad debts	**(5,811,088)**	(5,225,147)
	92,294,344	82,359,131

According to the Group's terms of business, all bills are payable upon issued.

(a) *The ageing analysis of accounts receivable is as follows:*

	31 December 2017	31 December 2016
Within 1 year	**85,480,286**	82,708,619
1 - 2 years	**12,013,228**	4,057,880
2 - 3 years	**552,334**	817,779
Over 3 years	**59,584**	—
	98,105,432	87,584,278

As at 31 December 2017, there is no accounts receivable overdue but no provision was made against(31 December 2016: RMB70,435,713). The aging analysis of these accounts receivable are set out as follows:

	31 December 2017	31 December 2016
Within 1 year	**—**	70,435,713

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(1) **Accounts receivable** (continued)

(b) Accounts receivable are analysed by categories as follows:

	31 December 2017	31 December 2016
Bills not presented	**7,469,876**	10,567,765
Receivable from govermment medical insurance schemes and other schemes	**24,270,837**	29,186,394
Receivable from patients	**50,813,994**	37,752,111
Receivable from management fee	**15,550,725**	10,078,008
	98,105,432	87,584,278

As stated in Note 2(30), the Group changed the the ways to category balances for impairment assessment purpose and ratio for each category to reflect latest business development and align with the industry practice. The change in the accounting estimate resulted a decrease in impairment loss of RMB1,586,987 for the year ended 31 December 2017.

(2) **Other receivables**

	31 December 2017	31 December 2016
Receivable from related parties(Note8(5) (a))	**430,644,831**	242,839,985
Loans to third parties	**—**	11,825,000
Prepayments	**11,462,532**	8,543,379
Deposit and guarantee	**845,243**	1,463,843
Others	**245,216**	188,934
	443,197,822	264,861,141
Less: Provision for bad debts	**(2,289,783)**	(1,210,030)
	440,908,039	263,651,111

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(2) Other receivables (continued)

(a) *The aging of other receivables are analysed as follows:*

	31 December 2017	31 December 2016
Within 1 year	**318,260,709**	217,412,037
1 - 2 years	**122,421,002**	33,513,442
2 - 3 years	**2,220,068**	13,935,662
Over 3 years	**296,043**	—
	443,197,822	264,861,141

As at 31 December 2017, there is no other receivables overdue but not impaired. As at 31 December 2016, except those assessment for impairment, remaining overdue balances were considered as not impaired. Those aged over one year were mainly the loan principal of RMB11,825,000 receivable from Chengdu Yining Hospital(previously known as Chengdu Renyi Hospital), which in 2017 was transferred to investment(Note4(8)).

As stated in Note2(30), the Group changed the ways to category balances for impairment assessment purpose and ratio for each category to reflect latest business development and align with the industry practice. The change in the accounting estimate resulted in the increase in asset impairment loss of RMB812,710 for the year ended 31 December 2017.

(3) Long-term equity investment

	31 December 2017	31 December 2016
Subsidiaries(a)	**102,972,928**	100,782,135
Associates (b)	**21,767,344**	15,072,785
	124,740,272	115,854,920

The Group did not have significant restrictions on the realization of long-term equity investments.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(3) Long-term equity investment (continued)

(a) Subsidiaries

	31 December 2016	The change in the year ended 31 December: Increase	Decrease	Accrual for provision for impairment	Others	**31 December 2017**	Provision for impairment	Cash dividends declared in the current year
Qingtian Kangning Hospital	1,000,000	—	—	—	—	**1,000,000**	—	—
Yongjia Kangning Hospital	1,000,000	—	—	—	—	**1,000,000**	—	8,000,000
Cangnan Kangning Hospital	1,000,000	—	—	—	—	**1,000,000**	—	10,000,000
Yueqing Kangning Hospital	1,000,000	—	—	—	—	**1,000,000**	—	—
Judicial Forensic Center	500,000	—	—	—	—	**500,000**	—	—
Shenzhen Yining Medical Investment Co.,ltd	10,000,000	—	—	—	—	**10,000,000**	—	—
Linhai Kangning Hospital	1,600,000	—	—	—	—	**1,600,000**	—	—
Langfang Yining Hospital Management Co.,ltd	10,000,000	—	—	—	—	**10,000,000**	—	—
Zhejiang Huangfeng Co.,ltd	24,682,135	2,190,793	—	—	—	**26,872,928**	—	—
Zhejiang Kangning	50,000,000	—	—	—	—	**50,000,000**	—	—
	100,782,135	2,190,793	—	—	—	**102,972,928**	—	18,000,000

