



New Century Healthcare
Holding Co. Limited
新世紀醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1518

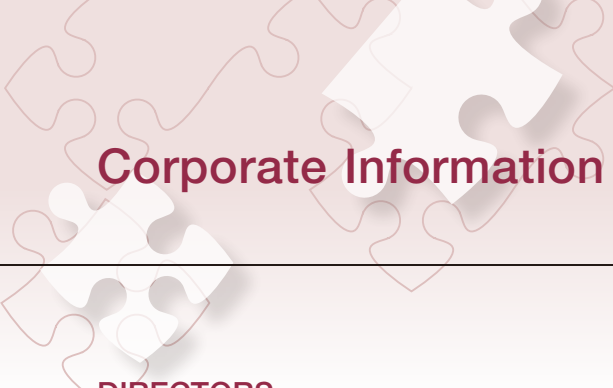


2016 ANNUAL REPORT



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Corporate Information

DIRECTORS

Executive Directors:

Mr. Jason ZHOU (*Chairman and
Chief Executive Officer*)

Ms. XIN Hong (*Vice President and
Chief Operating Officer*)

Mr. XU Han (*Vice President and Chief Financial Officer*)

Non-executive Directors:

Ms. LIANG Yanqing

Dr. HE Xin

Mr. WANG Siye

Ms. ZHANG Lan

Independent Non-executive Directors:

Mr. WU Guanxiong

Mr. SUN Hongbin

Mr. JIANG Yanfu

Dr. MA Jing

AUDIT COMMITTEE

Mr. SUN Hongbin (*Chairman*)

Dr. HE Xin

Mr. JIANG Yanfu

REMUNERATION COMMITTEE

Mr. WU Guanxiong (*Chairman*)

Ms. LIANG Yanqing

Dr. MA Jing

NOMINATION COMMITTEE

Mr. Jason ZHOU (*Chairman*)

Mr. WU Guanxiong

Mr. JIANG Yanfu

AUTHORIZED REPRESENTATIVES

Mr. XU Han

Mr. JIA Xiaofeng

JOINT COMPANY SECRETARIES

Mr. JIA Xiaofeng

Ms. WONG Sau Ping

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

56 Nanlishi Road

Xicheng District

Beijing

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square

1 Matheson Street

Causeway Bay

Hong Kong

REGISTERED OFFICE

c/o Walkers Corporate Limited

Cayman Corporate Centre

27 Hospital Road

George Town

Grand Cayman KY1-9008

Cayman Islands



Corporate Information (Continued)

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Walkers Corporate Limited
Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman KY1-9008
Cayman Islands

HONG KONG SHARE REGISTRAR

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

AUDITOR

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

LEGAL ADVISER

Sullivan & Cromwell (Hong Kong) LLP
28th Floor
Nine Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place, Central
Hong Kong

PRINCIPAL BANKER

Bank of China, Beijing Finance Street Sub-branch
2/F, Investment Square
No. 27 Finance Street
Xicheng District
Beijing

STOCK CODE

01518

COMPANY WEBSITE

www.ncich.com.cn



Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the first annual report of the Group since the successful listing of the Shares of the Company on the Main Board of the Stock Exchange on January 18, 2017.

The Listing has marked the beginning of a new era for the Group. Not only has the Listing propelled us into the limelight as a household name of a leading pediatric healthcare provider in Beijing, the funds raised through the Listing have also given us the necessary capital to expand and develop our market both in terms of quantity and quality so as to accomplish our business goals.

As of December 31, 2016, the Group's revenue reached RMB490.9 million, representing a YoY growth of 90.1%, and the Group's net profit reached RMB137.0 million, representing a YoY growth of 103.8%, of which the net profit attributable to shareholders reached RMB98.6 million, representing a YoY growth of 141.1%. In view of the listing of the Group on January 18, 2017 and in order to maintain sufficient funds for the Group's business operation and expansion, the Board does not recommend the payment of a final dividend for the year ended December 31, 2016.

With the completion of the acquisition of BNC Women's and Children's Hospital in November 2015, the Group had shifted its operational focus to the optimization of the resource allocation in Beijing during 2016. Through the structural adjustment, the Group has achieved sound results in improving the operational efficiency and profitability of the two hospitals within the region. The outpatient visits and inpatient visits of BNC Children's Hospital recorded a YoY growth of 11.8% and 5.6% respectively and the outpatient visits and inpatient visits of BNC Women's and Children's Hospital recorded a YoY growth of 37.4% and 95.8% respectively.

The Group will continue to strengthen its centralized management and further coordinate on the establishment of its tiered medical network based on different specialty coverage. The Group plans to accelerate the opening of its clinics in Beijing to enlarge the geographic coverage of its pediatric healthcare services, expand the pediatric member patient base and further cultivate the existing patients to broaden our offerings of other related specialty healthcare services. The Group will continue to improve the quality of its healthcare services and enhance its capabilities in treating complicated pediatric diseases. To further increase the operation efficiency, the Group also plans to further enhance the diversion of patients among its medical network according to the type and seriousness of the diseases and provide specialty clinical services during weekends and holidays. The renovation of the new surgery center will allow us to undertake various day pediatric outpatient surgeries at one place. Leveraging the Group's pediatric and obstetric resources, the Group will focus on its maternal and fetal medicine development and improve its capabilities for the diagnosis and treatment of prenatal diseases and the medical intervention measures during the perinatal and postnatal periods.



Chairman's Statement (Continued)

In addition to preparing for the construction of the new hospital in Beijing, the Group is actively looking for opportunities to open and/or acquire hospitals in Shanghai, Guangzhou, Shenzhen and other Tier 1 Cities by PPP model. The Group will continue to provide hospital consulting services to certain PPP hospitals and/or projects in Tianjin, Chengdu, Suzhou, Qingdao, Dalian, Foshan and other cities under the New Century brand. The Group will endeavor to increase the market share of the New Century healthcare network through a combination of opening new medical institutions, providing brand management and hospital consulting services and providing hospital management services. By establishing a remote medical diagnostic center in Beijing, the Group plans to gradually connect all its medical institutions in all different cities to further utilize and optimize its medical resources and expertise. The Group will also utilize its past successful acquisition experiences to identify suitable domestic and overseas investment opportunities to expand its market share and grow its business.

The Group will endeavor to become a world-class healthcare group that focuses on the provision of high-quality healthcare services to children and women, continue to thrive and achieve sustainable growth and thus bring the long-term and steady returns to our Shareholders.

Jason ZHOU

Chairman

Hong Kong, March 28, 2017



Management Discussion and Analysis

BUSINESS OVERVIEW AND OUTLOOK

Business Overview for 2016

In 2016, we adhered to our development strategies, continued to enhance our operational and management capabilities and explored new business models and growth opportunities. As a result, we achieved steady and rapid growth in our different businesses.

In 2016, we continued to cultivate the Beijing market by enlarging the membership base of our family doctor membership program “Doctor Panda Club”, further improving our services quality and enhancing the recognition of our membership programs among local customers. Meanwhile, site selection for new clinics in Beijing was conducted in phases to accelerate the establishment of the new clinics, which we believe will allow our family doctor services to reach deeper into local mid- to high-end communities.

To ensure that our medical institutions offer consistent and high-quality medical services, we also made continued efforts such as conducting periodic medical services quality inspections, implementing regular medical training curriculums and organizing themed professional and clinical seminars. These measures allowed us to monitor the quality of our medical services, enhance the skill sets of our medical professionals and upgrade our service offerings. In 2016, we further developed a range of services including stomatologic treatment under oral local anesthesia, pediatric MRI diagnosis under anesthesia, pediatric circumcision, treatment for orofacial clefts, treatment for Kawasaki disease, psychological counselling, nutritional counselling and midwife prenatal counselling.

We also actively participated in domestic and international professional exchange and cooperation programs, which provided our medical professionals with opportunities to exchange cutting edge professional and clinical experience and know-how with reputable medical institutions. In 2016, we further enriched our pool of multi-site practice physicians by fostering cooperation with public hospitals, which lays a solid foundation for the sustainable development of our medical services in different specialty areas.

We also generated revenue of RMB29.2 million from the hospital consulting services in the year of 2016, being the first full year of such business. This testifies to the value of our hospital operation and management expertise. We will continue to refine our standardized management systems and quality control standards to fully exploit the growth potential of our hospital consulting services made available by incentive healthcare reform policies and a rapidly growing private healthcare market.

Management Discussion and Analysis (Continued)



Industry Outlook and the Group's Strategies

As the Two-Child Policy announced in October 2015 and the rising spending power of PRC residents continue to drive the growth of demand for private pediatric and obstetric and gynecologic services, we anticipate significant growth potential in the private pediatric and obstetric and gynecologic markets, especially the mid- to high-end segment in which we operate. By 2020, the pediatric healthcare market and the obstetric and gynecologic healthcare markets are expected to reach RMB184 billion and RMB560 billion, respectively, in terms of total revenue, with private healthcare providers accounting for 6.6% and 13.5%, respectively. Private healthcare providers are uniquely positioned to tap into such growth potential as they are allowed significant leeway in customizing and pricing their services.

We intend to leverage such favorable industry prospects by pursuing the following strategies:

- Strengthen our capabilities in handling complicated pediatric conditions, fetal diseases and prenatal diagnosis, improve our perinatal and postnatal medical intervention methods and upgrade our perinatal nutrition services;
- Improve the operation efficiency of our medical institutions through renovation that diverts members of our membership programs and day surgery patients and launching specialty outpatient services during holidays;
- Provide one-stop diagnostic and health management solutions that improve client management efficiency before and after patient visits;
- Further develop our membership programs by expanding the coverage of our local pediatric services and improving the member conversion rate among our pediatric patients;
- Work with commercial insurance companies to provide customized healthcare insurance plans;
- Strengthen the cultivation of our talents by providing them with extensive clinical exposure and training for their professional development; and
- Expand our medical network and enhance network effects by constructing a remote medical diagnostic center and optimizing the allocation and coordination of medical resources within our network.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Segment Revenue

We generate revenue primarily from providing (i) medical services, including pediatric services and obstetric and gynecologic services, and (ii) hospital consulting services. The following table sets forth a breakdown for the periods indicated:

	Year ended December 31,			
	2016		2015	
	(in thousands of RMB, except percentages)			
Medical services	455,417	92.8%	251,527	97.4%
Hospital consulting services	29,204	5.9	1,751	0.7
Others ⁽¹⁾	6,312	1.3	4,918	1.9
Total	490,933	100.0%	258,196	100.0%

Note:

1. Include revenue from marketing services, cafeteria and gift shop sales at our medical institutions.

Medical Services

Our revenue from the provision of medical services consists of healthcare services fees and revenue from pharmaceutical sales. The following table sets forth the revenue, cost of revenue, gross profit and gross profit margin of our medical services for the periods indicated:

	Year ended December 31,	
	2016	2015
	<i>(in thousands of RMB, except percentages)</i>	
Revenue	455,417	251,527
Cost of revenue	228,876	115,014
Gross profit	226,541	136,513
Gross profit margin	<u>49.7%</u>	<u>54.3%</u>

Management Discussion and Analysis (Continued)

The following table sets forth the composition of our revenue from pediatric and obstetric and gynecologic services for the periods indicated:

	Year ended December 31,		Year ended December 31,	
	2016		2015	
	<i>(in thousands of RMB, except percentages)</i>			
Pediatric services	366,848	74.7%	247,111	95.7%
Obstetric and gynecologic services	88,569	18.0	4,416	1.7
Total	455,417	92.7%	251,527	97.4%

Our medical services can also be classified by service and sale to inpatients and outpatients. The following table sets forth revenue and certain data relating to such classification for the periods indicated:

	Year ended December 31,	
	2016	2015
	<i>(in thousands of RMB, except percentages)</i>	
Group⁽¹⁾⁽²⁾		
Inpatients		
Inpatient visits	8,306	4,981
Revenue from medical services attributable to inpatients <i>(in thousands of RMB)</i>	213,121	111,902
Average inpatient spending per visit <i>(RMB)</i>	25,659	22,466
Outpatients		
Outpatient visits ⁽³⁾	181,674	95,790
Revenue from medical services attributable to outpatients <i>(in thousands of RMB)</i>	205,117	115,177
Average outpatient spending per visit <i>(RMB)</i>	1,129	1,202
Revenue recognized for membership card sales <i>(in thousands of RMB)</i>	37,179	24,448
BNC Children's Hospital⁽⁴⁾		
Inpatients		
Inpatient visits	5,033	4,765
Revenue from medical services attributable to inpatients <i>(in thousands of RMB)</i>	125,167	107,164
Average inpatient spending per visit <i>(RMB)</i>	24,869	22,490

Management Discussion and Analysis (Continued)

	Year ended December 31,	
	2016	2015
	<i>(in thousands of RMB, except percentages)</i>	
Outpatients		
Outpatient visits ⁽³⁾	92,095	82,376
Revenue from medical services attributable to outpatients <i>(in thousands of RMB)</i>	120,305	100,816
Average outpatient spending per visit <i>(RMB)</i>	1,306	1,224
Revenue recognized for membership card sales <i>(in thousands of RMB)</i>	24,143	22,661
BNC Women's and Children's Hospital⁽⁶⁾⁽⁶⁾		
Inpatients		
Inpatient visits	3,273	1,672
Revenue from medical services attributable to inpatients <i>(in thousands of RMB)</i>	87,954	38,758
Average inpatient spending per visit <i>(RMB)</i>	26,872	23,181
Outpatients		
Outpatient visits ⁽³⁾	78,579	57,198
Revenue from medical services attributable to outpatients <i>(in thousands of RMB)</i>	75,104	50,501
Average outpatient spending per visit <i>(RMB)</i>	956	883
Revenue recognized for membership card sales <i>(in thousands of RMB)</i>	11,595	8,409
BNC Harmony Clinic⁽⁷⁾		
Outpatients		
Outpatient visits ⁽³⁾	11,000	7,390
Revenue from medical services attributable to outpatients <i>(in thousands of RMB)</i>	9,708	8,718
Average outpatient spending per visit <i>(RMB)</i>	883	1,180
Revenue recognized for membership card sales <i>(in thousands of RMB)</i>	1,441	1,074

Management Discussion and Analysis (Continued)

Notes:

1. With respect to BNC Women's and Children's Hospital, only data since our acquisition of this hospital in November 2015 are included.
2. In addition to revenue from medical services attributable to inpatients and outpatients, our medical services revenue also included the revenue recognized from the membership card sales.
3. Include accident and emergency visits.
4. In addition to revenue from medical services attributable to inpatients and outpatients, the medical services revenue of BNC Children's Hospital also included the revenue recognized from the membership card sales.
5. Includes the data of BNC Women's and Children's Hospital throughout the period indicated.
6. In addition to revenue from medical services attributable to inpatients and outpatients, the medical services revenue of BNC Women's and Children's Hospital also included the revenue recognized from the membership card sales.
7. In addition to revenue from medical services attributable to outpatients, the medical services revenue of BNC Harmony Clinic also included the revenue recognized from the membership card sales.

Revenue from provision of our medical services amounted to RMB455.4 million in 2016, representing an 81.1% YoY increase and accounting for 92.8% of the Group's total revenue. This increase was primarily due to (i) medical services revenue contributed by BNC Women's and Children's Hospital after our acquisition of this hospital in November 2015, which amounted to RMB174.7 million in 2016 as compared to RMB11.1 million in December 2015 and (ii) the increase of RMB39.0 million in the medical services revenue contributed by BNC Children's Hospital.

The cost of revenue of our medical services consists primarily of employee benefits expenses, cost of inventories and consumables, consultation fees, outsourced examination and inspection fees and utilities, maintenance fees and office expenses. The cost of revenue of our medical services in 2016 reached RMB228.9 million, representing a YoY increase of 99.0%. This significant increase was primarily a result of (i) the consolidation of cost of revenue of the medical services provided by BNC Women's and Children's Hospital after our acquisition of this hospital in November 2015 and (ii) increases in average salaries for physicians and other medical professionals in response to market competition in Beijing.

Management Discussion and Analysis (Continued)

Hospital Consulting Services

We also generate a portion of our revenue from providing hospital consulting services. The following table sets forth the revenue, cost of revenue, gross profit and gross profit margin of our hospital consulting services for the periods indicated:

	Year ended December 31,	
	2016	2015
	<i>(in thousands of RMB, except percentages)</i>	
Revenue	29,204	1,751
Cost of revenue	13,561	277
Gross profit	15,643	1,474
Gross profit margin	53.6%	84.2%

The YoY increases in the revenue, cost of revenue and gross profit of our hospital consulting services were primarily because we commenced the provision of hospital consulting services only in December 2015. The gross profit margin of our hospital consulting services decreased from 84.2% in 2015 to 53.6% in 2016, primarily because of the change in the gross profit margin and the increase in the operating expense in relation to the hospital consulting services.

Gross Profit and Gross Profit Margin

Our gross profit in 2016 amounted to RMB243.0 million, representing a YoY increase of 72.9%. This was mainly due to the contribution of gross profit of RMB72.5 million in 2016 by BNC Women's and Children's Hospital, which we acquired in November 2015. Our gross profit margin decreased from 54.4% in 2015 to 49.5% in 2016, primarily because BNC Women's and Children's Hospital has been ramping up since its establishment in 2012 and had a lower profit margin than BNC Children's Hospital.

Selling Expenses

Our selling expenses in 2016 amounted to RMB19.0 million, representing a YoY increase of 79.1%, which was mainly a result of consolidating the selling expenses of BNC Women's and Children's Hospital and the increase in the employee benefits expenses of our other medical institutions, primarily due to the increased compensation level.

Administrative Expenses

Our administrative expenses in 2016 amounted to RMB102.3 million, a significant increase from RMB38.3 million in 2015. Such increase was mainly a result of consolidating the administrative expenses of BNC Women's and Children's Hospital and certain expenses relating to the IPO.



Management Discussion and Analysis (Continued)

Other Income

Our other income in 2016 increased significantly to RMB612,000 from RMB238,000 in 2015. Such increase was mainly a result of (i) the government subsidy and (ii) the consolidation of other income of BNC Women's and Children's Hospital.

Other Gains/(Losses) – Net

Our other net gains in 2016 amounted to RMB52.7 million, as compared to other net losses of RMB113,000 in 2015. Our other net gains in 2016 were mainly a result of gains on the fair value changes of convertible preferred shares and other non-current liabilities of RMB37.5 million and gains on liability settlement by equity instrument of RMB15.3 million.

Finance Income and Expenses

Our finance income in 2016 increased significantly from RMB316,000 in 2015 to RMB658,000 which was mainly a result of the increase in our average bank deposits balance and the gains from foreign currency exchange. Our finance expenses in 2016 amounted to RMB1.6 million, a significant increase from RMB43,000 in 2015, primarily due to the interest expenses incurred on bank borrowings of BNC Women's and Children's Hospital.

Income Tax Expense

Our income tax expense in 2016 amounted to RMB37.1 million, representing a YoY increase of 49.8%, which was mainly due to the increase in our profit before income tax from RMB92.0 million in 2015 to RMB174.1 million in 2016. Our effective tax rate was 21.3% and 26.9% in 2016 and 2015, respectively.

Profit for the Period

Our profit for the period amounted to RMB137.0 million, a significant increase from RMB67.2 million in 2015.



Management Discussion and Analysis (Continued)

FINANCIAL POSITION

Inventories

Our inventories increased by 39.4% from RMB4.6 million as of December 31, 2015 to RMB6.4 million as of December 31, 2016 primarily due to the growth of our business.

Trade Receivables

Our trade receivables increased by 54.3% from RMB12.2 million as of December 31, 2015 to RMB18.8 million as of December 31, 2016 primarily driven by the increase in our revenue.