* As at 31 December 2017, the amount of investment that the Company has not paid to Zhejiang Huangfeng Co., ltd was RMB637,135.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(3) **Long-term equity investment** (continued)

(a) Subsidiaries (continued)

		The change in the year ended 31 December						
	31 December 2015	Increase	Decrease	Accrual for provision for impairment	Others	31 December 2016	Provision for impairment	Cash dividends declared in the current year
Qingtian Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	—
Yongjia Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	10,000,000
Cangnan Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	15,000,000
Yueqing Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	—
Judicial Forensic Center	500,000	—	—	—	—	500,000	—	—
Shenzhen Yining Hospital	10,400,000	—	(10,400,000)	—	—	—	—	—
Shenzhen Yining Medical Investment Co.,ltd	—	10,000,000	—	—	—	10,000,000	—	—
Linhai Kangning Hospital	1,600,000	—	—	—	—	1,600,000	—	—
Wenzhou Yining Elder Hospital	10,000,000	—	(10,000,000)	—	—	—	—	—
Pingyang Kangning Hospital	6,000,000	—	(6,000,000)	—	—	—	—	—
Quzhou Yining Hospital	—	6,000,000	(6,000,000)	—	—	—	—	—
Hangzhou Honglan	—	5,000,000	(5,000,000)	—	—	—		
Langfang Yining Hospital Management Co.,ltd	—	10,000,000	—	—	—	10,000,000	—	—
Zhejiang Huangfeng Co.,ltd	—	24,682,135	—	—	—	24,682,135	—	—
Zhejiang Kangning	—	50,000,000	—	—	—	50,000,000	—	—
	32,500,000	105,682,135	(37,400,000)	—	—	100,782,135	—	25,000,000

* As at 31 December 2016, the amount of investment that the Company has not paid to Zhejiang Huangfeng Co., ltd was RMB6,648,385.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(3) **Long-term equity investment** (continued)

(b) Associates

	31 December 2016	Initial investment	Decrease	The change in the year ended 31 December: Share of net profit/(loss) under equity method	the adjustment of other comprehensive income	the change of other equity	Cash dividends declared in the current year	Accrual for provision for impairment	Others	**31 December 2017**	The closing amount of provision for impairment
Hangzhou Anken	507,449	–	–	(507,449)	–	6,874,892	–	–	–	6,874,892	–
Shandong Yining Hospital	14,565,336	–	–	327,116	–	–	–	–	–	14,892,452	–
	15,072,785	–	–	(180,333)	–	6,874,892	–	–	–	21,767,344	–

	31 December 2015	Initial investment	Decrease	The change in the year ended 31 December: Share of net profit/(loss) under equity method	the adjustment of other comprehensive income	the change of other equity	Cash dividends declared in the current year	Accrual for provision for impairment	Others	31 December 2016	The closing amount of provision for impairment
Beijing Yining Hospital	8,422,937	–	(3,890,715)	(4,532,222)	–	–	–	–	–	–	–
Hangzhou Anken(	–	3,500,000	–	(2,992,551)	–	–	–	–	–	507,449	–
Shandong Yining Hospital	–	14,700,000	–	(134,664)	–	–	–	–	–	14,565,336	–
	8,422,937	18,200,000	(3,890,715)	(7,659,437)	–	–	–	–	–	15,072,785	–

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(4) Fixed assets

	Bulidings	Medical equitment	Motor vehicles	electronic and other equitment	Total
Cost					
31 December 2016	61,990,150	24,858,365	3,063,945	11,213,452	101,125,912
Additon Purchase	—	9,615,825	202,983	6,270,558	16,089,366
Transfered from construction in progress	262,482,835	—	—	—	262,482,835
Decrease Disposal	(927,612)	(533,266)	—	(1,479,047)	(2,939,925)
31 December 2017	323,545,373	33,940,924	3,266,928	16,004,963	376,758,188
Accumulated depreciation					
31 December 2016	17,012,251	14,373,100	1,551,027	8,871,309	41,807,687
Addition	—	—	—	—	—
Charge for the year	3,694,598	3,945,469	386,940	1,394,663	9,421,670
Decrease Disposal	(57,424)	(500,751)	—	(1,358,430)	(1,916,605)
31 December 2017	20,649,425	17,817,818	1,937,967	8,907,542	49,312,752
Net book value					
31 December 2017	302,895,948	16,123,106	1,328,961	7,097,421	327,445,436
31 December 2016	44,977,899	10,485,265	1,512,918	2,342,143	59,318,225

The depreciation charged during the year ended 31 December 2017 was RMB9,421,670(2016: RMB6,621,871) and the amount charged to cost of sales and general and administrative was RMB6,147,687and RMB3,273,983, respectively (2016: RMB3,458,074 and RMB3,163,797).