Trade Payables

Our trade payables increased by 26.3% from RMB13.3 million as of December 31, 2015 to RMB16.8 million as of December 31, 2016 primarily due to the growth of our business.

LIQUIDITY AND CAPITAL RESOURCES

Net Cash Generated from Operating Activities

In 2016, we had net cash generated from operating activities of RMB115.1 million, primarily attributable to profit before income tax of RMB174.1 million, adjusted to reflect mainly (i) an increase in deferred revenue of RMB21.6 million, (ii) an increase in trade and other payables of RMB18.2 million mainly due to our business growth, and (iii) depreciation of property, plant and equipment of RMB15.4 million. These adjustments were partially offset by (i) other net gains of RMB52.7 million, (ii) an increase in balances with related parties of RMB23.5 million, (iii) an increase in trade and other receivables of RMB11.8 million and (iv) income tax paid of RMB30.2 million.

Net Cash Used in Investing Activities

In 2016, we had net cash used in investing activities of RMB12.1 million, primarily attributable to upgrades at our medical institutions.

Net Cash Generated from Financing Activities

In 2016, we had net cash generated from financing activities of RMB4.7 million, primarily attributable to (i) proceeds from the issuance of convertible preferred shares of RMB215.8 million and (ii) repayments from related parties of RMB17.9 million, which were partially offset by (i) deemed distribution to the controlling shareholders of RMB200.0 million, reflecting the total consideration paid for our acquisition of 99.0% and 1.0% of equity interest in Jiahua Yihe and (ii) dividends paid to non-controlling interests of RMB23.0 million.

Management Discussion and Analysis (Continued)

Significant Investments, Acquisitions and Disposals

During 2016, we did not have any significant investment.

During 2016, we had no material acquisition or disposal except those in connection with the Group's Reorganization in preparation for the IPO as disclosed in the Prospectus.

Capital Expenditures

Our capital expenditures primarily include expenditures for purchases of property, plant and equipment, such as medical equipment, and intangible assets such as computer software relating to our operations. The amount of our capital expenditures in 2016 was RMB12.2 million, representing a 36.1% YoY decrease, which was mainly a result of the one-off expenditure for the acquisition of BNC Women's and Children's Hospital in 2015. Our capital expenditures in 2016 were primarily related to upgrading our existing medical institutions.

Use of Proceeds from IPO

The Shares of the Company were listed on the Main Board of the Stock Exchange on January 18, 2017 with net proceeds received by the Company from the global offering in the amount of HK\$856.4 million after deducting underwriting commissions and all related expenses. The net proceeds received from the global offering will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Since the Listing of the Company and up to the Latest Practicable Date, the proceeds from the Listing were not applied for any use.

INDEBTEDNESS

Borrowings

As of December 31, 2016, we had borrowings of RMB20.0 million, which was the balance of a bank loan that financed the capital expenditure incurred by BNC Women's and Children's Hospital, as compared to RMB30.0 million as of December 31, 2015. The bank loan was borrowed on December 23, 2015, has a fixed interest rate of 5.7% and will be matured on December 13, 2017. The 33.4% YoY decrease in our borrowings resulted from the settlement of certain prescribed payments of the loan.



Management Discussion and Analysis (Continued)

Exposure to Fluctuations in Exchange Rates

We mainly operate in the PRC with most of the transactions settled in RMB and therefore have minimal exposure to foreign exchange risk. We have not used any derivative financial instrument to hedge against our exposure to foreign exchange risk but will closely monitor such risk on an ongoing basis.

Contingent Liabilities

As of December 31, 2016, we did not have any contingent liabilities or guarantees that would have a material impact on our financial position or results of operations.

Pledge of Assets

As of December 31, 2016, none of our assets had been pledged.

Contractual Obligations

As of December 31, 2016, we did not have any contractual obligations that would have a material effect on our financial position or results of operations.

Financial Instruments

Our major financial instruments include trade receivables, other receivables excluding prepayments, amounts due from related parties, cash and cash equivalents, borrowings, trade payables, other payables excluding non-financial liabilities, amounts due to related parties, convertible preferred shares and other non-current liabilities. Our management manages such exposure to ensure appropriate measures are implemented on a timely and effective manner.

Gearing Ratio

As of December 31, 2016, our gearing ratio, calculated as total borrowings divided by total equity, was 14.9%. Our gearing ratio as of December 31, 2015 was not meaningful due to our then negative total equity.



Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Jason ZHOU, aged 52, is the founder of our Group, a Controlling Shareholder and has been an executive Director, the Chief Executive Officer and the Chairman of our Group since August 2015. He is also the chairman of the Nomination Committee. Since Mr. Zhou founded our Group in 2002, he has been leading our Group for over 13 years to serve in the private healthcare industry. Mr. Zhou has been the driving force behind our development, growth and expansion and is primarily responsible for the overall management of our Group and directing the strategic development and business plans of our Group. Mr. Zhou is currently a director of several of our principal operating subsidiaries.

From April 2001 to December 2002, Mr. Zhou served as the general manager of Beijing Chuangju Science and Technological Development Co., Ltd. (北京創巨科技發展有限責任公司), where he was responsible for sales of telecommunications equipment, software and related services to major telecommunications companies in the PRC. Prior to that, Mr. Zhou served as the general manager of Beijing Chuangju Telecommunications Technology Co., Ltd. (北京創巨通訊技術有限公司). Between March 1991 and December 1995, Mr. Zhou served as the general manager of Guanglian Industrial (Group) Co., Ltd. (廣聯實業(集團)有限公司). Between July 1987 and August 1990, Mr. Zhou was an engineer at the Beijing Central Engineering and Research Incorporation of Iron and Steel Industry (北京鋼鐵設計研究總院).

Mr. Zhou obtained his bachelor's degree in Electrical Engineering from Beijing Union University in July 1987.

Ms. XIN Hong (辛紅), aged 47, has been an executive Director since February 2016. In April 2016, she was also appointed as Vice President and Chief Operating Officer of the Group. She is primarily responsible for overseeing the management and operation of the Group's hospitals and overall business, including assisting in obtaining relevant regulatory approvals, as well as being involved in the design and construction of the Group's hospitals, the Group's decision making processes and organizational structure, and the management of day to day operations.

Ms. Xin began working with Mr. Zhou in August 2002, undertaking preparatory work for the establishment of the Group. Ms. Xin has been the chief operating officer and project director of BNC Children's Hospital following its establishment in December 2002, being primarily responsible for the preparation of the hospital's projects, commercial negotiations on behalf of the hospital, market development and the implementation of international best practice standards in the Group's hospitals.

Ms. Xin has more than 14 years of experience in hospital operations management and took up a number of positions in our Group throughout her current tenure. Ms. Xin has represented the Group in international medical exchanges and its participation in international and regional health organizations. Ms. Xin is a guest lecturer on hospital management at Peking University, and has on several occasions addressed the general assembly at the annual meeting of China's private hospitals. From July 1990 to July 2001, Ms. Xin held the role of a sales manager at Jianguo Hotel Beijing.



Directors and Senior Management (Continued)

In June 2015, Ms. Xin was elected as a member of the Standing Committee of the Private Hospital Management Branch of the Chinese Hospital Association. Ms. Xin obtained a college degree in English from Beijing Institute of Aeronautics, Beijing (presently known as Beihang University) in July 1990.

Mr. XU Han (徐瀚), aged 45, joined our Group in October 2005 and has been an executive Director since February 2016. In April 2016, he was appointed as Vice President of the Group. Mr. Xu serves as the Group's Chief Financial Officer, with overall responsibility for the financial management of each member of the Group and the Group's investment and financing activities, as well as overseeing the Group's internal controls and information technology.

Prior to joining our Group, Mr. Xu served as the group chief financial officer of United Family Healthcare Group (和睦家醫院集團) between July 2003 and September 2005, with primary responsibility for financial management of the hospitals and clinics in its Beijing and Shanghai network. Mr. Xu held the position of senior financial analyst at Intel (China) Co., Ltd. from December 2000 to May 2001. Between July 2001 and June 2003, Mr. Xu held the role of senior finance manager of Beijing Powerise Technology Co., Ltd. (北京創智科技有限公司), a subsidiary of Shenzhen Stock Exchange – Listed Powerise Information Technology Co., Ltd. Mr. Xu was also a financial analyst at China Hewlett Packard Co., Ltd. from October 1997 to October 2000. Mr. Xu served as a senior financial analyst in the consulting arm of Deloitte in Beijing from August 1996 to October 1997. Between August 1994 and July 1996, Mr. Xu worked in the finance department of China International Telecommunication Construction Corporation (中國通信建設總公司) in Beijing.

Mr. Xu obtained his bachelor's degree in Economics from the Harbin Institute of Technology (哈爾濱工業大學) in July 1994.

Non-executive Directors

Ms. LIANG Yanqing (梁艷清), aged 45, has been a non-executive Director since February 2016. She is also a member of the Remuneration Committee. She is primarily responsible for providing strategic advice and guidance on the business development and expansion of our Group. Ms. Liang has more than ten years of experience in business management and investments.

Ms. Liang has been a supervisor of Zhonghe Qingrun since January 2005. Prior to that, she served as training specialist at the human resource department of the Guangdong branch of China Mobile Limited (中國移動廣東分公司) between January 2003 and January 2005. She also served as an independent director of VisionChina Media (華視傳媒), a media company listed on the NASDAQ Stock Market (NASDAQ: VISN), between February 2006 and April 2016.

Ms. Liang obtained her bachelor's degree in Chinese language and literature education from Harbin Normal University (哈爾濱師範大學) in Harbin, Heilongjiang Province, the PRC in December 1998.

Dr. He Xin (何欣), aged 45, has been a non-executive Director since February 2016. She is also a member of the Audit Committee. She is primarily responsible for providing strategic advice and guidance on the business development and expansion of our Group. Dr. He has over 11 years of experience in corporate management, private equity and investments.

Directors and Senior Management (Continued)

Dr. He is currently a senior partner of CDH Investments, an alternative asset management institution focused on the PRC and a non-executive director of Wenzhou Kangning Hospital Co., Ltd., a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2120). Since joining CDH Investments in August 2011, Dr. He has been predominantly been involved in investments in the pharmaceuticals, medical devices and medical services industries.

Prior to joining CDH Investments in August 2011, Dr. He was a partner at Columbus Growth Partners, a consulting company, between 2008 and August 2011. Dr. He founded a pharmaceutical company, RHEI Pharmaceuticals, Inc., and served as its chief executive officer from March 2005 to April 2008.

Dr. He obtained her doctor of philosophy degree in immunology from Yale University in December 2002, her master's degree in chemistry from Princeton University in July 1997, and her bachelor's degree in chemistry and physics from the University of Science and Technology of China in Hefei, Anhui Province, the PRC in July 1994.

Mr. WANG Siye (王思業), aged 35, has been a non-executive Director since February 2016. He is primarily responsible for providing strategic advice and guidance on the business development and expansion of our Group. Mr. Wang has over nine years of experience in corporate finance and investments. From June 2013 to August 2016, Mr. Wang served as an executive director of Boyu Capital, an investment firm focused on investing in Greater China. Prior to joining Boyu Capital, Mr. Wang served as an investment manager at CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金) from August 2010 to June 2012 and, prior to that, as an associate at the Investment Banking Department of China International Capital Corporation Co., Ltd. (中國國際金融有限公司) from February 2007 to July 2010.

Mr. Wang received his master's degree in economics from the Hong Kong University of Science and Technology in November 2006, and his bachelor's degree in computer science from Nanjing University in June 2003.

Ms. ZHANG Lan (張嵐), aged 38, has been a non-executive Director since February 2016. She is primarily responsible for providing strategic advice and guidance on the business development and expansion of our Group. Ms. Zhang has over nine years of experience in private equity and investments.

Since September 2013, Ms. Zhang has served as a deputy general manager of the China Development Bank Kaiyuan Equity Investment Fund Management Co., Ltd. (國開開元股權投資基金管理有限公司), an entity controlled by China Development Bank. During her tenure, Ms. Zhang has completed equity investments in multiple medical industry companies and other private equity investments.

Prior to joining China Development Bank Kaiyuan Equity Investment Fund Management Co., Ltd., Ms. Zhang served as a vice president at CDH Investments from August 2010 to July 2013.

Ms. Zhang received a master's degree in business administration from the University of Chicago's Booth School of Business in March 2010, a master's degree in management from Tsinghua University in Beijing in July 2014, and a bachelor's degree in chemistry from Tsinghua University in July 2001.



Directors and Senior Management (Continued)

Independent Non-executive Directors

Mr. WU Guanxiong (吳冠雄), aged 44, was appointed as an independent non-executive Director in December 2016. He is also the chairman of the Remuneration Committee and a member of the Nomination Committee. He is primarily responsible for overseeing and providing independent judgment and analysis to the Board. Mr. Wu has substantial experience in capital markets and securities matters. He is a partner at Tian Yuan Law Firm (天元律師事務所). Prior to joining Tian Yuan Law Firm in March 1999, he served as a legal advisor at China North Industries Corporation (中國北方工業公司) from August 1994 to September 1997.

Mr. Wu obtained his bachelor of laws and master of laws in international law from Peking University Law School in July 1994 and January 2000, respectively.

Mr. SUN Hongbin (孫洪斌), aged 41, was appointed as an independent non-executive Director in December 2016. He is also the chairman of the Audit Committee. Mr. Sun has served as a director and chief financial officer in MicroPort Scientific Corporation since July 22, 2010. He was also a supervisor of MP Shanghai until July 2010. Mr. Sun has over 10 years of experience in the financial industry. Mr. Sun was the general manager of Otsuka (China) Investment Co., Ltd. (大冢(中國)投資有限公司) from January 2006 to August 2010. From January 2004 to December 2005, he served as a financial deputy director of Otsuka (China) Investment Co., Ltd. (大冢(中國)投資有限公司). From August 1998 to January 2004, Mr. Sun was an assistant manager of the Shanghai office of KPMG. Mr. Sun was a member of the Chinese Institute of Certified Public Accountants and was also a Chartered Financial Analyst.

Mr. Sun received his bachelor's degree in accounting from Shanghai Jiao Tong University in the PRC in 1998.

Mr. JIANG Yanfu (姜彥福), aged 72, was appointed as an independent non-executive Director in December 2016. He is also a member of each of the Audit Committee and the Nomination Committee. He is primarily responsible for overseeing and providing independent judgment and analysis to the Board. Mr. Jiang has approximately 14 years of experience in corporate governance and compliance of listed companies. He currently serves as an independent non-executive director of (i) Synthesis Electronic Technology Co., Ltd. (神思電子技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300479), (ii) Jiangxi Bestoo Energy Co., Ltd. (江西百通能源股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 835359) and (iii) Shandong Contact Telecommunication Co., Ltd. (山東康威通信技術股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 833804). He also served as an independent non-executive director of (i) Zhejiang Reclaim Construction Group Co., Ltd. (浙江省圍海建設集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002586), from September 2010 to January 2016 and (ii) Tread Holdings Group Co., Ltd. (探路者控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300005), from June 2011 to September 2014.

Mr. Jiang had been working at Tsinghua University since March 1970 before retiring in April 2009 as a professor and doctoral supervisor at Tsinghua University School of Economics and Management. Between 2000 and 2010, he was also a director of Tsinghua University National Entrepreneurship Research Center (清華大學中國創業研究中心). He enjoys special government allowance from the State Council.

Mr. Jiang received a bachelor's degree in automation from Tsinghua University in March 1970.

Directors and Senior Management (Continued)

Dr. MA Jing (馬晶), aged 56, was appointed as an independent non-executive Director in December 2016. She is also a member of the Remuneration Committee. She is primarily responsible for overseeing and providing independent judgment and analysis to the Board. Dr. Ma has over 30 years of experience in medical and public health studies. She has been an associate professor at Harvard School of Public Health since 2012 and an associate professor of medicine at Harvard Medical School since 2005. Prior to that, she had held various teaching and research positions at Harvard Medical School, Brigham and Women's Hospital in Boston, Massachusetts, the U.S. and the University of Minnesota. She is also a member of the American Association for Cancer Research.

Dr. Ma received her doctor of philosophy degree in epidemiology from the University of Minnesota in December 1993, her master of public health degree in preventive medicine from Tongji Medical University in July 1986 and her bachelor of medicine degree and bachelor of surgery degree in preventive medicine from Wuhan Medical College (武漢醫學院) in Wuhan, Hubei Province, the PRC in August 1983.

SENIOR MANAGEMENT

For the biographical details of Mr. Jason ZHOU, Ms. XIN Hong (辛紅) and Mr. XU Han (徐瀚), please see “– Directors – Executive Directors” of this section.

Ms. ZHOU Hong (周紅), aged 57, a chief physician, is the Vice President and the Chief Medical Officer of our Group with overall responsibility for the medical department of the Group's hospitals, including overseeing the overall management of our healthcare services and our professional team and the professional training, and assisting with the development of the Group's business, annual plans and strategic business plans. She is also involved in cultivating relationships between our Group and the medical community as well as the marketing and public relations activities of our Group. Ms. Zhou joined our Group in March 2005, initially as a medical director of BNC Children's Hospital.

Prior to joining our Group, Ms. Zhou had been involved in the field of child surgery clinical work for 22 years. Between September 1983 and September 2001, Ms. Zhou served at BCH, holding a number of roles including director of the surgery department. Ms. Zhou has also taught at the Capital University of Medical Sciences in Beijing as an associate professor from September 2000 to November 2003, a professor from November 2003 to February 2014.

Ms. Zhou is (i) a member of the Pediatric Nutrition Support Group of the Fourth Committee of the Parenteral and Enteral Nutrition Society, the Chinese Medical Association, and (ii) a vice director of the Pediatric Committee of the Beijing Medical Women's Association. Ms. Zhou is also on the editorial board of the Chinese Journal for Clinicians.

Ms. Zhou obtained her bachelor's degree in pediatrics from the Capital University of Medical Sciences in Beijing in August 1983.



Directors and Senior Management (Continued)

Mr. JIA Xiaofeng (賈曉鋒), aged 38, has been the assistant to the Chief Executive Officer and the Chairman of our Group, and the Investment Director of our Group since April 2016. He is primarily responsible for the Group's investments, acquisitions and business expansion, corporate finance, corporate governance and overall company secretarial matters of our Group.

Mr. Jia first joined BNC Children's Hospital in March 2009 as an investment manager before working at PricewaterhouseCoopers from April 2010 to November 2011. Mr. Jia worked at Jiahua Likang, our connected person, as a general manager in the investment division from March 2014 to March 2016.

Mr. Jia has approximately seven years of experience in corporate finance and investments and approximately twelve years of experience in the healthcare and medical industry. Prior to initially joining our Group in March 2009, Mr. Jia also worked at The China Care Group Hospital Management and Consulting Co., Ltd. (華美康醫院管理諮詢有限公司) as a partner in their consultancy division from January 2007 to March 2009, where he was primarily responsible for analyzing the group's business and financial operations, as well as facilitating and managing investments and development projects in new and existing markets.

Mr. Jia obtained an International Master of Business Administration degree from Tsinghua University in Beijing in July 2007 and a bachelor's degree in clinical medicine from the Capital University of Medical Sciences in Beijing in July 2002.

Ms. TENG Lan (滕嵐), aged 41, has been the director of Human Resources for BNC Children's Hospital since April 2016. Ms. Teng's primary responsibilities include managing the Group's human resources and affairs, overseeing the recruitment, and assisting with the training of medical services personnel, auditing staff budgets and strategic planning for senior personnel. Ms. Teng joined our Group in February 2006 as the director of Human Resources of BNC Children's Hospital and since then has assumed various managerial positions, including clinic manager and the director of operations.

Ms. Teng has nearly 20 years of experience in human resources management, including more than 15 years in the medical industry. Prior to joining our Group, Ms. Teng had served as the manager of government relations at Hua Mei Kang Medical Consultancy Management (Beijing) Limited (華美康醫療諮詢管理(北京)有限公司) between March 2005 and January 2006, an assistant general manager at Shenzhen Shenyuan Trading Enterprise Co. Limited (深圳深遠貿易有限公司) between June 2004 and December 2004, a human resources manager at Beijing United Family Hospital (北京和睦家醫院) from November 2000 to June 2004, a human resources director at Kerry Hotel Beijing (北京嘉裡中心大酒店) from February 1999 to November 2000, and a human resources assistant at Beijing ATV Jinlang Hotel (北京亞視金朗大酒店) from July 1997 to February 1999.

Ms. Teng obtained her bachelor's degree in economics from the Beijing University of Technology in July 1997. Ms. Teng also obtained her certificate in senior human resources management from Tsinghua University's School of Economics and Management in November 2015, and her certificate of completion in Applied Psychology from Peking University's Department of Psychology in December 2003.

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES

The Company, together with its subsidiaries, is mainly engaged in provision of high-quality healthcare services to women and children. The Company is an investment holding company and its subsidiaries are principally engaged in the healthcare industry specializing in pediatric, obstetric and gynecologic services and certain hospital consulting services.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 8 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are set out in "Chairman's Statement" on pages 4 to 5 of this annual report and in "Management Discussion and Analysis – Business Overview and Outlook" on pages 6 to 7 of this annual report. The financial risk management objectives and policies of the Group are set out in note 3 to the consolidated financial statements. Significant events that have an effect on the Group subsequent to the end of the financial year ended December 31, 2016 are set out in note 34 to the consolidated financial statements. Besides, the potential risks and uncertainties faced by the Group, key relationship between the Group and its employees, customers and suppliers, the environmental policies of the Group and compliance with the relevant laws and regulations which have significant impact are set out below.

Key Risks and Uncertainties

The Group's results and operations are subject to various factors with the key risks summarised below:

Reputation risk

Our business depends significantly on the soundness of our reputation. Failure to develop, maintain and enhance our reputation, or any negative publicity or allegations in the media against us, may adversely affect the level of market recognition of, and trust in, our services, and failure to properly manage our physicians' or other medical professionals' clinical activities may expose us to medical disputes, which could result in a material adverse impact on our business, financial condition and results of operations. Our reputation and business may be harmed accordingly.

Customer risk

As we provide mid- to high-end healthcare services, our business, financial condition and results of operations are subject to changes in patient preference, consumption capacity, consumer confidence index and general economic conditions in our market.



Directors' Report (Continued)

Talent risk

If we are unable to attract, train and retain a sufficient number of qualified physicians, management staff and other hospital personnel, our hospital operations could be materially and adversely affected.

Key Relationship

The Group fully understands that employees, customers and partners are the key to our sustainable and stable development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our partners and providing high-quality services to our customers so as to ensure the Group's sustainable development.

Staff

Our staff is regarded as the most important resource of the Group. The Group has been endeavouring to provide our staff with a competitive compensation packages, attractive promotion opportunities, comprehensive training courses and a respectful and professional working environment. In order to assist us in attracting, retaining and motivating our key employees, the Group has adopted a restricted shares award scheme (the “**RSA Scheme**”), pursuant to which restricted shares will be granted to eligible employees. The Group has in place a Group-wide internal training systems and provide ongoing training to our employees. In addition, our new employees are required to participate in a three-day orientation program, followed by a rotational training scheme.

Customers

We uphold the principle of providing high-quality customer-centered healthcare services throughout our operation, which we believe is vital to achieving customer satisfaction and maintaining our reputation. Our customer-centered philosophy is reinforced by our high-quality customer service that goes beyond medical diagnosis and treatment. Our customers can make appointments in person or by phone to avoid long waiting time which is a common issue in public hospitals. We have dedicated dietitians working with our medical staff to provide appropriate nutrition care to our customers for their recovery and our food service staff help our customers select their daily menus and deliver the meals to their bedside. To adapt to the needs of our young customers and female customers, we designed our medical institutions to be a comfortable, intimate and relaxing environment to make them feel more at ease. A dedicated call center for each of our medical institutions was set up to provide various customer services, including providing general information about our medical institutions and our services, answering general enquiries, offering customers directions services, scheduling appointments and collecting post-consultation feedback.



Directors' Report (Continued)

Suppliers

We firmly believe that our suppliers are equally important in providing high-quality medical services. When selecting suppliers, we consider, among other things, their product offerings, pricing, reputation, service or product quality and delivery schedule. We generally require our suppliers to maintain requisite licenses and permits to operate their business, such as business licenses and GMP certificates and/or GSP certificates. We conduct regular review of our suppliers and will remove any suppliers who do not meet our supply standards or requirements from our list of approved suppliers. We usually have more than one supplier for each kind of our supply need to ensure we maintain sufficient inventory levels and bargaining power to deal with price fluctuations. We do not rely on any single supplier for any of our major pharmaceuticals, medical consumables or medical devices. We have stable business relationships with our suppliers in 2016.

We have established certain long-term cooperation relationships with third parties, such as other hospitals, medical associations and scientific research institutions, which enable us to access more medical resources, enhance the quality of our healthcare services, strengthen our reputation, and promote and grow our business.

For more information about the Company's key relationships with its employees, customers and suppliers, please refer to the section headed "Business" of the Prospectus.

Environmental Policies

We are subject to various PRC laws, rules and regulations with regard to environmental matters, including hospital sanitation, disease control, disposal of medical waste, and discharge of wastewater, pollutants and radioactive substances. We have established systems and procedures in place concerning environmental protection, such as requiring all our hospitals to engage qualified service providers to dispose of medical waste and radioactive substances. In 2016, our businesses were in compliance with all the relevant laws and regulations with regard to environmental protection in all material aspects.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China while the Company is a holding company incorporated in the Cayman Islands with its shares listed on the Main Board of the Stock Exchange. Our establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong. In 2016, our businesses were in compliance with all the relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong in all material aspects.



Directors' Report (Continued)

RESULTS AND DIVIDEND

The results of the Group for the year ended December 31, 2016 are set out in the section headed "Consolidated Statement of Comprehensive Income" of this annual report.

To maintain sufficient capital for our expansion and development, the Board does not recommend the payment of a final dividend for the year ended December 31, 2016.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended December 31, 2016 are set out in note 15 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended December 31, 2016 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

As of December 31, 2016, the Company had a share premium balance of RMB1,538.3 million, which shall be available for distribution to the Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the Group's property, plant and equipment are set out in note 6 to the consolidated financial statements in this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four financial years are set out in the section headed "Financial Summary" of this annual report.

BORROWINGS

As of December 31, 2016, the Group has borrowings of RMB20.0 million (FY2015: RMB30.0 million).

PLEDGE OF ASSETS

As of December 31, 2016, no assets of the Group were pledged.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2016, our five largest individual patients contributed to less than 5% of our total revenue. During the year ended December 31, 2016, our largest customer was a corporate customer and a connected person of us from which we derived hospital consulting service fee revenue, which in aggregate contributed to 5.9% of our revenue in 2016.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 37.7% (FY2015: 32.5%) of the total purchases for the year and purchases from the largest supplier accounted for approximately 10.7% (FY2015: 10.1%) of our total purchases.

Save for Mr. Zhou's equity interest (together with his spouse) in Jiahua Likang, our largest corporate customer, to the best knowledge of the Directors, none of the Directors or any of their close associates (as defined in the Listing Rules) or Shareholders that owned more than 5% of the issued Shares had any direct or indirect interest in the five largest customers or the five largest suppliers of the Group during the year ended December 31, 2016.

DIRECTORS

The Directors during the year ended December 31, 2016 and up to the Latest Practicable Date are as follows:

Executive Directors

Mr. Jason ZHOU (*Chairman and Chief Executive Officer*) (*appointed on July 31, 2015*)

Ms. XIN Hong (*Vice President and Chief Operating Officer*) (*appointed on February 18, 2016*)

Mr. XU Han (*Vice President and Chief Financial Officer*) (*appointed on February 18, 2016*)

Non-executive Directors

Ms. LIANG Yanqing (*appointed on February 18, 2016*)

Dr. HE Xin (*appointed on February 18, 2016*)

Mr. WANG Siye (*appointed on February 18, 2016*)

Ms. ZHANG Lan (*appointed on February 18, 2016*)



Directors' Report (Continued)

Independent Non-executive Directors

Mr. WU Guanxiong (*appointed on December 12, 2016*)

Mr. SUN Hongbin (*appointed on December 12, 2016*)

Mr. JIANG Yanfu (*appointed on December 12, 2016*)

Dr. MA Jing (*appointed on December 12, 2016*)

In accordance with article 108(a) of the Articles of Association, all of the above Directors who were appointed by the Board shall hold office only until the forthcoming AGM. All of the above retiring Directors are eligible for re-election and will offer themselves for re-election thereat.

THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" of this annual report.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the executive Directors has entered into a service contract with the Company which commenced from February 18, 2016 for an initial term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

Each of the non-executive Directors has entered into a service contract with the Company which commenced from February 18, 2016 for an initial term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

Each of the independent non-executive Directors has entered into a service contract with the Company which commenced from December 12, 2016 for an initial term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in notes 36 and 25(a) to the consolidated financial statements in this annual report.

Directors' Report (Continued)

The annual remuneration of the members of the senior management by band for the year ended December 31, 2016 is as follow:

Remuneration Bands (RMB)	Number of Individuals
0–1,000,000	3
1,000,001–2,000,000	0
2,000,001–3,000,000	0
3,000,001 and above	0

REMUNERATION POLICY

As of December 31, 2016, the Group had 702 employees (December 31, 2015: 706 employees). Total staff remuneration expenses including Directors' remuneration in 2016 amounted to RMB165.1 million (FY2015: RMB80.3 million). Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. On top of salary payments, other staff benefits include social insurance and housing provident contributions made by the Group, performance-based compensation and discretionary bonus.

The Group has adopted the RSA Scheme to attract, retain and monitor our key employees. No restricted shares had been granted to employees up to the Latest Practicable Date.

The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company believes that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

NON-COMPETITION UNDERTAKINGS

As disclosed in the Prospectus, our Controlling Shareholders, Jiahua Likang and Jiahua Kangming, have undertaken to the Company in a deed of non-competition that, subject to and except as mentioned in the Prospectus, they would not, and would procure that none of their close associates will directly or indirectly engage in any business which, directly or indirectly, competes or may compete with the Group's business in any Tier 1 Cities.

The deed of non-competition is effective from the Listing Date.

Directors' Report (Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Saved as disclosed in the section headed "Relationship with Our Controlling Shareholders" of the Prospectus and this annual report, as of December 31, 2016, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As the Company was not listed on the Stock Exchange as of December 31, 2016, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as of December 31, 2016.

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interests/short positions in the Shares of our Company

Name of Director or Chief Executive	Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of interest in our Company
Mr. Zhou ⁽²⁾	Interests in a controlled corporation; interest held jointly with another person	215,816,894	44.0%
Ms. Liang ⁽³⁾	Interests in a controlled corporation	57,740,181	11.8%

Notes:

1. All interests stated are long positions.
2. The entire issued share capital of each of JoeCare and Century Star is directly held by Mr. Zhou. Accordingly, Mr. Zhou is deemed to be interested in the 149,077,551 Shares held by JoeCare and the 8,999,162 Shares held by Century Star. Pursuant to the Voting Agreement, Ms. Liang irrevocably agreed to follow Mr. Zhou's voting directions when exercising the voting rights attached to the Shares beneficially owned by her during the term of such agreement. Hence, Mr. Zhou is deemed to be interested in all the Shares held by Ms. Liang in aggregate by virtue of the SFO.

Directors' Report (Continued)

3. The entire issued share capital of Victor Gains is directly held by Ms. Liang. Accordingly, Ms. Liang is deemed to be interested in the 57,740,181 Shares held by Victor Gains. Pursuant to the Voting Agreement, Ms. Liang irrevocably agreed to follow Mr. Zhou's voting directions when exercising the voting rights attached to the Shares beneficially owned by her during the term of such agreement.

(b) Interests/short positions in the share capital or debentures of the associated corporations of our Company

Name of Director or Chief Executive	Name of associated corporation of our Company	Capacity/nature of interest	Number of shares in the corporation	Approximate percentage of interest in the corporation
Mr. Zhou	BNC Women's and Children's Hospital	Interest of controlled corporation; Interest of spouse ⁽¹⁾	N/A	30%
Mr. Zhou	BNC Harmony Clinic	Interest of controlled corporation; Interest of spouse ⁽²⁾	N/A	30%

Notes:

1. BNC Women's and Children's Hospital is held as to 70% by Jiahua Yihe, a wholly-owned subsidiary of our Company, and as to 30% by Jiahua Kangming, a PRC company controlled by (as defined in the SFO) Mr. Zhou.
2. BNC Harmony Clinic is held as to 70% by Jiahua Yihe, a wholly-owned subsidiary of our Company, and as to 30% by Jiahua Kangming, a PRC company controlled by (as defined in the SFO) Mr. Zhou.

Save as disclosed above, as of the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



Directors' Report (Continued)

RESTRICTED SHARES AWARD SCHEME

A restricted shares award scheme (the “**RSA Scheme**”) was adopted pursuant to the written resolutions of the Shareholders passed on August 29, 2016 (the “**RSA Scheme Adoption Date**”). The purpose of the RSA Scheme is to give incentives thereto in order to retain key employees for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The RSA Scheme shall be valid and effective for a period of ten years commencing on the RSA Scheme Adoption Date, under the administration of the administration committee and the trustee.

The terms of the RSA Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSA Scheme does not involve the grant of options by the Company to subscribe for new Shares. No restricted share had been granted by the Company during the year ended December 31, 2016 and up to the Latest Practicable Date. The restricted shares do not carry any right to vote at general meetings of the Company, or any dividend, transfer or other rights (including those arising on the liquidation of the Company). No grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an restricted share pursuant to the RSA Scheme, unless and until the Share underlying the restricted share is actually allotted and issued or transferred (as the case may be) to the grantee upon the vesting of such restricted share.

Please refer to section headed “Statutory and General Information” in the Prospectus for further details of the RSA Scheme.

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

As the Company was not listed on the Stock Exchange as of December 31, 2016, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the company as of December 31, 2016.

As of the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

Long positions in		Number of Shares held Number	Approximate percentage of shareholding Percentage
Shares Name	Nature of interest		
JoeCare	Beneficial owner	149,077,551	30.4%
Victor Gains	Beneficial owner	57,740,181	11.8%

Directors' Report (Continued)

Long positions in Shares Name	Nature of interest	Number of Shares held Number	Approximate percentage of shareholding Percentage
CDH Fuji	Beneficial owner	29,865,602	6.1%
CDH Fuyi	Beneficial owner	29,865,602	6.1%
CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理 (北京)有限公司) ⁽²⁾	Interests in a controlled corporation	29,865,602	6.1%
CDH Equity Investment Management (Tianjin) Co., Ltd. (鼎暉股權投資管理 (天津)有限公司) ⁽¹⁾⁽²⁾	Interests in a controlled corporation	59,731,204	12.2%
Tianjin Taiding Investment ⁽¹⁾⁽²⁾	Interests in a controlled corporation	59,731,204	12.2%
Tianjin Haoyong Investment Management Co., Ltd. (天津浩永投資管理 有限公司) ⁽¹⁾⁽²⁾	Interests in a controlled corporation	59,731,204	12.2%
Mr. WU Shangzhi ⁽¹⁾⁽²⁾	Interests in a controlled corporation	59,731,204	12.2%
Boyu AH	Beneficial owner	31,562,713	6.4%
Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠(上海)投資管 理有限公司) ⁽³⁾	Interests in a controlled corporation	31,562,713	6.4%
Boyu (Shanghai) Equity Investment Management Co., Ltd. (博裕(上海)股權投資管 理有限責任公司) ⁽³⁾	Interests in a controlled corporation	31,562,713	6.4%
XIA Meiyong ⁽³⁾	Interests in a controlled corporation	31,562,713	6.4%
HUANG Ailian ⁽³⁾	Interests in a controlled corporation	31,562,713	6.4%
China Life Reinsurance Company Ltd. ⁽⁴⁾	Beneficial owner	31,609,000	6.5%
China Reinsurance (Group) Corporation ⁽⁴⁾	Interests in a controlled corporation	31,609,000	6.5%
Central Huijin Investment Ltd. ⁽⁴⁾	Interests in a controlled corporation	31,609,000	6.5%



Directors' Report (Continued)

Notes:

1. CDH Fuji is a limited liability partnership organized and existing under the laws of the PRC. The general partner of CDH Fuji is CDH Equity Investment Management (Tianjin) Co., Ltd. (鼎暉股權投資管理(天津)有限公司), which is owned directly as to 85.4% by Tianjin Taiding Investment. Tianjin Taiding Investment is owned directly as to 34.2% by Tianjin Haoyong Investment Management Co., Ltd. (天津浩永投資管理有限公司) (whose entire issued share capital is held by Mr. WU Shangzhi) and as to 65.8% by certain shareholders, none of which is entitled to exercise or control the exercise of one third or more of the voting rights of Tianjin Taiding Investment. Accordingly, each of CDH Huatai Investment Management (Beijing) Co., Ltd., CDH Equity Investment Management (Tianjin) Co., Ltd., Tianjin Taiding Investment, Tianjin Haoyong Investment Management Co., Ltd. and Mr. WU Shangzhi is deemed to be interested in such number of Shares held by CDH Fuji.
2. CDH Fuyi is a limited liability partnership organized and existing under the laws of the PRC. The general partner of CDH Fuyi is CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理(北京)有限公司), which is owned directly as to 57.2% by CDH Equity Investment Management (Tianjin) Co., Ltd. (鼎暉股權投資管理(天津)有限公司) and as to 42.8% by certain other investors, none of which is entitled to exercise or control the exercise of one third or more of the voting rights of CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理(北京)有限公司). CDH Equity Investment Management (Tianjin) Co., Ltd. (鼎暉股權投資管理(天津)有限公司) is owned directly as to 85.4% by Tianjin Taiding Investment. Tianjin Taiding Investment is owned directly as to 34.2% by Tianjin Haoyong Investment Management Co., Ltd. (天津浩永投資管理有限公司) (whose entire issued share capital is held by Mr. WU Shangzhi) and as to 65.8% by certain shareholders, none of which is entitled to exercise or control the exercise of one third or more of the voting rights of Tianjin Taiding Investment. Accordingly, each of CDH Huatai Investment Management (Beijing) Co., Ltd., CDH Equity Investment Management (Tianjin) Co., Ltd., Tianjin Taiding Investment, Tianjin Haoyong Investment Management Co., Ltd. and Mr. WU Shangzhi is deemed to be interested in such number of Shares held by CDH Fuyi.
3. Boyu AH is a limited liability partnership organized and existing under the laws of the PRC. The general partner of Boyu AH is Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠(上海)投資管理有限公司) whose sole shareholder is Boyu (Shanghai) Equity Investment Management Co., Ltd. (博裕(上海)股權投資管理有限責任公司) which is owned as to 50% by Xia Meiyong and 50% by Huang Ailian. Accordingly, each of Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠(上海)投資管理有限公司), Boyu (Shanghai) Equity Investment Management Co., Ltd. (博裕(上海)股權投資管理有限責任公司), XIA Meiyong and HUANG Ailian is deemed to be interested in such number of Shares held by Boyu AH.
4. China Life Reinsurance Company Ltd. is a company incorporated in the PRC with limited liability, whose sole shareholder is China Reinsurance (Group) Corporation, which is owned as to 71.6% by Central Huijin Investment Ltd.. China Reinsurance (Group) Corporation and Central Huijin Investment Ltd. are deemed to be interested in such number of Shares held by China Life Reinsurance Company Ltd..