As at 31 December 2017 and at 31 December 2016, the Company had no fixed assets pledged.

During the year ended 31 December 2017, the cost of fixed assets transferring from construction in progress was RMB262,482,835 (2016: Nil).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(5) Construction in progress

(a) The change of construction in progress

Project name	31 December 2016	Increase in the year ended 31 December 2017	Transfer to fixed assets/long-term prepaid expenses	31 December 2017	Accumulative amount of capitalised borrowings costs	Including: Borrowings costs capitalised in the year ended 31 December 2017	Capitalisation rate
The expansion project of Wenzhou Kangning Hospital	164,228,489	96,708,686	(260,937,175)	—	9,382,803	4,148,491	4.78%
The decoration project of Wenzhou Kangning Hospital	857,505	3,983,027	(1,545,660)	3,294,872	—	—	—
	165,085,994	100,691,713	(262,482,835)	3,294,872	9,382,803	4,148,491	4.78%

As at 31 December 2017 and 31 December 2016, the management of the Company considered that there did not exist the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(6) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Total
Cost				
31 December 2016	23,602,729	2,838,200	93,146,600	119,587,529
Addition	—	400,450	—	400,450
31 December 2017	23,602,729	3,238,650	93,146,600	119,987,979
Accumulated amortisation				
31 December 2016	3,336,274	1,448,714	8,253,500	13,038,488
ddition	472,055	522,650	4,716,000	5,710,705
31 December 2017	3,808,329	1,971,364	12,969,500	18,749,193
Net book value				
31 December 2017	19,794,400	1,267,286	80,177,100	101,238,786
31 December 2016	20,266,455	1,389,486	84,893,100	106,549,041

The amortisation charge during the year ended 31 December 2017 was RMB5,710,705 (2016: RMB5,738,294) and the amount charges to cost of sales and general and administrative RMB4,877,530 and RMB833,175 respectively (2016: RMB5,024,246 and RMB714,048).

As at 31 December 2017 and 31 December 2016, the Company had no intangible assets pledged.

The amount of the research and development expenditure during the year ended 31 December 2017 was RMB1,573,650 (2016: RMB2,876,911), all charged to the income statement (2016: same).

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(7) Provision for assets impairment

	31 December 2016	Addition	Decrease: Recovery	Decrease: Written-off	31 December 2017
Provision for bad debts	6,435,177	3,101,603	—	(1,435,908)	8,100,872
Including: for accounts receivable	5,225,147	2,021,849	—	(1,435,908)	5,811,088
for other receivables	1,210,030	1,079,754	—	—	2,289,784
	6,435,177	3,101,603	—	(1,435,908)	8,100,872

(8) Capital surplus

	31 December 2016	Increase	Decrease	**31 December 2017**
Share premium	760,289,830	—	282,952	**760,572,782**
Other capital surplus				
– Share-based payment (Note 9)	5,590,960	412,805	(282,952)	**5,720,813**
– Others(i)	33,940,987	6,874,892	—	**40,815,879**
	799,821,777	7,287,697	—	**807,109,474**

	31 December 2015	Increase	Decrease	31 December 2016
Share premium	760,289,830	—	—	760,289,830
Other capital surplus				
– Share-based payment (Note 9)	3,279,825	2,311,135	—	5,590,960
– Others	33,940,987	—	—	33,940,987
	797,510,642	2,311,135	—	799,821,777

(i) The increase during the year representated the dilution gain on equity shares decrease in Hangzhou Anken(Note 4(8)) when group's equity investment decreased as a result of other investors' injection capital at a premium.

Above dilution gain from the associates is recored in capital reserve under Chinese Accounting Standard, and will be recycled to profit and loss upon disposal of associates entity.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(9) Retained earnings

	Year ended 31 December	
	2017	2016
Retained earnings at beginning of year	**108,895,141**	62,306,757
Add: Net profit attributable to shareholders of the parent company	**51,610,704**	72,053,760
Less: Appropriation to statutory surplus reserve	**(5,161,070)**	(7,205,376)
Ordinary share dividends payable	**(18,260,000)**	(18,260,000)
Retained earnings at end of the year	**137,084,775**	108,895,141

Pursuant to the shareholders' approval on 14 June 2016, the Company declared a 2015 final cash dividend of RMB18,260,000, being RMB0.25 per share for issued and outstanding shares of 73,040,000. The dividend was paid in July 2016.