Directors' Report (Continued)

Save as disclosed above, as of the Latest Practicable Date, the Directors have not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which shall be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period from the Listing Date up to the Latest Practicable Date was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report and the Prospectus, no transaction, arrangement or contract of significance subsisted in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, during or at the end of 2016.

CONTINUING CONNECTED TRANSACTIONS

Following the Listing of the Company on the Listing Date, certain of the related party transactions for the year as disclosed in note 32 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules. Please refer to the section headed "Connected Transactions" of the Prospectus for details of the continuing connected transactions of the Group.

MANAGEMENT CONTRACTS

Save as disclosed in the Prospectus in relation to the examination and laboratory test services provided by BCH to BNC Children's Hospital, the Company had not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during the year ended December 31, 2016.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of the Prospectus, neither contract of significance made between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries, nor contract of significance made for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during the year ended December 31, 2016.



Directors' Report (Continued)

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus in relation to our future expansion, the Company had no future plans for material investments or capital assets during the year ended December 31, 2016.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director or officer of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the Prospectus in relation to the convertible preferred shares, no equity-linked agreements were entered into by the Company, or existed during the year ended December 31, 2016.

CHARITABLE DONATIONS

During the year ended December 31, 2016, the Company made HK\$1.0 million charitable donations.

SUBSEQUENT EVENTS

On the Listing Date, the Shares of the Company became listed on the Main Board of the Stock Exchange. The prospectus of the Company dated December 30, 2016 was published on the Company's website (www.ncich.com.cn) and the HKEx news website of the Stock Exchange (www.hkexnews.hk).

On February 10, 2017, the Over-Allotment Option (as defined in the Prospectus) was partially exercised. On February 17, 2017, the Over-Allotment Shares became listed on the Main Board of the Stock Exchange.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2016.



Directors' Report (Continued)

AGM AND CLOSURES OF REGISTER OF MEMBERS

The 2017 AGM of the Company will be held on Thursday, June 1, 2017. A notice convening the AGM will be published on the Company's website and the Stock Exchange's website and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, May 26, 2017 to Thursday, June 1, 2017, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 25, 2017.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 38 to 47 of this annual report.

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

During the period from the Listing Date up to the Latest Practicable Date, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best of the Directors' knowledge, information and belief, the Company has always maintained sufficient public float as required under the Listing Rules throughout the period from the Listing Date up to the Latest Practicable Date.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the year ended December 31, 2016. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

Jason ZHOU

Chairman, Chief Executive Officer and Executive Director

Hong Kong, March 28, 2017



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Board of Directors is committed to maintaining high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to formulate its business strategies and policies, and to enhance its transparency and accountability.

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date, which is after the year end of December 31, 2016. During the period from the Listing Date up to the Latest Practicable Date, the Company has applied the principles as set out in the CG Code which are applicable to the Company.

Code provisions A.1.1 and C.3.3 respectively provide that board meetings should be held at least four times a year at approximately quarterly intervals with a majority of directors being present and the Audit Committee must meet at least twice a year with the issuer's auditors. The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Company held 4 board meetings, and members of the Audit Committee did not meet with the Company's auditors during the year ended December 31, 2016, the end of which is prior to the Listing Date. During the period from the Listing Date up to the Latest Practicable Date, the Audit Committee has had 2 meetings with the auditor of the Company to discuss the annual audit for the year ended December 31, 2016. In the opinion of the Directors, during the period from the Listing Date up to the Latest Practicable Date, the Company has complied with all applicable code provisions as set out in the CG Code, save and except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, details of which are set out in the "Chairman and Chief Executive Officer" of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules).

As the Company was not listed on the Stock Exchange as of December 31, 2016, related rules under the Listing Rules concerning the Model Code that Directors shall observe do not apply to the Company for the year ended December 31, 2016. The Company has made specific inquiries to all Directors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code from the Listing Date to the Latest Practicable Date. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

Corporate Governance Report (Continued)

BOARD OF DIRECTORS

The Board of the Company currently comprises eleven members as follows:

Executive Directors:

Mr. Jason ZHOU (*Chairman, Chief Executive Officer and Chairman of the Nomination Committee*)

Ms. XIN Hong (*Vice President, Chief Operation Officer*)

Mr. XU Han (*Vice President, Chief Financial Officer*)

Non-executive Directors:

Ms. LIANG Yanqing (*Member of the Remuneration Committee*)

Dr. HE Xin (*Member of the Audit Committee*)

Mr. WANG Siye

Ms. ZHANG Lan

Independent Non-executive Directors:

Mr. WU Guanxiong (*Chairman of the Remuneration Committee and member of the Nomination Committee*)

Mr. SUN Hongbin (*Chairman of the Audit Committee*)

Mr. JIANG Yanfu (*Member of the Audit Committee and member of the Nomination Committee*)

Dr. MA Jing (*Member of the Remuneration Committee*)

The biographical information of the Directors are set out in the section headed “Directors and Senior Management” on pages 17 to 22 of this annual report. The relationships between the members of the Board are also disclosed under the same section.



Corporate Governance Report (Continued)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Jason ZHOU is both our Chairman and Chief Executive Officer, and is responsible for the overall management of our Group and directing the strategic development and business plans of our Group. We believe he is instrumental to our growth and business expansion since our establishment in 2002. Our Board considers that the roles of chairman and chief executive officer being vested in the same person is beneficial to the business prospects, management and overall strategic direction of our Group by ensuring consistent leadership within our Group and facilitating more effective and efficient overall strategic planning and decision-making for our Group. After considering all the corporate governance measures that have been taken, the Board considers that the balance of power and authority will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. Thus, the Company does not segregate the roles of Chairman and Chief Executive Officer. The Board will continue to review the situation and consider splitting the roles of Chairman and Chief Executive Officer of the Company in due course after taking into account of the then overall circumstances of the Group.

Independent Non-executive Directors

During the period from the Listing Date up to the Latest Practicable Date, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Non-executive Directors and Directors' Re-election

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

Each of the executive Directors, and non-executive Directors is appointed under a service contract for a term of three years from February 18, 2016 which is terminable by either party by giving three months' written notice to the other party.

Each of the independent non-executive Directors is appointed under a services contract for a term of three years from December 12, 2016 which is terminable by either party by giving three months' written notice to the other party.



Corporate Governance Report (Continued)

In accordance with the Articles of Association, all Directors are subject to retirement by rotation and re-election at AGM at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting and any Director appointed by the Board as an addition to the Board shall hold office until the next following AGM after his/her appointment and they will be subject to re-election at such meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

Continuous Professional Development of Directors

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

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.



Corporate Governance Report (Continued)

For the year end December 31, 2016 up to the Latest Practicable Date, the Company organized two training sessions conducted by lawyers for Directors and all Directors have attended the training session. The sessions conducted by lawyers focused on corporate governance, directors' duties, responsibilities and obligations under the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs. The Directors and senior management have also reviewed the performance of the Company and the sales strategy of the industry and have also discussed the market condition of the industry.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website (www.ncich.com.cn) and the HKEx's website (www.hkexnews.hk) and are available to Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Board of Directors" in this Corporate Governance Report.

Audit Committee

The primary duties of the Audit Committee are to review, supervise, and assist our Board in providing an independent view of, our financial reporting processes, and internal control and risk management systems, as well as to oversee the audit process, review our annual and interim financial statements, provide advice and comments to the Board on matters related to corporate governance, and perform other duties and responsibilities as assigned by our Board from time to time.

As the Audit Committee was established and the shares were listed on the Stock Exchange on the Listing Date which is after the year end of 2016, the Audit Committee did not have any meeting and did not meet the Company's external auditors during the year ended December 31, 2016.

During the period from the Listing Date up to the Latest Practicable Date, the Audit Committee had 2 meetings with the auditor of the Company to discuss the annual audit for the year ended December 31, 2016.



Corporate Governance Report (Continued)

Remuneration Committee

The primary duties of the Remuneration Committee are to (i) develop and review the policies the structure of the remuneration for our Directors and senior management, (ii) evaluate the performance of, and make recommendations on the remuneration packages and long-term incentive compensation or equity plans for, our Directors and senior management, and (iii) evaluate and make recommendations on employee benefit arrangements.

As the Remuneration Committee was established and the Shares were listed on the Stock Exchange on the Listing Date which is after the year end of 2016, the Remuneration Committee did not have any meeting during the year ended December 31, 2016.

Nomination Committee

The primary functions of the Nomination Committee are to make recommendations to our Board in relation to the appointment and removal of Directors and senior management, and on matters of succession planning.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to professional qualifications, regional and industry experience, educational and cultural background, skills, industry knowledge, reputation and gender. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Nomination Committee was established and the Shares were listed on the Stock Exchange on the Listing Date which is after the year end of 2016, the Nomination Committee did not have any meeting during the year ended December 31, 2016.

Corporate Governance Functions

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

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

Corporate Governance Report (Continued)

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings of the Company held during the year ended December 31, 2016 is set out in the table below:

Name of Directors	Board	Attendance/Number of Meetings		Audit Committee
		Nomination Committee	Remuneration Committee	
Executive Directors				
Mr. Jason ZHOU	4/4	N/A	N/A	N/A
Ms. XIN Hong	4/4	N/A	N/A	N/A
Mr. XU Han	4/4	N/A	N/A	N/A
Non-executive Directors				
Ms. LIANG Yanqing	4/4	N/A	N/A	N/A
Dr. HE Xin	4/4	N/A	N/A	N/A
Mr. WANG Siye	4/4	N/A	N/A	N/A
Ms. ZHANG Lan	4/4	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. WU Guanxiong	2/2	N/A	N/A	N/A
Mr. SUN Hongbin	2/2	N/A	N/A	N/A
Mr. JIANG Yanfu	2/2	N/A	N/A	N/A
Dr. MA Jing	2/2	N/A	N/A	N/A

According to article 62 of the Articles of Association, an annual general meeting of the Company shall be held in each year other than the year of the Company's adoption of the amended and restated Articles of Association. As the amended and restated Articles of Association which became effective on the Listing Date was adopted pursuant to written resolutions of all Shareholders passed on December 22, 2016, no AGM was held during the year ended December 31, 2016.

Corporate Governance Report (Continued)

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2016.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 55 to 61 of this annual report.

AUDITOR'S REMUNERATION

An analysis of the remuneration that should be paid to the external auditor of the Company, PricewaterhouseCoopers, for the audit of the year ended December 31, 2016 and non-audit services is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Service of Annual Report	1,000
Non-audit Services	
– Consulting services in relation to listing and share award scheme	920

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining an effective risk management and internal control systems to safeguard the Company's assets and the interests of Shareholders. Subsequent to the Company's listing on the Stock Exchange on the Listing Date, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company on March 10, 2017, including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting function. Please refer to section headed "Business – Risk Management and Internal Control" in the Prospectus for further details.

Our risk management and internal control focus primarily on (i) customers and staff safety; (ii) quality control; and (iii) other general risk management. The executive management committee at our Group level is generally responsible for approving all the risk management procedures and internal control systems and our safety and risk management committee oversees the implementation of such procedures and systems by our various operational departments. Meanwhile, our quality assurance committee and various other special committees work together to monitor the implementation of and to conduct regular review and evaluation of such procedures and internal control systems. However, the mechanism under the risk management and internal control systems reasonably but not absolutely ensures the non-occurrence of significant error, loss or fraud and it is designed to manage, rather than eliminate the risk of failure to achieve business objectives.



Corporate Governance Report (Continued)

COMPANY SECRETARY

Mr. JIA Xiaofeng, one of our joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also engaged Ms WONG Sau Ping, senior manager of TMF Hong Kong Limited (a company secretarial service provider), as another joint company secretary to assist Mr. Jia in discharging his duties as company secretary of the Company. Ms. Wong's primary contact person at the Company is Mr. Jia.

Since the Company was listed on the Stock Exchange on the Listing Date, Rule 3.29 of the Listing Rules was not applicable to the Company for the period from January 1, 2016 to December 31, 2016.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

Pursuant to article 64 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Companies Law of the Cayman Islands for putting forward proposals of new resolutions by Shareholders at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph to consider the business specified in the requisition. For proposing a person for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" posted on the Company's website.



Corporate Governance Report (Continued)

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: 56 Nanlishi Road
Xicheng District, Beijing, PRC
For the attention of the Joint Company Secretary

Fax: (86) (10) 6806 0166

Email: xiaofeng.jia@ncich.com.cn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted an Amended and Restated Memorandum of Association and Articles of Association pursuant to written resolutions passed by all Shareholders on December 22, 2016 when preparing for the listing of the shares of the Company on the Stock Exchange. The Amended and Restated Memorandum and Articles of Association became effective on the Listing Date. During 2016, the Company made changes to its Memorandum and Articles of Association on August 29, 2016 and December 12, 2016. An up-to-date version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the HKEx.



Environmental, Social and Governance Report

Pursuant to Appendix 27 (Environmental, Social and Governance Reporting Guide) to the Listing Rules, the Company sets out below our Group's performance on environmental, social and governance-related issues.

Continuous dialogue is maintained with stakeholders that include customers, employees, regulators and the public. The Company seeks to balance the views and interests of these various stakeholders through constructive conversations with a view to charting a course for the long-term prosperity of the Company and the communities we touch.

ENVIRONMENTAL PROTECTION

Emissions

For the year ended December 31, 2016, the Group's operation and ordinary course of business did not cause any significant air and greenhouse gas emission. We have implemented measures for energy saving and carbon reduction as stated under section "Use of Resources".

As regards discharges into water and land, and generation of hazardous and non-hazardous waste, the Group strictly implemented the Regulations on the Management of Medical Waste (醫療廢物管理條例), the Implementation Measures of the Management of Medical Waste (醫療衛生機構醫療廢物管理辦法), the Regulations on Urban Drainage and Sewage Treatment (城鎮排水與污水處理條例) and other relevant laws and regulations. The following measures in respect of medical waste management and sewage treatment are implemented by the Group:

1. Delivering medical waste to a specially designated location for centralized disposal of medical waste;
2. Sterilizing medical waste on the spot before disposal;
3. Delivering medical waste with leak-proof containers and sterilizing transportation tools upon disposal of medical waste;
4. Obtaining a Sewage Disposal Drainage License (污水排入排水管網許可證) before disposing sewage into urban drainage facilities;
5. Engaging sewage expert in setting up and managing sewage treatment system; and
6. Sterilizing the sewage and conducting regular check on residual chlorine and certain indicator bacteria in the sewage in accordance with the relevant laws, rules and regulations.

Environmental, Social and Governance Report (Continued)

Use of Resources

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business by conserving natural resources, reducing the use of energy and waste. The Group strictly implemented the Law on the Water Resources of the PRC (《中華人民共和國水利法》), the Law on Power Generation of the PRC (《中華人民共和國電力法》), the Law on Energy of the PRC (《中華人民共和國能源法》), the Law on Energy Saving of the PRC (《中華人民共和國能源節約法》) and other relevant laws and regulations.

The following measures in respect of water and energy saving as well as carbon reduction are implemented by the Group:

1. Utilising daylight as far as possible to reduce electricity requirement for artificial lighting and turning off lights in unoccupied areas of office premises;
2. Promoting the use of efficient energy-saving lights and reducing unnecessary lights at night;
3. Maintaining reasonable room temperature;
4. Strengthening the daily maintenance and management of water equipment;
5. Controlling the water consumption of water tanks and other containers in toilets of hospital premises;
6. Adjusting temperature of water boilers with reference to different seasons in the year;
7. Establishing a sound energy inspection system to regularly monitor the operations of water and electricity equipment; and
8. Educating employees on energy saving and efficient use of resources.

For the year ended December 31, 2016, the Group consumed electricity of approximately 3,820,820kWh in total.

For the year ended December 31, 2016, the total amount of water consumed by the Group was approximately 40,816 cubic meters. The Group did not have problems in seeking appropriate water resources. The existing supply of water resources could satisfy the Group's needs in the aspects of volume, quality of water and the guarantee of water supply facilities. In 2016, the Group made every effort to maintain the same level of water usage as in the past and carried out measures of reduction in general water consumption in hospital and clinic premises.



Environmental, Social and Governance Report (Continued)

The Environment and Natural Resources

The Group's operation and ordinary course of business did not cause any impact on the environment and natural resources.

SOCIAL RESPONSIBILITY

Employment

Policies and regulations principally adopted by the Group in respect of compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination and other benefits and welfare are as follows:

1. Remuneration packages are competitive, and individuals are rewarded according to performance plus an annually reviewed framework of salary, working conditions, bonuses and incentive systems;
2. Employees are recruited, promoted and dismissed by the Group pursuant to Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》);
3. Working hours of our employees strictly comply with the requirements in the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》);
4. The Group provides paid annual leaves for employees in strict compliance with the Regulation on Paid Annual Leave of the Employees (Decree No. 514) (《職工帶薪年休假條例》) issued by the State Council of the PRC;
5. The Group adopts equal opportunity for candidates with the same or similar education level regardless of age and gender in the process of staff recruitment whenever they fit the job objective. The policy on equal opportunities also applies to company benefit, career path promotion, training, performance appraisal and development, and operates employment policies which are for the purpose to attract, retain and motivate high quality staff, regardless of gender, age, race, religion or disability; and
6. Regarding the diversity of employees and other benefits and welfares, varieties of benefits and welfares are provided to all the staff by the Group pursuant to the requirements as stipulated by local governments of places where our enterprises are located, including endowment insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing fund.

Environmental, Social and Governance Report (Continued)

Health and Safety

The Group is committed to providing a healthy and safe workplace for all its employees and complying with all applicable health and safety laws and regulations.

As employees are the most important asset and resource of the Company, it is of utmost importance to provide a healthy and safe working environment for the employees in a reasonable and practicable situation. In order to achieve this, the Group has implemented the following measures:

1. Establishing various procedures and systems in relation to hospital infection prevention, infectious disease control and medical waste disposal;
2. Engaging a chief infectious disease controller to oversee the infectious disease control generally and an infectious disease controller in each medical-related operational department to manage the infectious disease control;
3. Establishing and maintaining high standard of healthy and safe working environment;
4. Ensuring that all devices, machines and working system are safe;
5. Ensuring the use, processing, storage and transportation of all items and materials are safe;
6. Providing employees with safety equipment and protective clothing when necessary, and keeping those equipment in good working condition;
7. Providing easy and safe accesses in workplaces;
8. Maintaining high standard of hygiene condition in the workplaces;
9. Carrying out regular and good maintenance and repairing of all devices and machines used in the workplace;
10. Ensuring proper storage of all goods and materials to eliminate hazards to others;
11. Providing employees with regular mandatory training on health and safety related policies, standards, protocols and procedures;
12. Providing sufficient supervision when necessary to ensure the health and safety of all employees at work; and
13. Supervising the implementation of safety measures.



Environmental, Social and Governance Report (Continued)

Development and Training

The Group places great emphasis on its staff training and has established comprehensive training systems. Its training departments at the Group and the medical institution level and the medical and nursing management department at the medical institution level are jointly responsible for the overall training systems of the Group. The training departments at the Group level are responsible for the administration and updating of the management rules and policies of the Group's medical institutions and the arrangement of non-professional trainings for all the staff, while the medical and nursing management department at the medical institution level is responsible for arranging professional trainings at each medical institution. The Group has developed four training modules, namely, professional training, management training, common training and cross training. Each module is designed for staff of specific category. The Group's relevant training departments periodically update the training materials.

The Group's professional training programs cover different specialties, such as pediatrics and obstetrics and gynecology, as well as different functions, such as medical, nursing and medical equipment. Management courses on subjects such as leadership, roles and responsibilities of middle management and thinking process are provided to the Group's management staff at manager level or above once a year. Common training includes induction training, professionalism training, working skills training and English training. Cross training is normally provided to staff for them to get familiar with different posts of different departments so that they are able to collaborate better at work.

Labor Standards

As for preventing child labor or forced labor, the Group strictly complied with Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other relevant laws and regulations.

Across all companies under the Group, internal administrative institutions were set up to manage their employees in a professional manner when such employees were recruited and employed, so as to eliminate situations such as child labors and forced labors in the Group. Employees are hired in accordance with specific job requirements and talent matching process to build a sustainable workforce.

Environmental, Social and Governance Report (Continued)



OPERATING PRACTICES

Supply Chain Management

The supplies required in the Group's operations primarily include pharmaceuticals and medical consumables provided by third party institutions. The Group generally requires its suppliers to maintain requisite licenses and permits to operate their business, such as business licenses and GMP and/or GSP Certificates. The executive management committee at the Group level, with the support from the Group's pharmaceutical affair management committee (藥事管理委員會), is in charge of regularly reviewing and approving qualified suppliers for all our medical institutions to manage any environmental and social risks that might be caused by product default of the suppliers.

Product Responsibility and Security

The Group strictly implemented laws and regulations on (i) the administration and classification of, (ii) the supervision over pharmaceuticals and medical equipment in, and (iii) medical personnel of, healthcare institutions. In 2016, the Group did not experience any material medical disputes that caused a material adverse effect on its business, results of operations or financial condition.

From time to time, the Group published medical advertisements on websites to promote our business and increase our brand awareness. Medical advertisements shall be reviewed by relevant healthcare authorities and a "medical advertisement review certificate" is required before they may be released by a medical institution. In 2016, the Group obtained medical advertisement review certificates for all the medical advertisements published.

The Group collected and maintained medical data from the diagnosis and treatment of our patients. The Group has taken measures to maintain the confidentiality of its customers' medical information, including adopting security level control and authorization over confidential medical information and designating dedicated personnel to be in charge of the safe keeping of the customer information and maintenance of relevant systems for data processing and storage.



Environmental, Social and Governance Report (Continued)

Anti-corruption

The Group is committed to adhering to the highest ethical standards. The laws and regulations related to anti-corruption include article 163 of the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and article 8 of the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》).

The following policies and procedures are implemented by the Group to address potential corruption incidents:

1. Formulating anti-corruption policies;
2. Providing anti-corruption training and giving periodic updates on recent anti-corruption issues to the Group's employees;
3. Adopting a zero-tolerance policy towards acceptance of any bribes by the Group's physicians and medical staff; and
4. Establishing a whistle blower program and stringent investigation protocols to receive and investigate anonymous or named reports of corruption charges.

In 2016, the Company did not receive any report on crimes such as bribery, extortion, fraud and money laundering in the Group. There were no legal cases regarding corruption, job-related crimes, bribery, extortion, fraud and money laundering brought up by the Company or its employees.

Community Investment

The Company recognizes the importance of contributing within the local community and encourages employees to develop close relationship with charities and other institutions, both locally and nationally, in order to build more economically sustainable environment. Extensive efforts are exerted to ensure compliance with the laws and regulations of the jurisdictions in which the Company operates.

During the year ended December 31, 2016, the Company made HK\$1.0 million charitable donations.



Independent Auditor's Report

To the Shareholders of New Century Healthcare Holding Co. Limited

(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of New Century Healthcare Holding Co. Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 62 to 157, which comprise:

- the consolidated balance sheet as at December 31, 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (“**the Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report (Continued)

Key Audit Matters

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

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

- Valuation of convertible preferred shares and other non-current liabilities
- Impairment assessment of goodwill

Key Audit Matter

How our audit addressed the Key Audit Matter

Valuation of convertible preferred shares and other non-current liabilities

Refer to notes 4(d) and 19 to the consolidated financial statements.

The Group's convertible preferred shares and other non-current liabilities are preferred shares and certain ordinary shares with same preferred share rights issued to the Group B preferred shareholders of the Group on February 18, 2016.

The Group's convertible preferred shares and other non-current liabilities are measured as financial liabilities at fair value through profit and loss. The total fair value of the convertible preferred shares and other non-current liabilities as at December 31, 2016 amounted to RMB249.8 million. And there was a revaluation gain of RMB37.5 million for the year ended December 31, 2016. The fair value of convertible preferred shares and other non-current liabilities were determined by the Group based on valuation performed by an independent professional valuer (the "**Valuer**") engaged by the Group.

We assessed the independence, competence, capabilities and objectivity of the Valuer.

We obtained the valuation report of convertible preferred shares and other non-current liabilities and assessed the valuation method applied.

We assessed the relevant key estimates and judgements with involvement of our internal valuation experts, as follows:

- The estimated unit price per share in the calculations by reference to the Company's IPO price range which was indicated in the prospectus;
- The overall probability assessment, including the IPO probability, the liquidation and redemption probability, by reference to companies at a comparable stage of IPO.

Independent Auditor's Report (Continued)

Key Audit Matter

At the end of 2016, as the Company was approaching the completion of the global offering of the shares, the directors of the Company adopted equity allocation method proposed by the Valuer to determine the fair value of convertible preferred shares and other non-current liabilities as of December 31, 2016. The valuation required the use of estimates and judgements. The key assumptions were the estimated unit price per share, IPO probability, liquidation probability and redemption probability.

We focus on this area because of the significant impact of convertible preferred shares and other non-current liabilities to the consolidated financial statements and significant judgements and estimates were applied in the valuation.

How our audit addressed the Key Audit Matter

We also checked the mathematical accuracy of the calculations of the fair value and the fair value changes on the convertible preferred shares and other non-current liabilities.

In light of the above work performed, we found the key assumptions applied in the valuation were supported by the evidences we gathered.

Independent Auditor's Report (Continued)

Key Audit Matter

Impairment assessment of goodwill

Refer to notes 4(a) and 7(a) to the consolidated financial statements.

A goodwill of RMB97.7 million arose from the Group's acquisition of Beijing New Century Women's and Children's Hospital on November 30, 2015. The goodwill was allocated to the pediatric segment and the obstetrics and gynecology segment. The pediatric segment includes the pediatric business of Beijing New Century Children's Hospital, Beijing New Century Harmony Clinic and Beijing New Century Women's and Children's Hospital which the Company's management expected to benefit from the synergies of the combination.

The Group performed impairment assessment at each balance sheet date to assess whether goodwill had suffered any impairment. The recoverable amounts of the operating segments had been determined based on value-in-use calculations. These calculations required the use of estimates and judgements. The key assumptions used in the value-in-use calculations were: compound growth rate of revenue, cost and operating expense percentage of revenue, long-term growth rate and pre-tax discount rate. Changes in the conditions for these assumptions could significantly affect the assessment result of goodwill impairment test.

We focus on this area due to the relevant key assumptions applied in goodwill impairment assessment involving significant estimates and judgements.

How our audit addressed the Key Audit Matter

We obtained the goodwill impairment assessment from management of the Group and we tested the related controls.

We assessed the relevant key estimates and judgements used in determining the recoverable amounts of operating segments as follows:

- compound growth rate of revenue by reference to an industry report prepared by an independent industry consultant;
- cost and operating expense percentage of revenue by reference to the historical financial performance of each operating segment;
- long-term growth rate by reference to the long-term inflation rate of China;
- pre-tax discount rate by reference to PRC Enterprise Income Tax Law and discount rate of the comparable companies in valuation exercise.

We also checked the mathematical accuracy of value-in-use calculations when management performed the impairment assessment.

We evaluated the sensitivity analysis performed by management and assessed the potential impacts of a range of possible outcomes.

In light of the above work performed, we found the relevant key assumptions applied in goodwill impairment assessment were supported by the evidences we gathered.

Independent Auditor's Report (Continued)



Other Information

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

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

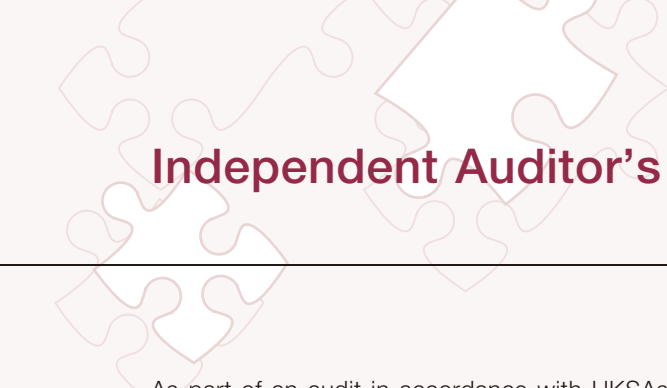
The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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



Independent Auditor's Report (Continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report (Continued)

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

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 28, 2017

Consolidated Balance Sheet

		As of December 31,	
		2016	2015
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	106,510	114,359
Intangible assets	7	249,984	255,367
Deferred income tax assets	23	28,844	36,225
Total non-current assets		385,338	405,951
Current assets			
Inventories	9	6,449	4,625
Trade receivables	11	18,810	12,193
Other receivables, deposits and prepayments	12	13,120	6,985
Amounts due from related parties	13	24,069	21,078
Cash and cash equivalents	14	188,963	81,231
Total current assets		251,411	126,112
Total assets		636,749	532,063
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	66	—
Share premium	16	1,538,280	—
Reserves	16	(1,519,709)	(32,956)
Retained earnings/(accumulated losses)		60,548	(10,545)
		79,185	(43,501)
Non-controlling interests	8(a)	55,336	11,107
Total equity/(deficit)		134,521	(32,394)

Consolidated Balance Sheet (Continued)

		As of December 31,	
		2016	2015
	Note	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	—	19,980
Convertible preferred shares	19	169,695	—
Deferred income tax liabilities	23	38,196	39,609
Other non-current liabilities	19	80,122	339,361
Total non-current liabilities		288,013	398,950
Current liabilities			
Trade payables	20	16,844	13,336
Accruals, other payables and provisions	21	119,815	103,909
Deferred revenue	22	28,519	6,907
Current income tax liabilities		3,283	2,280
Amounts due to related parties	13	25,774	29,055
Borrowings	18	19,980	10,020
Total current liabilities		214,215	165,507
Total liabilities		502,228	564,457
Total equity and liabilities		636,749	532,063

The notes on pages 68 to 157 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on March 28, 2017 and were signed on its behalf

Jason ZHOU

Name of Director

Xu Han

Name of Director

Consolidated Statement of Comprehensive Income

		Year ended December 31,	
		2016	2015
	Note	RMB'000	RMB'000
Revenue	5	490,933	258,196
Cost of revenue	24	(247,921)	(117,686)
Gross profit		243,012	140,510
Selling expenses	24	(19,003)	(10,612)
Administrative expenses	24	(102,318)	(38,312)
Other income		612	238
Other gains/(losses) – net	26	52,721	(113)
Operating profit		175,024	91,711
Finance income	27	658	316
Finance expenses	27	(1,584)	(43)
Profit before income tax		174,098	91,984
Income tax expense	28	(37,137)	(24,789)
Profit for the year		136,961	67,195
Other comprehensive income		–	–
Total comprehensive income		136,961	67,195
Profit and total comprehensive income attributable to:			
Owners of the Company		98,635	40,903
Non-controlling interests		38,326	26,292
		136,961	67,195
Earnings per share attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	29	0.35	0.15
Diluted earnings per share	29	0.11	0.15

The notes on pages 68 to 157 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share Premium	Reserves	Retained earnings/ (accumulated losses)	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2015		—	—	22,500	40,588	63,088	34,374	97,462
Comprehensive income								
– Profit for the year		—	—	—	40,903	40,903	26,292	67,195
Transactions with owners								
– Dividend	17	—	—	—	(92,036)	(92,036)	(49,559)	(141,595)
– Capital contribution by shareholders	16(b)	—	—	200,000	—	200,000	—	200,000
– Ordinary shares agreed to be issued for Listing Business	16(c)	—	—	1,192,374	—	1,192,374	—	1,192,374
– Merger reserve during the reorganization	16(d)	—	—	(1,423,090)	—	(1,423,090)	—	(1,423,090)
– Deemed distribution to the controlling shareholder	16(e)	—	—	(24,740)	—	(24,740)	—	(24,740)
Total transactions with owners		—	—	(55,456)	(92,036)	(147,492)	(49,559)	(197,051)
Balance at December 31, 2015		—	—	(32,956)	(10,545)	(43,501)	11,107	(32,394)

Consolidated Statement of Changes in Equity (Continued)

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share Premium	Reserves	Retained earnings/ (accumulated losses)	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2016		-	-	(32,956)	(10,545)	(43,501)	11,107	(32,394)
Comprehensive income								
- Profit for the year		-	-	-	98,635	98,635	38,326	136,961
Transactions with owners								
- Dividend	17	-	-	-	(27,542)	(27,542)	(2,024)	(29,566)
- Issuance of ordinary shares	16(c)	55	1,192,374	(1,192,374)	-	55	-	55
- Conversion of preferred shares into ordinary shares	15(f)	11	345,908	-	-	345,919	-	345,919
- Deemed distribution to controlling shareholder	16(e)	(2)	-	(301,907)	-	(301,909)	-	(301,909)
- Liability settlement by equity instrument	16(f)	-	-	8,555	-	8,555	-	8,555
- Transaction with non-controlling interests	16(f)	-	-	(1,027)	-	(1,027)	7,927	6,900
- Shares issued to restricted shares award scheme	15(g)	2	(2)	-	-	-	-	-
Total transactions with owners		66	1,538,280	(1,486,753)	(27,542)	24,051	5,903	29,954
Balance at December 31, 2016		66	1,538,280	(1,519,709)	60,548	79,185	55,336	134,521

The notes on pages 68 to 157 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended December 31,	
		2016	2015
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	30	146,370	102,951
Interest paid		(1,584)	—
Interest received	27	478	316
Income tax paid		(30,166)	(24,196)
Net cash generated from operating activities		115,098	79,071
Cash flows from investing activities			
Business combination, net of cash acquired		—	(13,296)
Purchases of property, plant and equipment		(11,789)	(5,694)
Purchases of intangible assets	7	(423)	(133)
Proceeds from disposals of property, plant and equipment	30	130	1
Net cash used in investing activities		(12,082)	(19,122)
Cash flows from financing activities			
Proceeds from issuance of convertible preferred shares		215,834	—
Capital withdrawn by the controlling shareholder		—	(5,000)
Proceeds from borrowings		—	30,000
Capital contribution by shareholders		66	200,000
Deemed distribution to the controlling shareholder		(200,000)	(24,740)
Transaction with non-controlling interests		6,900	—
Prepayments in relation to listing expenses		(1,187)	—
Repayment from related parties		17,924	—
Repayment to related parties		—	(180,799)
Repayment of borrowings		(10,020)	—
Dividends paid to the controlling shareholder	17	(1,783)	(90,253)
Dividends paid to the non-controlling interests		(23,018)	(28,565)
Net cash generated from/(used in) financing activities		4,716	(99,357)
Net increase/(decrease) in cash and cash equivalents		107,732	(39,408)
Cash and cash equivalents at the beginning of the year		81,231	120,639
Cash and cash equivalents at the end of the year		188,963	81,231

The notes on pages 68 to 157 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information, reorganization and basis of presentation

1.1 General information

New Century Healthcare Holding Co. Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in provision of pediatrics and obstetrics and gynecology speciality services in Beijing, the People’s Republic of China (the “**PRC**”). The Group also provides hospital consulting services to Beijing Jiahua Likang Health Investment Co., Ltd. (“**Jiahua Likang**”), a related party of the Group, relating to the for-profit private hospitals owned by Jiahua Likang, all of which are outside Beijing.

The Company is a limited liability company incorporated in the Cayman Islands on July 31, 2015. The address of its registered office is c/o Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The ordinary shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“the Listing”) on January 18, 2017. The medical services and the hospital consulting services are collectively referred to as the “Listing Business”.

The consolidated financial statements are presented in Renminbi (“**RMB**”) and rounded to nearest thousand yuan, unless otherwise stated.

1.2 Reorganization

Prior to the incorporation of the Company and the completion of the reorganization as described below (the “**Reorganization**”), the Listing Business was carried out by companies now comprising the Group, including Beijing Jiahua Yihe Management Consulting Co., Ltd. (“**Jiahua Yihe**”), Beijing New Century International Children’s Hospital Co., Ltd. (“**BNC Children’s Hospital**”), Beijing New Century Women’s and Children’s Hospital Co., Ltd. (“**BNC Women’s and Children’s Hospital**”) and Beijing New Century Harmony Clinic Co., Ltd. (“**BNC Harmony Clinic**”) (collectively the “**Operating Companies**”). Mr. Jason ZHOU is the controlling shareholder of the Company.

The Operating Companies

BNC Children’s Hospital was established in the PRC on December 13, 2002, as a limited liability company with a registered capital of RMB20,000,000, and was initially held as to 65% by an entity wholly-owned by Mr. Jason ZHOU and 35% by Beijing Children’s Hospital, a public hospital in Beijing, the PRC. The 65% equity interest was transferred to Beijing Jiahua Kangyong Investment and Management Co., Ltd. (“**Jiahua Kangyong**”) in 2007, which was held as to 90% by Mr. Jason ZHOU and as to 10% by Ms. ZHAO Juan (“**Ms. Zhao**”), Mr. Jason ZHOU’s spouse.

Notes to the Consolidated Financial Statements (Continued)

1 General information, reorganization and basis of presentation (Continued)

1.2 Reorganization (Continued)

The Operating Companies (Continued)

The predecessor of BNC Harmony Clinic was set up in the PRC by Jiahua Kangyong as a branch medical clinic in 2008. On May 30, 2012, BNC Harmony Clinic was subsequently established by Jiahua Kangyong in the PRC as a limited liability company with an initial registered capital of RMB8,000,000, which was reduced to RMB3,000,000 in September 2014, to assume the business of the predecessor of BNC Harmony Clinic.

BNC Women's and Children's Hospital was established in the PRC on January 4, 2012 as a limited liability company with a registered capital of RMB20,000,000 by Jiahua Likang. Jiahua Likang is a holding company which was jointly controlled by Jiahua Kangyong (41.25%), Beijing Zhonghe Qingrun Investment Co. Limited (33.75%) controlled by Ms. Liang Yanqing ("**Ms. Liang**"), and Beijing CDH Weixin Venture Investment Center L.P. ("**CDH Weixin**"), Beijing CDH Weisen Venture Investment Center L.P. ("**CDH Weisen**") and Tianjin CDH Asana Equity Investment Partnership L.P. ("**CDH Asana**") (CDH Weixin, CDH Weisen and CDH Asana are collectively referred to as "**CDH Investment I**") (25%).

On June 15, 2015, Jiahua Yihe was established by Ms. Zhao, with a registered capital of RMB150,000. On November 11, 2015, Jiahua Yihe increased its registered capital from RMB150,000 to RMB200,000,000. The capital of RMB200,000,000 was fully paid in September 2015. On November 11, 2015, Ms. Zhao transferred 1.00% of her equity interest in Jiahua Yihe to Ms. ZHOU Jie, Mr. Jason ZHOU's sister, for a consideration of RMB2,000,000.