Pursuant to the shareholders' approval on 14 June 2017, the Company declared a 2016 final cash dividend of RMB18,260,000, being RMB0.25 per share for issued and outstanding shares of 73,040,000. The dividend was paid in July 2017.

Pursuant to the Board of Directors' approval on 23 March 2018, the Board of Directors proposed a 2017 cash dividend of RMB10,956,000, being RMB0.15 per share for issued and outstanding shares of 73,040,000. The proposed dividend is subject to approval by the Annual General Meeting of Shareholders (Note 11).

(10) Revenue and cost of sales

	Year ended 31 December 2017		Year ended 31 December 2016	
	Revenue	**Cost**	Revenue	Cost
Main businesses	**314,348,295**	**199,812,811**	280,410,508	192,542,440
Other businesses	**468,385**	**—**	108,747	—
	314,816,680	**199,812,811**	280,519,255	192,542,440

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(10) Revenue and cost of sales (continued)

(a) Revenue and cost of sale from main operations

	Year ended 31 December 2017		Year ended 31 December 2016	
	Revenue	**Cost**	Revenue	Cost
Pharmaceutical sales	**85,428,437**	**72,246,421**	82,174,291	69,085,260
Treatments and general healthcare services	**209,275,034**	**117,659,072**	183,686,677	114,395,744
Management service fee	**19,644,824**	**9,907,318**	14,549,540	9,061,436
	314,348,295	**199,812,811**	280,410,508	192,542,440

(b) Revenue and cost of sales from other operations

	Year ended 31 December 2017		Year ended 31 December 2016	
	Revenue	**Cost**	Revenue	Cost
Others	**468,385**	**—**	108,747	—

(11) Financial (expenses)/income

	Year ended 31 December	
	2017	2016
Net exchange (loss)/gain	**(14,930,009)**	25,139,523
Interest income	**3,969,144**	5,548,302
Interest expense	**(9,179,420)**	(4,252,937)
Less: capitalised interest	**4,309,845**	4,169,562
The amortization of unrecognized financial expenses(i)	**(5,464,500)**	(5,636,005)
Others	**(335,964)**	(241,560)
	(21,630,904)	24,726,885

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method. (Note 4(25))

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(12) Expenses by nature

The cost of sales, selling and distribution expenses, and general and administrative expenses in the income statement are listed as follows by nature:

	Year ended 31 December	
	2017	2016
Employee and welfare benefits	**90,770,757**	85,973,033
Pharmaceutical and medical consumables used	**91,143,082**	85,115,886
Depreciation of fixed assets	**9,421,670**	6,621,871
Amortisation of intangible assets	**5,710,705**	5,738,294
Amortisation of long-term prepayment	**6,636,136**	4,400,566
Operating lease expenses	**4,957,206**	5,151,840
Canteen expenditure	**7,560,759**	7,861,086
Consumables	**6,553,056**	4,719,719
Outsourcing expenses	**1,304,688**	3,641,774
Testing fee	**2,329,731**	2,926,068
Consulting expense	**7,081,608**	3,185,980
Auditor's remuneration		
– Audit services	**4,050,000**	1,800,000
– Non-audit services	**68,000**	—
Promotion expenses	**885,822**	1,213,702
Travel and transportation expenses	**2,826,790**	2,623,446
Office expenses	**2,513,992**	1,573,660
Share-based payment(Note 9)	**412,805**	2,311,135
Others	**5,063,726**	7,020,853
	249,290,533	231,878,913

(13) Investment income

	Year ended 31 December	
	2017	2016
Dividends	18,000,000	25,000,000
Share of net gains or losses of investees under the equity method	(180,333)	(7,659,437)
Net gains or loss arising from disposal of long-term equity investment	350,000	—
	18,169,667	17,340,563

There was no significant limitation to the receivable of the investment income of the Company.

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(14) Assets impairment losses

	Year ended 31 December	
	2017	2016
Bad debts provision	**3,101,603**	1,165,685

(15) Income tax expenses

	Year ended 31 December	
	2017	2016
Current income tax	**12,928,308**	20,460,641
Deferred income tax	**(293,947)**	(492,067)
	12,634,361	19,968,574

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the statement of comprehensive income to the income tax expenses is listed below:

	Year ended 31 December	
	2017	2016
Profit before tax	**64,245,065**	92,022,334
Income tax expenses calculated at the effect tax rate of 25%	**16,061,266**	23,005,584
Expenses not deductible for tax purposes	**638,531**	3,212,990
Adjustment of income tax	**476,981**	—
Income not subject to tax	**(4,542,417)**	(6,250,000)
Income tax expenses	**12,634,361**	19,968,574