Pursuant to the Reorganization in preparation for the Listing, the Operating Companies engaged in the Listing Business were transferred to the Company. The Reorganization involves the following steps:

Agreements in 2012

Pursuant to agreements in 2012 ("**Likang Agreements**"), Mr. Jason ZHOU, Ms. Liang and CDH Investment I, the joint venture partners of Jiahua Likang, agreed that, in light of BNC Children's Hospital's plan for a potential initial public offering in the future, to maximize the network effect and synergies and further BNC Children's Hospital's business strategies to develop the business in Beijing: (a) Jiahua Likang agreed to sell BNC Women's and Children's Hospital to the potential listing group comprising of BNC Children's Hospital based on the registered capital of BNC Women's and Children's Hospital; (b) in return, Mr. Jason ZHOU agreed to procure that he, Ms. Liang and CDH Investment I have the equity interests of 58.875%, 23.625% and 17.500% in the potential listing group respectively; (c) the payment of the acquisition price and the transfer of shares in the potential listed group will be settled at the initial public offering reorganization of BNC Children's Hospital; and (d) CDH Investment I is entitled to same preferential rights of any subsequent strategic investors, if any.

In order to execute the Likang Agreements among Mr. Jason ZHOU, Ms. Liang and CDH Investment I, the group A preferred shares purchase agreements ("**Group A Preferred Shares Purchase Agreements**") were signed on August 25, 2015.

Notes to the Consolidated Financial Statements (Continued)

1 General information, reorganization and basis of presentation (Continued)

1.2 Reorganization (Continued)

Transfer of shares of the Operating Companies

- (i) On November 16, 2015, Jiahua Yihe acquired the 65% equity interests in BNC Children's Hospital from Jiahua Kangyong, with a consideration of RMB21,740,000. The remaining 35% equity interests is still held by Beijing Children's Hospital.
- (ii) On November 23, 2015, Jiahua Yihe acquired the entire equity interests in BNC Harmony Clinic from Jiahua Kangyong with a consideration of RMB3,000,000.
- (iii) On November 30, 2015, Jiahua Yihe acquired the entire equity interests in BNC Women's and Children's Hospital from Jiahua Likang with a cash consideration of RMB20,000,000.
- (iv) On January 22, 2016 and January 30, 2016 respectively, Jiahua Yihe transferred its 30% equity interest in each of BNC Harmony Clinic and BNC Women's and Children's Hospital to Beijing Jiahua Kangming Medical Investment and Management Co., Ltd. ("Jiahua Kangming"), in which Ms. Zhao and Ms. Zhou Jie hold 99% and 1% respectively, for a consideration of RMB900,000 and RMB6,000,000 respectively. Based on the agreement signed by the shareholders of the Company, the shareholding structure of Jiahua Kangming is the same as that of the Company.

Incorporation of overseas companies

- (i) On July 31, 2015, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. Upon incorporation, one share of par value of USD1 each was allotted and issued to JoeCare Investment Co., Ltd. ("JoeCare"), a company 100% owned and controlled by Mr. Jason ZHOU, the controlling shareholder of the Company.
- (ii) On August 14, 2015, New Millennium Investment Co., Ltd. ("New Millennium") was incorporated as a limited liability company in the BVI with authorized share capital comprised of 50,000 shares at par value of USD1 each. Upon incorporation, one share was allotted and issued to the Company.
- (iii) On July 21, 2015, New Century Healthcare (International) Co. Limited ("New Century Healthcare HK") was incorporated in Hong Kong as a limited liability company with authorized share capital comprised of 1 share at par value of HKD1 each. Upon incorporation, one share was allotted and issued to Mr. Jason ZHOU who subsequently transferred it to New Millennium on November 19, 2015 for a consideration of HKD1.

Notes to the Consolidated Financial Statements (Continued)

1 General information, reorganization and basis of presentation (Continued)

1.2 Reorganization (Continued)

Incorporation of overseas companies (Continued)

- (iv) On February 18, 2016, the Company conducted a 1 to 10,000 share sub-division to amend its authorized share capital by dividing 50,000 shares at par value of USD1 each to 500,000,000 shares of a par value of USD0.0001 each. The Company also conducted a series of share class re-designations, following which the Company's authorized share capital comprised three classes of shares including (a) 476,063,732 Shares of a par value of USD0.0001 each; (b) 16,394,266 group A preferred shares of a par value of USD0.0001 each; and (c) 7,542,002 group B preferred shares of a par value of USD0.0001 each.

On the same date, the Company allotted and issued at par value each (a) 83,605,734 ordinary shares, including 59,355,734 shares to JoeCare, 2,757,487 shares to Century Star Investment Co., Ltd., another company wholly-owned by Mr. Jason ZHOU, and 21,492,513 shares to Victor Gains Limited ("**Victor Gains**"), a company wholly-owned by Ms. Liang and (b) 16,394,266 group A preferred shares ("**Group A Preferred Shares**"), including 8,197,133 to Shanghai Fuji Investment Partnership L.P. ("**CDH Fuji**") and 8,197,133 to Shanghai Fuyi Investment Partnership L.P. ("**CDH Fuyi**") (CDH Fuji and CDH Fuyi are collectively referred to as "**CDH Investment II**"). Subscription consideration of USD10,000 for such allotments and issues was paid in cash and settled between May 31, 2016 and June 30, 2016. As mentioned above, the shareholding arrangement was based on Likang Agreements. In August 2015, when the relevant parties were negotiating details of the Reorganization, such proportion was adjusted to 62.117%, 21.490% and 16.393%, respectively, taking into account the inclusion of interest in BNC Harmony Clinic in the Group.

- (v) On February 18, 2016, JoeCare sold 10,125,000 shares to Smooth Yu Investments Limited ("**Smooth Yu**") which is wholly-owned by Ms. Liang at cash consideration of RMB243,000,000.

On February 18, 2016, Anyi Hekang (Tianjin) Investment Partnership L.P., an investment company of Boyu Capital Advisory Company Limited ("**Boyu AH**"), acquired 6,548,602 shares from Smooth Yu for a total consideration of RMB182,586,480. Unicorn Best Limited ("**Unicorn Best**"), a company wholly-owned by Ms. Gan Feng, an independent third party individual, acquired 3,576,398 shares and 3,800,000 shares from Smooth Yu and Victor Gains, for considerations of RMB99,716,233 and RMB105,950,648, respectively. The consideration was paid in cash.

Notes to the Consolidated Financial Statements (Continued)

1 General information, reorganization and basis of presentation (Continued)

1.2 Reorganization (Continued)

Incorporation of overseas companies (Continued)

- (vi) On February 18, 2016, the Company allotted and issued 7,542,002 group B preferred shares (“**Group B Preferred Shares**”) at a price of RMB28.6 per share in accordance with the group B preferred shares purchase agreements (“**Group B Preferred Shares Purchase Agreements**”) signed on August 31, 2015, including (a) 4,124,532 Group B Preferred Shares to Suzhou Industrial Park Guohe Jiahua Venture Capital L.P. whose general partner is CDB Kai Yuan Capital Management Co., Ltd. (“**CDB GJ**”), for a consideration of RMB118,034,742; (b) 2,121,188 Group B Preferred Shares to Boyu AH, for a consideration of RMB60,703,582; (c) 648,141 Group B Preferred Shares to CDH Fuji, for a total consideration of RMB18,548,316; and (d) 648,141 Group B Preferred Shares to CDH Fuyi, for a total consideration of RMB18,548,316. The total consideration of RMB215,834,956 was paid in cash.
- (vii) On February 18, 2016, JoeCare transferred 3,560,993 shares of the Company pursuant to the Group B Preferred Shares Purchase Agreements, including (a) 1,947,418 shares to CDB GJ for a consideration of RMB55,730,690; (b) 1,001,529 shares to Boyu AH for a consideration of RMB28,661,498; (c) 306,023 shares to CDH Fuji for a total consideration of RMB8,757,680; and (d) 306,023 shares to CDH Fuyi for a total consideration of RMB8,757,680. The consideration was paid in cash. The Company granted the same rights of Group B Preferred Shares to these ordinary shares.

On May 24, 2016, New Century Healthcare HK acquired 99.0% and 1.0% of the equity interest in Jiahua Yihe from Ms. Zhao and Ms. Zhou Jie, for a consideration of RMB198,000,000 and RMB2,000,000 respectively. The consideration was paid in cash.

As a result, the Reorganization was completed.

1.3 Basis of presentation

Prior to the incorporation of the Company, BNC Children's Hospital and BNC Harmony Clinic (together, the “**Original Business**”) was under the control of Mr. Jason ZHOU through Jiahua Kangyong. For the purpose of Reorganization, Jiahua Yihe acquired the Original Business from Jiahua Kangyong in November 2015, and on May 24, 2016, the Company acquired the entire interests in Jiahua Yihe through its wholly-owned subsidiaries. Accordingly, the Reorganization of the Original Business is regarded as business combination under common control of Mr. Jason ZHOU before and after the Reorganization and has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

Notes to the Consolidated Financial Statements (Continued)

1 General information, reorganization and basis of presentation *(Continued)*

1.3 Basis of presentation *(Continued)*

BNC Women's and Children's Hospital was acquired by the Group on November 30, 2015 with a cash consideration of RMB20,000,000 plus shares issued at equivalent value of RMB108,645,000 (Note 16(c)). The Group applied acquisition accounting in accordance with HKFRS 3 issued by the HKICPA as the hospital was not controlled by Mr. Jason ZHOU before the acquisition.

For the disposals of the 30% equity interests of BNC Women's and Children's Hospital and BNC Harmony Clinic in 2016, they were accounted for as transactions with non-controlling interest and equity settlement with the holders of convertible preferred shares (Note 16(f)).

The consolidated financial statements includes the consolidated balance sheets, consolidated statements of comprehensive income, changes in equity and cash flows of the companies now comprising the Group as if the existing Group structure had been in existence throughout the report periods or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

Inter-company transactions and balances between group companies are eliminated on consolidation.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622).

The preparation of consolidated financial statements in conformity with HKFRSs require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's services; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in operating performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 18.

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortization – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012–2014 cycle, and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after January 1, 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 7	Disclosure Initiative	January 1, 2017
Amendments to HKAS 12	Recognition of deferred tax	January 1, 2017
HKFRS 9	Financial Instruments	January 1, 2018
HKFRS 15	Revenue from contracts with customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019

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

Amendments to HKAS 7 introduce an additional disclosure that will enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the HKFRS's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity shall apply those amendments to HKAS 7 for annual periods beginning on or after January 1, 2017.

Amendments to HKAS 12 on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. An entity shall apply those amendments to HKAS 12 for annual periods beginning on or after January 1, 2017.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 9, “Financial Instruments” replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. Classification is driven by the entity’s business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability’s own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a ‘three stage’ approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortized cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more “rule-based” approach of HKAS39.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The directors of the Company have performed a preliminary assessment. Based on this assessment, it is noted that HKFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability approach' based on transfer of control. HKFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018. The financial impacts of the application of the standard and a reasonable estimate of the effect will be available once the detailed review is completed.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 16 'Lease'. The Group is a lessee of various properties which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 2.24 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheet. As of December 31, 2016, the Group's total operating lease commitments amounted to RMB38.9 million (Note 31(b)). HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, leases will be recognized in the future as depreciation of right of use assets and interest expense on lease liability and will no longer be recorded as an operating expense on a straight line basis. Therefore, during the initial period of lease term, the lease expense (asset depreciation plus interest) under the new standard is higher compared to the operating lease expense recognized under the existing standard. The new standard is not expected to apply until the financial year 2019, which will include the adjustment of prior years. It is expected that certain portion of these lease commitments will be required to be recognized in the consolidated balance sheet as right-of-use assets and lease liabilities.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.6.1). If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intra-group transactions, balances and unrealized gains on transactions between the Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

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

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.3 Segment reporting

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

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

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

2.4.2 Transactions and balances

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

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment

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

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

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

– Medical equipment	5–10 years
– Office equipment and furniture	3–5 years
– Motor vehicles	4–10 years
– Leasehold improvements	Shorter of remaining lease term or estimated useful life

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other gains/(losses) – net' in the consolidated statement of comprehensive income.

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.6 Intangible assets

2.6.1 Goodwill

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

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

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

2.6.2 Medical licences

Medical Licenses acquired in a business combination are recognized at fair value at the acquisition date. These medical Licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of Licenses over their estimated useful lives of 30 years.

2.6.3 Computer software

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group's financial assets are mainly loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "other receivables, deposits and prepayments", "amounts due from related parties" and "cash and cash equivalents" in the consolidated balance sheet (Notes 2.12 and 2.13).

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.9 Offsetting financial instruments

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

2.10 Impairment of financial assets

Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “**loss event**”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

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

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

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

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

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies *(Continued)*

2.15 Shares held for restricted share award scheme (“RSA Scheme”)

The consideration paid by the Talent Wise Investments Limited (Note 15(g)) for purchasing the Company’s shares for the RSA Scheme from the market, including any directly attributable incremental cost, is presented as “Shares held for restricted share award scheme” and the amount is deducted from total equity.

When the Talent Wise Investments Limited transfers the Company’s shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to “Shares held for restricted share award scheme”, with a corresponding adjustment made to “Share premium”.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.18 Convertible preferred shares

Convertible preferred shares entitle the holders (i) to convert into a variable number of equity instruments, or to convert into a fixed number of equity instruments in exchange of variable amount of cash and (ii) to participate in dividends appropriation in preference to holders of ordinary shares, subject to the discretion of the directors of the Company, are regarded as compound instruments that consist of a liability component, an embedded derivative and an equity component. The Group designates the convertible preferred shares as financial liabilities at fair value through profit or loss. The entire convertible preferred shares are initially and subsequently measured at fair value, with changes in fair value recognized in the consolidated statements of comprehensive income in the year in which they arise.

Issue costs that are directly attributable to the issue of the convertible preferred shares, designated as financial liabilities at fair value through profit or loss, are recognized immediately in the consolidated statements of comprehensive income.

The convertible preferred shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.19.1 Current income tax

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

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.19 Current and deferred income tax (Continued)

2.19.2 Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2.19.3 Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.20 Employee benefits

2.20.1 Pension obligations

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

2.20.2 Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition

The Group's revenue is primarily derived from providing medical services to patient, especially in pediatric, obstetric and gynecologic and other related medical services, sales of pharmaceuticals and related goods and the hospital consulting services to the related parties.

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

2.22.1 Provision of medical services

Medical services revenue is 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 commercial assurance scheme, bank card or cash.

The Group sells membership cards to patients which entitles them to purchase medical services at different discount rates depending on the type of membership cards. The cards are normally valid for one-year membership period. For upfront refundable membership fees, the Group initially recognized the amounts from patients as financial liabilities. For upfront non-refundable membership fees, the amount are deferred and accounted for as "Deferred Revenue". After initial recognition, the Group recognizes relevant membership fees as revenue on a basis that reflects the timing and value of the expected membership benefits provided during the membership period.

The Group provides hospital services in package which is accounted as multiple element transactions. The total consideration of the package will be allocated by using the fair value of the consideration of each element under the package. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the Group's obligations have been fulfilled.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

2.22.2 Pharmaceutical sales

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

2.22.3 Hospital consulting service revenue

Hospital consulting service revenue 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.

2.23 Interest income

Interest income is recognized using the effective interest method.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

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

Notes to the Consolidated Financial Statements (Continued)

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management of the Group and approved by the executive directors.

3.1.1 Market risk

(a) Foreign exchange risk

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

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

As of December 31, 2016, the Group's assets and liabilities are primarily denominated in RMB.

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

(b) Fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings, cash and cash equivalents.

The interest rates and maturities of cash and cash equivalents and borrowings are disclosed in Note 14 and 18, respectively. The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. Borrowings carried at fixed rates expose the Group to fair value interest-rate risk. The directors of the Company believe that there is no material interest rate risk related to the Group's borrowings and cash and cash equivalents.

Notes to the Consolidated Financial Statements (Continued)

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

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

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

The Group, being a provider of medical services to patients, has a highly diversified customer base, without any single customer contributing material revenue. Moreover, some of the Group's revenue is settled by reputable commercial insurance companies which is purchased by patients. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective insurance companies' policy and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billing and claim status by communication with commercial insurance companies to minimize the credit risk. The Group considers that adequate provision for unrecoverable trade receivables has been made in the relevant accounting period after considering the Group's experience in collection of trade receivables.

For other receivables and amounts due from related parties, management makes periodic assessments as well as individual assessment on the recoverability based on historical settlement records and past experience. The directors of the Company does not expect any losses from non-performance by these counterparties.

Notes to the Consolidated Financial Statements (Continued)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

3.1.3 Liquidity risk

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At December 31, 2016					
Borrowings	20,534	–	–	–	20,534
Trade payables	16,844	–	–	–	16,844
Accruals and other payables (excluding non-financial liabilities) (Note 21)	78,179	–	–	–	78,179
Amounts due to related parties	25,774	–	–	–	25,774
Convertible preferred shares	–	169,695	–	–	169,695
Other non-current liabilities	–	80,122	–	–	80,122
	<u>141,331</u>	<u>249,817</u>	<u>–</u>	<u>–</u>	<u>391,148</u>
At December 31, 2015					
Borrowings	11,583	20,534	–	–	32,117
Trade payables	13,336	–	–	–	13,336
Accruals and other payables (excluding non-financial liabilities) (Note 21)	77,177	–	–	–	77,177
Amounts due to related parties	29,055	–	–	–	29,055
Other non-current liabilities	–	339,361	–	–	339,361
	<u>131,151</u>	<u>359,895</u>	<u>–</u>	<u>–</u>	<u>491,046</u>

Notes to the Consolidated Financial Statements (Continued)

3 Financial risk management (Continued)

3.2 Capital risk management

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

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

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

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as of December 31, 2016 and 2015 was as follows:

	As of December 31,	
	2016	2015
The liability-to-asset ratio	<u>78.87%</u>	<u>106.09%</u>

The decrease of the liability-to-asset ratio as of December 31, 2016 was mainly caused by the conversion from certain preferred shares into ordinary shares of the Company.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Consolidated Financial Statements (Continued)

3 Financial risk management (Continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as of December 31, 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

See Note 19 for disclosures of the other non-current liabilities and convertible preferred shares that are measured at fair value:

	As of December 31, 2016			Total RMB'000
	Level 1	Level 2	Level 3	
	RMB'000	RMB'000	RMB'000	
Liabilities				
Convertible preferred shares	—	—	169,695	169,695
Other non-current liabilities	—	—	80,122	80,122
Total	—	—	249,817	249,817

	As of December 31, 2015			Total RMB'000
	Level 1	Level 2	Level 3	
	RMB'000	RMB'000	RMB'000	
Liabilities				
Other non-current liabilities	—	—	339,361	339,361

Notes to the Consolidated Financial Statements (Continued)

4 Critical accounting estimates and judgements

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

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

(a) Estimated impairment of goodwill

The Group performed impairment assessment at each balance sheet date to assess whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and judgements. The key assumptions used in the value-in-use calculations were: compound growth rate of revenue, cost and operating expense percentage of revenue, long-term growth rate and pre-tax discount rate. Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test. This is further described in Note 7.

There was no impairment of goodwill during the years ended December 31, 2016 and 2015.

(b) Consideration paid and purchase price allocation in business combination

The application of business combination accounting requires the use of significant estimates and assumptions. For the shares issued as the consideration paid, management used the accounting estimation to account for the total amount by reference to a valuation report issued by an independent valuer. The valuation technique relies on a number of factors and judgements. Changes in these estimates and assumptions could have a significant impact on the assessed value of the total consideration paid.

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

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

Notes to the Consolidated Financial Statements (Continued)

4 Critical accounting estimates and judgements *(Continued)*

(c) Current and deferred income taxes

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

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

(d) Fair value of other non-current liabilities and convertible preferred shares

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

5 Segment information

Mr. Jason ZHOU in his role as the executive director and chairman of the Company upon completion of the Reorganization of the Group, serves as the chief operating decision-maker (the "CODM") of the Group. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from both the service and product perspective and reviews the Group's business performance by service line rather than by legal entity. The Group aggregates businesses that have similar economic characteristics, such as: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customers for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment.