Definitions

"AGM"	the annual general meeting of the Company for the year 2017 to be convened and held on June 13, 2018
"Articles"	the articles of association of the Company, as amended, modified or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"Beijing Yining Hospital"	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), an associate company established in the PRC with limited liability on August 17, 2015 and is held as to 32.67% by the Group
"Board of Directors" or "Board"	the board of directors of the Company
"Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly owned subsidiaries
"Chengdu Yining Hospital"	Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司， previously known as Chengdu Renyi Hospital Company Limited（成都仁一醫院有限公司）), an associate company established in the PRC with limited liability on June 29, 2010 and is held as to 41.67% by the Group
"Chengdu Yining Ward"	the psychiatric healthcare department of Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司)
"Chongqing Hechuan Kangning Hospital"	Chongqing Hechuan Kangning Hospital Co., Ltd. (重慶合川康寧醫院有限公司), an associate company established in the PRC with limited liability on June 5, 2015 and is held as to 40% by the Group
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"Company" or "Wenzhou Kangning Hospital"	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Hong Kong Listing Rules and in this annual report, refers to Mr. GUAN Weili and Ms. WANG Lianyue

Definitions

"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), one of the wholly owned subsidiaries indirectly held by the Company, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
"Group" or "we" or "our"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"Hangzhou Anken"	Hangzhou Anken Medical Technology Co., Ltd. (杭州安肯醫療科技有限公司， previously known as Hangzhou Honglan Information Technology Co., Ltd.（杭州宏瀾信息科技有限公司）), an associate company established in the PRC with limited liability on November 20, 2015 and is held as to 25.94% by the Company
"Hangzhou Cining Hospital"	Hangzhou Cining Hospital Co., Ltd. (杭州慈寧醫院有限公司), a company established in the PRC with limited liability on November 18, 2017, one of the Company's indirect wholly owned subsidiaries
"Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co. Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect non-wholly owned subsidiaries
"HK$" or "HKD" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

Definitions

"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Langfang Yining Hospital"	Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司), a company established in the PRC with limited liability on December 2, 2015, one of the Company's wholly owned subsidiaries
"Latest Practicable Date"	April 21, 2018, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
"Linhai Kangning Hospital"	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, one of the Company's non-wholly owned subsidiaries
"Luqiao Yining Hospital"	Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nanchang Kangning Hospital"	Nanchang Kangning Hospital Co., Ltd. (南昌康寧醫院有限公司), a company established in the PRC with limited liability on April 7, 2016, one of the Company's non-wholly owned subsidiaries
"Nomination Committee"	the nomination committee of the Board
"Non-Competition Agreement"	the non-competition agreement dated May 11, 2015 entered into by the Company and the Controlling Shareholders
"Pingyang Changgeng Ward"	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd. (平陽縣長庚醫院有限責任公司精神科)

Definitions

"Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly owned subsidiaries
"PRC" or "China"	the People's Republic of China which, for the purpose of this annual report, excludes 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 December 28, 2013 and effective on March 1, 2014 (as amended, supplemented or otherwise modified from time to time)
"Proposed Final Dividend"	the proposed final dividend distribution plan of RMB0.15 per Share (inclusive of applicable tax) for the year ended December 31, 2017 subject to the approval by the Shareholders at the AGM as described under the section headed "Dividend" of this annual report
"Prospectus"	the prospectus of the Company dated November 10, 2015
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company's wholly owned subsidiaries
"Quzhou Yining Hospital"	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company's indirect non-wholly owned subsidiaries
"Reporting Period"	the year ended December 31, 2017
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

Definitions

"Shandong Yining Management Company"	Shandong Yining Hospital Management Co., Ltd. (山東怡寧醫院管理有限公司), an associate company established in the PRC with limited liability on August 16, 2016 and is held as to 49% by the Group
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Yining Hospital"	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院 , previously known as Shenzhen Yining Hospital Co., Ltd. （深圳市怡寧醫院有限公司）), a company established in the PRC with limited liability on September 22, 2014, one of the Company's indirect non-wholly owned subsidiaries
"Sihui Kangning Hospital"	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Strategy and Risk Management Committee"	the strategy and risk management committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"substantial shareholder(s)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's Supervisory Committee established pursuant to the PRC Company Law
"Taizhou Kangning Hospital"	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Wenzhou Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006

Definitions

"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (温州國大投資有限公司), a Company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned subsidiaries
"Yanjiao Furen Hospital"	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company
"Yongjia Kangning Hospital"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company's wholly owned subsidiaries
"Yueqing Kangning Hospital"	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company's wholly owned subsidiaries
"%"	percentage ratio

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