In the view of the CODM, the Group is principally engaged in four distinct segments: (i) pediatric services, (ii) obstetrics and gynecology services, (iii) hospital consulting services and (iv) others, which are subject to different business risks and economic characteristics.

Notes to the Consolidated Financial Statements (Continued)

5 Segment information (Continued)

The Group was mainly engaged in the provision of pediatric services through Beijing New Century International Children's Hospital Co., Ltd. ("**BNC Children's Hospital**") and Beijing New Century Harmony Clinic Co., Ltd. ("**BNC Harmony Clinic**"). After the acquisition of Beijing New Century Women's and Children's Hospital Co., Ltd. ("**BNC Women's and Children's Hospital**") in November 2015, the Group integrated the pediatric business acquired from BNC Women's and Children's Hospital with its original pediatric business. For example, management has leveraged its resources across its pediatric business, such as the secondment of certain medical professionals and the referral of patients from BNC Children's Hospital to BNC Women's and Children's Hospital, where appropriate, to improve the overall business performance in pediatric segment and to achieve synergy effects. Therefore, the CODM manages the pediatric business carried out by BNC Children's Hospital, BNC Harmony Clinic and BNC Woman's and Children's Hospital as one operating segment and allocates resources and evaluates the performance of the segment accordingly.

Management is of the view that pediatric services and obstetric and gynecologic services are different in terms of the nature of businesses, including but not limited to different customers, different medical personnel involved, different medical procedures and different financial performance. Management recognizes revenue and identifiable direct cost and expenses in relation to pediatric services and obstetric and gynecologic services in the Group's business and accounting systems separately. Management uses a reasonable and consistent basis with reference to some historical information, e.g. areas occupied, in determining those common costs and expenses incurred in pediatric services and obstetric and gynecologic services to be attributable to each segment and prepare discrete financial information for the CODM to review. As a result, discrete segmental financial information is available for the creation and disclosure of segment reports for the different services provided by the Group.

The Group's operating and reportable segments for segment reporting purpose are as follows:

(a) Pediatrics

Revenue derived from specialized pediatric services, is contributed by BNC Children's Hospital, BNC Harmony Clinic and BNC Women's and Children's Hospital.

(b) Obstetrics and gynecology

Revenue derived from specialized obstetric and gynecologic services, is mainly contributed by BNC Women's and Children's Hospital.

Notes to the Consolidated Financial Statements (Continued)

5 Segment information *(Continued)*

(c) Hospital consulting services

The Group provides hospital consulting services to Jiahua Likang and its hospital subsidiaries under hospital consulting service agreements. The Group receives hospital consulting fees from Jiahua Likang.

(d) Others

The Group provides marketing services and operates canteens, gift and groceries shops in its own hospitals.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2.

For the purposes of monitoring segment performances and allocating resources between segments, segment results represent the profit before tax earned by each segment, without allocation of finance income, finance expense, other income, other gains/(losses) – net and listing expense that not directly related to the respective segments, which represent the internally generated financial information regularly reviewed by the CODM. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for cash and cash equivalents, deferred income tax assets and other assets that not directly related to the respective segment. Segment liabilities exclude borrowings, tax payable and other liabilities that not directly related to the respective segment.

No geographical information is presented as all of the Group's revenue is derived from activities in the PRC, and the Group's operations and non-current assets are mainly located in the PRC.

Notes to the Consolidated Financial Statements (Continued)

5 Segment information (Continued)

Revenues of RMB29.2 million are derived from a single external customer. These revenues are attributable to the hospital consulting services segment (2015: RMB1.8 million).

	Pediatrics RMB'000	Obstetrics and Gynecology RMB'000	Hospital consulting services RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended						
December 31, 2016						
Revenue	366,848	88,569	29,204	6,312	–	490,933
Cost of revenue	178,294	50,582	13,561	5,484	–	247,921
Segment results	134,690	16,553	11,790	827	–	163,860
Unallocated income					54,081	54,081
Unallocated cost					(43,843)	(43,843)
Profit before income tax	134,690	16,553	11,790	827	10,238	174,098
Income tax expense					(37,137)	(37,137)
Profit after income tax						136,961
As of December 31, 2016						
Assets						
Segment assets	226,097	69,219	24,496	–	–	319,812
Goodwill	86,779	10,903	–	–	–	97,682
Unallocated assets				–	219,255	219,255
Total assets	312,876	80,122	24,496	–	219,255	636,749
Liabilities						
Total liabilities	85,342	47,303	2,027	–	367,556	502,228
Other segment information						
Addition to non-current assets	5,590	2,579	38	–	–	8,207
Depreciation and amortization	(13,978)	(7,241)	–	–	–	(21,219)
Losses on disposal of property, plant and equipment, net	(90)	–	–	–	–	(90)

Notes to the Consolidated Financial Statements (Continued)

5 Segment information (Continued)

	Pediatrics RMB'000	Obstetrics and Gynecology RMB'000	Hospital consulting services RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended						
December 31, 2015						
Revenue	247,111	4,416	1,751	4,918	–	258,196
Cost of revenue	112,000	3,014	277	2,395	–	117,686
Segment results	96,642	(1,625)	1,474	2,523	–	99,014
Unallocated income					554	554
Unallocated cost					(7,584)	(7,584)
Profit before income tax	96,642	(1,625)	1,474	2,523	(7,030)	91,984
Income tax expense					(24,789)	(24,789)
Profit after income tax						<u>67,195</u>
As of December 31, 2015						
Assets						
Segment assets	223,305	70,888	1,751	–	–	295,944
Goodwill	86,779	10,903	–	–	–	97,682
Unallocated assets					138,437	138,437
Total assets	310,084	81,791	1,751	–	138,437	<u>532,063</u>
Total liabilities	75,880	45,656	278	–	442,643	<u>564,457</u>
Other segment information						
Addition to non-current assets	3,123	124	–	–	–	3,247
Depreciation and amortization	(3,985)	(713)	–	–	–	(4,698)
Losses on disposal of property, plant and equipment, net	(113)	–	–	–	–	(113)

Notes to the Consolidated Financial Statements (Continued)

6 Property, plant and equipment

	Buildings and leasehold improvements <i>RMB'000</i>	Medical equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment and furniture <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2015						
Cost	23,558	27,521	6,486	7,957	–	65,522
Accumulated depreciation	(17,275)	(18,619)	(4,713)	(5,856)	–	(46,463)
Net book amount	<u>6,283</u>	<u>8,902</u>	<u>1,773</u>	<u>2,101</u>	<u>–</u>	<u>19,059</u>
Year ended December 31, 2015						
Opening net book amount	6,283	8,902	1,773	2,101	–	19,059
Business combination	68,156	22,852	–	4,926	196	96,130
Additions	3	2,213	298	600	–	3,114
Disposals	–	(79)	–	(35)	–	(114)
Transfer upon completion	196	–	–	–	(196)	–
Depreciation charges	(1,435)	(1,587)	(270)	(538)	–	(3,830)
Closing net book amount	<u>73,203</u>	<u>32,301</u>	<u>1,801</u>	<u>7,054</u>	<u>–</u>	<u>114,359</u>
At December 31, 2015						
Cost	91,913	52,507	6,784	13,448	–	164,652
Accumulated depreciation	(18,710)	(20,206)	(4,983)	(6,394)	–	(50,293)
Net book amount	<u>73,203</u>	<u>32,301</u>	<u>1,801</u>	<u>7,054</u>	<u>–</u>	<u>114,359</u>

Notes to the Consolidated Financial Statements (Continued)

6 Property, plant and equipment (Continued)

	Buildings and leasehold improvements RMB'000	Medical equipment RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended December 31, 2016						
Opening net book amount	73,203	32,301	1,801	7,054	-	114,359
Additions	561	6,259	-	964	-	7,784
Disposals	-	(54)	(63)	(103)	-	(220)
Depreciation charges	(7,751)	(4,807)	(322)	(2,533)	-	(15,413)
Closing net book amount	<u>66,013</u>	<u>33,699</u>	<u>1,416</u>	<u>5,382</u>	<u>-</u>	<u>106,510</u>
At December 31, 2016						
Cost	92,474	58,712	6,721	14,309	-	172,216
Accumulated depreciation	<u>(26,461)</u>	<u>(25,013)</u>	<u>(5,305)</u>	<u>(8,927)</u>	<u>-</u>	<u>(65,706)</u>
Net book amount	<u>66,013</u>	<u>33,699</u>	<u>1,416</u>	<u>5,382</u>	<u>-</u>	<u>106,510</u>

(a) Premises provided by BCH

The Group has established BNC Children's Hospital based on a public-private-partnership arrangement with Beijing Children's Hospital ("BCH"), a public hospital in Beijing, the PRC. Pursuant to the cooperation agreement in 2002, BCH has agreed to provide certain premises on its allocated land for the business operation of BNC Children's Hospital without extra payments to each other. The term of the cooperation with BCH lasts until 12 December 2022. Accordingly, the Group further carried out a massive construction and decoration project for BNC Children's Hospital. As of December 31, 2016, relevant buildings and leasehold improvements which were located at BCH's allocated land with an aggregate carrying amount of approximately RMB4.5 million (as of December 31, 2015: RMB5.4 million). Directors of the Company are of the opinion that the Group is entitled to lawful and valid occupancy or use of these premises.

Notes to the Consolidated Financial Statements (Continued)

6 Property, plant and equipment (Continued)

(a) Premises provided by BCH (Continued)

The premises of BNC Children's Hospital are owned by BCH. BNC Children's Hospital used and will continue to use such premises pursuant to the cooperation agreement with BCH. As part of the cooperation arrangement between BCH and the Group, both parties contributed different resources to BNC Children's Hospital in addition to their capital contributions. BCH agreed to provide the premises for BNC Children's Hospital's use for business operations and the Group agreed to introduce advanced hospital management skills and provide the core management team to operate BNC Children's Hospital, without extra payments to each other. The cooperation agreement was approved by Beijing Municipal Commission of Health and Family Planning ("**Beijing MOH**") when BNC Children's Hospital was established. BCH is of the view that it has complied with all regulatory procedural requirements with respect to the cooperation agreement.

However, a PRC legal adviser of the Company is of the view that, pursuant to certain regulations, BCH, as a public healthcare entity, is required to fulfill certain procedural requirements, together with certain other documents to the relevant competent governmental authority for approval. As of the reporting date, such procedural requirements had not been fulfilled.

As advised by the PRC legal adviser, if the competent governmental authority requires BCH to fulfill these procedural requirements, BNC Children's Hospital, as the actual user of the premises, might be required to pay for its use of the premises if the competent governmental authority determines. However, the PRC legal adviser considers, with approval of relevant documents from the competent governmental authority, the risk of BNC children's hospital of having to pay for its use of the premises would be remote.

The directors of the Company have assessed the situation and considers the following factors: (i) BCH being responsible under PRC laws, rules and regulations for undertaking such procedural requirements, (ii) BNC Children's Hospital not being subject to any administrative penalties due to BCH's failure to undertake such procedural requirements, (iii) the management of the Company finding no shortfall considering the different types of resources contributed by the parties as part of the cooperation arrangement, (iv) Beijing MOH approved the cooperation arrangement in 2002 and reaffirmed the legality and validity of BNC Children's Hospital's operations in August 2016, and (v) BNC Children's Hospital had used the premises for approximately 14 years, and not having been notified of any request by any governmental authorities to fulfill such procedural requirements or any penalty resulting therefrom, and (vi) the Company had not receiving or having been aware of any notice from Beijing MOH requesting BCH or the Company to undertake the procedural requirements.

The directors of the Company are of the view that BNC Children's Hospital's risk of having to pay for its use of the premises is remote.

Notes to the Consolidated Financial Statements (Continued)

6 Property, plant and equipment (Continued)

(a) Premises provided by BCH (Continued)

In addition, Mr. Jason ZHOU, the controlling shareholder of the Company, has entered into a deed of indemnity in the Company's favour to the effect that, in case the relevant competent governmental authority requires BCH to fulfill the relevant procedural requirements in the future and as a result BNC Children's Hospital is required to pay consideration for using of BCH's premises, the controlling shareholder will indemnify the Company against any paid consideration ("**Indemnity Statement**").

Based on the view of the PRC legal adviser, the assessment of the Company and the Indemnity Statement, the management of the Company is of the view that there is no need to make any provision in relation to the usage of the premises.

(b) Depreciation charges

Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	11,314	2,655
Administration expenses	3,837	976
Selling expenses	262	199
Total	15,413	3,830

No property, plant and equipment was pledged as collateral under borrowing agreements at December 31, 2016 (2015: Nil).

During the years of 2016, the Group has no capitalized borrowing costs on qualifying assets (2015: Nil).

Notes to the Consolidated Financial Statements (Continued)

7 Intangible assets

	Medical licenses <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2015				
Cost	–	–	2,017	2,017
Accumulated amortization	–	–	(743)	(743)
Net book amount	–	–	1,274	1,274
Year ended December 31, 2015				
Opening net book amount	–	–	1,274	1,274
Business Combinations	156,784	97,682	362	254,828
Additions	–	–	133	133
Amortization	(436)	–	(432)	(868)
Closing net book amount	156,348	97,682	1,337	255,367
At December 31, 2015				
Cost	156,784	97,682	2,512	256,978
Accumulated amortization	(436)	–	(1,175)	(1,611)
Net book amount	156,348	97,682	1,337	255,367
Year ended December 31, 2016				
Opening net book amount	156,348	97,682	1,337	255,367
Additions	–	–	423	423
Amortization	(5,226)	–	(580)	(5,806)
Closing net book amount	151,122	97,682	1,180	249,984
At December 31, 2016				
Cost	156,784	97,682	2,935	257,401
Accumulated amortization	(5,662)	–	(1,755)	(7,417)
Net book amount	151,122	97,682	1,180	249,984

Notes to the Consolidated Financial Statements (Continued)

7 Intangible assets (Continued)

(a) Impairment tests for goodwill

Goodwill of RMB97.7 million is resulted from the acquisition of BNC Women's and Children's on November 30, 2015. BNC Women's and Children's Hospital is principally engaged in the provision of medical services to women and children in the PRC.

Management reviews business performance of each operating segment. Goodwill is monitored by the management at the operating segment level.

The goodwill was primarily allocated to the pediatric segment and to a lesser extent the obstetrics and gynecology segment. The pediatric segment includes the pediatric business of BNC Children's Hospital, BNC Harmony Clinic and BNC Women's and Children's Hospital which the Company's management has expected to benefit from the synergies of the combination. The following is a summary of goodwill allocation for each operating segment:

	Beginning of year RMB'000	Addition RMB'000	Impairment RMB'000	End of year RMB'000
Year ended December 31, 2016				
Pediatric segment	86,779	—	—	86,779
Obstetrics and Gynecology segment	10,903	—	—	10,903
	<u>97,682</u>	<u>—</u>	<u>—</u>	<u>97,682</u>
Year ended December 31, 2015				
Pediatric segment	—	86,779	—	86,779
Obstetrics and Gynecology segment	—	10,903	—	10,903
	<u>—</u>	<u>97,682</u>	<u>—</u>	<u>97,682</u>

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

Notes to the Consolidated Financial Statements (Continued)

7 Intangible assets (Continued)

(a) Impairment tests for goodwill (Continued)

The recoverable amounts of the operating segments (including goodwill and medical license) based on the estimated value-in-use calculations were higher than their carrying amounts at December 31, 2016. Accordingly, no provision for impairment loss for goodwill or medical license is considered necessary.

For pediatric segment and obstetrics and gynecology segment with significant amount of goodwill, the key assumptions, long-term growth rate and discount rate used in the value-in-use calculations as of December 31, 2016 are as follows:

	Pediatric segment	
	December 31, 2016	December 31, 2015
Revenue (% compound growth rate)	7.73%	10.10%
Costs and operating expenses (% of revenue)	59.51%	59.13%
Long-term growth rate	3.00%	3.00%
Pre-tax discount rate	18.87%	18.74%
Recoverable amount of operating segment (RMB'000)	1,272,757	1,183,614
	=====	=====
	Obstetrics and Gynecology segment	
	December 31, 2016	December 31, 2015
Revenue (% compound growth rate)	8.00%	17.45%
Costs and operating expenses (% of revenue)	73.54%	74.06%
Long-term growth rate	3.00%	3.00%
Pre-tax discount rate	22.47%	22.21%
Recoverable amount of operating segment (RMB'000)	166,978	148,728
	=====	=====

Revenue compound growth rate is over the seven-year forecast period. It is based on past performance and management's expectations of market development. If the compound growth rate of revenue had been 3% lower, there was still sufficient headroom with no impairment required for the year ended December 31, 2016.

Notes to the Consolidated Financial Statements (Continued)

7 Intangible assets (Continued)

(a) Impairment tests for goodwill (Continued)

The percentage of costs and operating expenses of revenue is the average percentages over the seven-year forecast period. It is based on current margin levels, with adjustments made to reflect the expected future price rises in labor, rental and relevant equipment, in which management does not expect to be able to pass on to customers through price increases. If the costs and operating expenses had been 3% higher, there was still sufficient headroom with no impairment required for the period ended December 31, 2016.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. If the pre-tax discount rate had been 1% higher, there was still sufficient headroom with no impairment required for the year ended December 31, 2016.

No impairment was charged during the year ended December 31, 2016.

(b) Amortization

Amortization charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	5,436	656
Administration expenses	334	180
Selling expenses	36	32
Total	<u>5,806</u>	<u>868</u>

Notes to the Consolidated Financial Statements (Continued)

8 Subsidiaries

Subsidiaries Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Directly owned:						
New Millennium Investment Co., Ltd.	The BVI, limited liability company	Investment Holding in the BVI	50,000 ordinary shares, USD50,000	100%	100%	–
Indirectly owned:						
New Century Healthcare (International) Co., Ltd. (新世紀醫療(國際)有限公司)	Hong Kong, limited liability company	Investment Holding in Hong Kong	1 ordinary share, HKD1	–	100%	–
Beijing Jiahua Yihe Management Consulting Co., Ltd. (北京嘉華怡和管理諮詢有限公司)	The PRC, limited liability company	Investment Holding and Hospital Consulting services in the PRC	RMB200,000,000	–	100%	–
Beijing New Century International Children's Hospital Co., Ltd. (北京新世紀兒童醫院有限公司)	The PRC, limited liability company	Operating of hospital in the PRC	RMB20,000,000	–	65%	35%
Beijing New Century Women's and Children's Hospital Co., Ltd. (北京新世紀婦兒醫院有限公司)	The PRC, limited liability company	Operating of hospital in the PRC	RMB20,000,000	–	70%	30%
Beijing New Century Harmony Clinic Co., Ltd. (北京新世紀榮和門診部有限公司)	The PRC, limited liability company	Operating of hospital in the PRC	RMB8,000,000	–	70%	30%

Note: In addition to the subsidiaries set forth above, the Company also consolidated Talent Wise Investments Limited.

Talent Wise Investments Limited is a special purpose vehicle incorporated in the British Virgin Islands with limited liability for the purpose of a restricted share award scheme (the “**RSA Scheme**”) of the Company and it acts as the nominee for the RSA Scheme.

As the Company has the power to govern the financial and operating policies of the RSA Scheme and can derive benefits from the contributions of the selected participants who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Talent Wise Investments Limited. For the details, please refer to Note 15(g).

(a) Material non-controlling interests

The total non-controlling interest for the year ended December 31, 2016 is RMB55.3 million (2015: RMB11.1 million). They are attributed to BNC Children's Hospital, BNC Women's and Children's Hospital and BNC Harmony Clinic.

(b) Significant restrictions

Cash and cash equivalents of RMB176.0 million (2015: RMB79.1 million) are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Notes to the Consolidated Financial Statements (Continued)

8 Subsidiaries (Continued)

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarized financial information for BNC Children's Hospital and BNC Women's and Children's Hospital that have non-controlling interests that are material to the Group.

(i) BNC Children's Hospital

Summarised balance sheets

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Current		
Assets	162,807	87,199
Liabilities	(61,530)	(74,939)
Total current net assets	101,277	12,260
Non-current		
Assets	18,195	19,475
Total non-current net assets	18,195	19,475
Net assets	119,472	31,735

Summarised income statements

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Revenue	274,136	235,534
Profit before income tax	124,701	100,189
Income tax expense	(31,180)	(25,070)
Post-tax profit	93,521	75,119
Total comprehensive income	93,521	75,119
Total comprehensive income allocated to the non-controlling interests	32,732	26,292
Dividends paid to the non-controlling interests	23,018	28,565

Notes to the Consolidated Financial Statements (Continued)

8 Subsidiaries (Continued)

(i) BNC Children's Hospital (Continued)

Summarised statements of cash flows

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	130,142	101,170
Interest received	289	274
Income tax paid	(30,166)	(24,196)
Net cash generated from operating activities	<u>100,265</u>	<u>77,248</u>
Net cash used in investing activities	<u>(2,930)</u>	<u>(4,864)</u>
Net cash used in financing activities	<u>(28,562)</u>	<u>(118,817)</u>
Net increase/(decrease) in cash and cash equivalents	<u><u>68,773</u></u>	<u><u>(46,433)</u></u>
Cash and cash equivalents at the beginning of the year	69,008	115,441
Cash and cash equivalents at the end of year	<u><u>137,781</u></u>	<u><u>69,008</u></u>

Notes to the Consolidated Financial Statements (Continued)

8 Subsidiaries (Continued)

(ii) BNC Women's and Children's Hospital

Summarised balance sheets

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Current		
Assets	67,950	37,547
Liabilities	(250,663)	(236,138)
Total current net liabilities	(182,713)	(198,591)
Non-current		
Assets	268,901	288,304
Liabilities	(38,196)	(59,589)
Total non-current net assets	230,705	228,715
Net assets	47,992	30,124

Notes to the Consolidated Financial Statements (Continued)

8 Subsidiaries (Continued)

(ii) BNC Women's and Children's Hospital (Continued)

Summarised income statements

	For the year ended December 31, 2016 RMB'000	Period from December 1 to December 31, 2015 RMB'000
Revenue	181,481	11,119
Profit before income tax	23,826	(1,117)
Income tax expense	(5,958)	279
Post-tax profit	17,868	(838)
Total comprehensive income	17,868	(838)
Total comprehensive income allocated to the non-controlling interests	5,434	—
Dividends paid to the non-controlling interests	—	—

Notes to the Consolidated Financial Statements (Continued)

8 Subsidiaries (Continued)

(ii) BNC Women's and Children's Hospital (Continued)

Summarised statements of cash flows

	For the year ended December 31, 2016 RMB'000	Period from December 1 to December 31, 2015 RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	37,670	(15,432)
Interest paid	(1,601)	—
Interest received	161	23
Net cash generated from/(used in) operating activities	36,230	(15,409)
Net cash generated from/(used in) investing activities	6,150	(225)
Net cash (used in)/generated from financing activities	(14,220)	19,000
Net increase in cash and cash equivalents	28,160	3,366
Cash and cash equivalents at the beginning of period	10,070	6,704
Cash and cash equivalents at the end of period	38,230	10,070

The information above is the amount before intra-group eliminations.

Notes to the Consolidated Financial Statements (Continued)

9 Inventories

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Pharmaceuticals	3,838	2,822
Medical consumables	2,611	1,803
	<u>6,449</u>	<u>4,625</u>

The cost of inventories was recognized as expense and included in 'cost of revenue' amounting to RMB47.4 million for the year ended December 31, 2016 (2015: RMB23.7 million) (Note 24).

10 Financial instruments by category

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Assets as per consolidated balance sheets		
At amortized cost		
Trade receivables (Note 11)	18,810	12,193
Other receivables excluding prepayments (Note 12)	7,115	4,025
Amounts due from related parties (Note 13)	24,069	21,078
Cash and cash equivalents (Note 14)	188,963	81,231
	<u>238,957</u>	<u>118,527</u>
Liabilities as per consolidated balance sheets		
At amortized cost		
Borrowings (Note 18)	19,980	30,000
Trade payables (Note 20)	16,844	13,336
Other payables excluding non-financial liabilities (Note 21)	78,179	77,177
Amounts due to related parties (Note 13)	25,774	29,055
	<u>140,777</u>	<u>149,568</u>
At fair value through profit and loss		
Convertible preferred shares (Note 19)	169,695	—
Other non-current liabilities (Note 19)	80,122	339,361
	<u>249,817</u>	<u>339,361</u>

Notes to the Consolidated Financial Statements (Continued)

11 Trade receivables

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables	18,832	12,276
Less: allowance for impairment of trade receivables	(22)	(83)
Trade receivables – net	<u>18,810</u>	<u>12,193</u>

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

As of December 31, 2016 and 2015, the aging analysis of the trade receivables based on demand note date was as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Up to 3 months	17,175	11,467
4–6 months	1,077	552
7 months–1 year	249	161
Over 1 year	331	96
	<u>18,832</u>	<u>12,276</u>

As of December 31, 2016, certain trade receivable balances past due but not impaired were RMB2.2 million (2015: RMB1.3 million). The balances mainly related to amounts to be claimed from insurance companies. The management considers that based on past settlement history, those amounts can be recovered in reasonable time. The aging analysis of these trade receivables is as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Up to 3 months	870	589
4–6 months	1,077	551
7 months–1 year	249	161
	<u>2,196</u>	<u>1,301</u>

Notes to the Consolidated Financial Statements (Continued)

11 Trade receivables (Continued)

As of December 31, 2016, trade receivables of RMB1.3 million (2015: RMB649,000) were impaired. These mainly related to amounts due from individual patients and amounts due from insurance company over 1 year. The provision was RMB22,000 as of December 31, 2016 (2015: RMB83,000). The aging analysis of these trade receivables is as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Up to 1 year	921	553
Over 1 year	331	96
	<u>1,252</u>	<u>649</u>

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
As of January 1	83	11
Provision for receivables impairment	8	72
Reversal of provision	(69)	—
As of year ended	<u>22</u>	<u>83</u>

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated statement of comprehensive income (Note 24). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk as of December 31, 2016 and 2015, is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements (Continued)

12 Other receivables, deposits and prepayments

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Prepayments	6,005	2,960
Other receivables	1,251	1,218
Deposits	1,234	1,000
Others	4,630	1,807
	<u>13,120</u>	<u>6,985</u>

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

13 Balances with related parties

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Amounts due from related parties		
– Trade		
Beijing Jiahua Likang Health Investment Co., Ltd.	24,069	1,751
Beijing Children's Hospital	–	963
	<u>24,069</u>	<u>2,714</u>
– Non-Trade		
Beijing Jiahua Likang Health Investment Co., Ltd.	–	17,923
Tianjin Heping New Century Women's and Children's Hospital Co., Ltd.	–	400
Suzhou New Century International Children's Hospital Co., Ltd.	–	23
Chengdu New Century Women's and Children's Hospital Co., Ltd.	–	18
	<u>–</u>	<u>18,364</u>
	<u>24,069</u>	<u>21,078</u>

Notes to the Consolidated Financial Statements (Continued)

13 Balances with related parties (Continued)

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Amounts due to related parties		
– Trade		
Beijing Children's Hospital	1,311	1,076
Beijing Muhe Jiaye Property Management Co., Ltd.	138	128
	<u>1,449</u>	<u>1,204</u>
– Non-Trade		
Beijing Children's Hospital	2,268	23,059
Beijing Jiahua Kangyong Investment and Management Co., Ltd.	–	4,783
Tianjin Heping New Century Women's and Children's Hospital Co., Ltd.	–	9
Beijing Jiahua Likang Health Investment Co., Ltd.	22	–
Mr. Xu Han	1	–
Ms. Xin Hong	1	–
Ms. Zhao Juan	21,813	–
Ms. Zhou Jie	220	–
	<u>24,325</u>	<u>27,851</u>
	<u>25,774</u>	<u>29,055</u>

The amounts due from/to related parties are unsecured, interest-free, and repayable on demand and denominated in RMB. Their carrying values as of December 31, 2016 and 2015 approximate their fair values.

Notes to the Consolidated Financial Statements (Continued)

14 Cash and cash equivalents

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	188,362	80,810
Cash on hand	601	421
	<u>188,963</u>	<u>81,231</u>

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	187,113	81,231
USD	1,564	—
HKD	286	—
	<u>188,963</u>	<u>81,231</u>

Notes to the Consolidated Financial Statements (Continued)

15 Share capital

	Note	Number of ordinary shares	Nominal value of ordinary shares USD	Number of preferred shares	Nominal value of preferred shares USD
Authorised:					
Upon incorporation	(a)	50,000	50,000	–	–
At December 31, 2015		50,000	50,000	–	–
Share Sub-division on February 2016	(b)	499,950,000	–	–	–
Re-designation on issuance of preferred shares	(c)	(23,936,268)	(2,394)	23,936,268	2,394
Conversion from preferred shares into ordinary shares	(f)	16,394,266	1,639	(16,394,266)	(1,639)
At December 31, 2016		492,457,998	49,245	7,542,002	755

	Note	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB'000
Issued and paid:				
Upon incorporation	(a)	1	1	–
As of December 31, 2015		1	1	–
Share Sub-division on February 18, 2016	(b)	9,999	–	–
Issued of ordinary shares of USD0.0001 on February 18, 2016	(d)	83,605,734	8,361	55
Re-designation on issuance of preferred shares	(d)	–	–	(2)
Conversion from preferred shares into ordinary shares	(f)	16,394,266	1,639	11
Shares issued to RSA scheme	(g)	2,757,744	276	2
As of December 31, 2016	(e)	102,767,744	10,277	66

Notes to the Consolidated Financial Statements (Continued)

15 Share capital (Continued)

- (a) On July 31, 2015, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with authorized share capital comprised of 50,000 shares at par value of USD1 per share. Upon its incorporation, one share of par value of USD1 of the Company was transferred to JoeCare.
- (b) On February 18, 2016, the board of directors of the Company approved a share sub-division of the Company's share capital at a ratio of 1 to 10,000 (the **"Share Sub-division"**). Immediately after such sub-division, the Company re-classified and re-designated authorized share capital into 500,000,000 ordinary shares with par value of USD0.0001 each.
- (c) On August 25, 2015, the Company entered into the Group A Preferred Shares Purchase Agreements with CDH Investment II (the **"Group A Preferred Shareholders"**) to issue 16,394,266 Group A Preferred Shares (par value USD0.0001 per share) at total consideration of USD1,639 (with initial conversion price with USD0.0001 per share). The issue date of Group A Preferred Shares was February 18, 2016.

On August 31, 2015, the Company entered into the Group B Preferred Share Purchase Agreements with CDB GJ, Boyu AH and CDH Investment II (the **"Group B Preferred Shareholders"**) to issue a total number of 7,542,002 Group B Preferred Shares to Group B Preferred Shareholders at a total consideration of RMB215,834,956 (with initial conversion price with RMB28.62 per share). The issue date of Group B Preferred Shares was February 18, 2016.

- (d) On February 18, 2016, the Company issued 59,355,734 ordinary shares to JoeCare, 2,757,487 ordinary shares to Century Star Investment Co., Ltd. and 21,492,513 ordinary shares to Victor Gains at par value of USD0.0001 per share, totaling USD8,361 (equivalent to approximately RMB55,000) were credited to share capital. At the same day, JoeCare transferred 3,560,993 ordinary shares it held to Group B Preferred Shareholders. For these 3,560,993 shares transferred, the Company granted all rights of Group B Preferred Shares to Group B Preferred Shareholders, resulting these transferred shares is accounted for as if Group B Preferred Shares and reduce the share capital totaling USD356 (equivalent to approximately RMB2,000).
- (e) On February 18, 2016, Smooth Yu transferred 6,548,602 ordinary shares to Boyu AH. For these shares transferred, the Company granted liquidation preference rights to Boyu AH which allow Boyu AH to enjoy certain preference distribution rights in the event of any liquidation, dissolution or winding up of the Company. Other than these preference rights, these shares are entitled to the same dividend rights with other ordinary shares. The preference distribution rights was terminated immediately upon listing on January 18, 2017 in accordance with the shareholder resolution passed on August 29, 2016.

Notes to the Consolidated Financial Statements (Continued)

15 Share capital (Continued)

- (f) On August 29, 2016, the Group A Preferred Shares (16,394,266 shares) held by CDH Investment II were converted into ordinary shares of the Company with a 1-to-1 conversion ratio. Subsequent to the conversion, the Company derecognized the convertible preferred shares from the current liability and recognize share capital and share premium.
- (g) On August 29, 2016, the RSA Scheme was approved by the shareholders of the Company. In accordance with the shareholders' approval, 2,757,744 ordinary shares (the "**RSA Shares**", representing 2.5% of the issued share capital of the Company as enlarged by the RSA Shares) were allotted and issued at par value each to Talent Wise Investments Limited, a business company incorporated in the British Virgin Islands with limited liability, and the RSA Shares were held on trust by the two shareholders of Talent Wise Investments Limited as trustee for the RSA Scheme. The two shareholders are the senior management of the Company.

The purposes of the RSA Scheme are: (i) to provide any individual, being a director (including executive and non-executive director), employee, officer, agent or consultant of the Company or any other member of the Group, who is selected by the Administration Committee (as defined below) in accordance with the terms of and entitled to receive a grant under the RSA Scheme (the "**Selected Participant**"), with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Group and provide additional incentive for them to achieve performance goals; and (iii) to attract suitable personnel for further development of the Group.

The RSA Scheme was managed by a sub-committee of the board of the Company, including the Chief Executive Officer, chairman of the remuneration committee and other senior management of the Company, delegated with the power and authority by the board to administer the RSA Scheme (the "**Administration Committee**") may stipulate at the time of selecting any person as a Selected Participant.

The criteria for determining Selected Participants, number of restricted shares and grant consideration and the other terms and conditions of the grants, the Administration Committee shall take into consideration matters including, but without limitation to, the present contribution and expected contribution of the relevant Selected Participants, the Group's general financial condition, overall business objectives and future development plan, the initial issue price of the shares held by the trustee, the net asset value per share as of the end of the financial year immediately before the date of the grant letter.

As the Company has the power to determine the financial and operating policies of Talent Wise Investment Limited through its control over the Administration Committee, the directors of the Company consider that it is appropriate to consolidate the Talent Wise Investment Limited.

As of the reporting date, no shares held for restricted share award had been granted or agreed to be granted by the Company pursuant to the RSA Scheme.

Notes to the Consolidated Financial Statements (Continued)

15 Share capital (Continued)

- (h) Pursuant to the shareholders' resolution passed on December 22, 2016, conditional on the share premium account of the Company being credited as a result of the proposed global offering described in the Prospectus, the Company will capitalise an amount of USD24,969 standing to the credit of its share premium account in paying up in full at par 249,690,254 shares, which will be allotted and issued to the shareholders of the Company as of the date of Prospectus in accordance with their respective shareholding ("**Capitalization Issue**"). The Capitalization Issue was completed on January 18, 2017, immediately at the listing date of the Company.
- (i) Pursuant to the shareholders' resolutions passed on December 22, 2016, with effect from and conditional upon the listing of the Company, (i) all the Group B Preferred Shares will be automatically converted into the same number of ordinary shares of the Company; (ii) the authorised share capital of the Company will be changed to USD100,000 divided into 1,000,000,000 shares of USD0.0001 each of one single class, with effect from and conditional upon the listing date. The conversion was completed on January 18, 2017, immediately at the listing date of the Company.

16 Share premium and reserves

	Share premium RMB'000	Reserves			Subtotal RMB'000
		Other reserves RMB'000	Merger reserve RMB'000	Surplus reserve (a) RMB'000	
At January 1, 2015	—	16,000	—	6,500	22,500
Capital contribution by shareholders (b)	—	200,000	—	—	200,000
Ordinary shares agreed to be issued for Listing Business (c)	—	1,192,374	—	—	1,192,374
Merger reserve during the Reorganization of the group (d)	—	(16,000)	(1,407,090)	—	(1,423,090)
Deemed distribution to the controlling shareholder (e)	—	(24,740)	—	—	(24,740)
At December 31, 2015	—	1,367,634	(1,407,090)	6,500	(32,956)

Notes to the Consolidated Financial Statements (Continued)

16 Share premium and reserves (Continued)

	Share premium RMB'000	Reserves			Subtotal RMB'000
		Other reserves RMB'000	Merger reserve RMB'000	Surplus reserve (a) RMB'000	
At January 1, 2016	–	1,367,634	(1,407,090)	6,500	(32,956)
Issuance of ordinary shares (c)	1,192,374	(1,192,374)	–	–	(1,192,374)
Deemed distribution to the controlling shareholder (e)	–	(301,907)	–	–	(301,907)
Liability settlement by equity instrument (f)	–	8,555	–	–	8,555
Transaction with the non-controlling interests (f)	–	(1,027)	–	–	(1,027)
Conversion of preferred shares into ordinary shares (15(f))	345,908	–	–	–	–
Shares held for RSA scheme (15(g))	(2)	–	–	–	–
At December 31, 2016	<u>1,538,280</u>	<u>(119,119)</u>	<u>(1,407,090)</u>	<u>6,500</u>	<u>(1,519,709)</u>

(a) Surplus reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve is appropriated from BNC Children's Hospital. Before January 1, 2013, the balance of the statutory surplus reserve reach 50% of the share capital, no future appropriation was accrued in 2016 (2015: Nil).

(b) Capital contribution by shareholders

On June 15, 2015, Jiahua Yihe was established by Ms. Zhao with a registered capital of RMB150,000. On November 11, 2015, Jiahua Yihe increased its registered capital from RMB150,000 to RMB200,000,000, the consideration was paid in September 2015. The capital investment paid by Ms. Zhao and Ms. Zhou Jie was accounted for as capital contribution by shareholders.

Notes to the Consolidated Financial Statements (Continued)

16 Share premium and reserves (Continued)

(c) Ordinary shares agreed to be issued for listing business

Pursuant to Likang Agreements in 2012 and Group A Preferred Shares Purchase Agreements in 2015, the Company would issue 62,113,221 and 21,492,513 ordinary shares to Mr. Jason ZHOU and Ms. Liang, respectively and 16,394,266 preferred shares to CDH Investment II when the Group acquired the entire interests in BNC Children's Hospital, BNC Harmony Clinic and BNC Women's and Children's Hospital in November 2015. The total value of ordinary and preferred shares agreed to be issued amounted to RMB1,192,374,000 and RMB339,361,000, (Note 19) respectively. Among which RMB108,645,000 is to acquire the BNC Women's and Children's Hospital. The ordinary shares and Group A Preferred Shares were issued on February 18, 2016.

(d) Merger reserves during reorganization

Merger reserves during the Reorganization represented the difference between value of the ordinary and preferred shares to be issued for the acquisition of BNC Children's Hospital and BNC Harmony Clinic and the combined capital reserves.

(e) Deemed distribution to the controlling shareholder

On November 30, 2015, Jiahua Yihe acquired the 65% equity interests in BNC Children's Hospital and 100% equity interests in BNC Harmony Clinic, respectively, at a cash consideration of RMB24.7 million. The acquisition was regarded as business combination under common control of Mr. Jason ZHOU. The consideration was accounted for as deemed distribution to the controlling shareholder.

On February 18, 2016, JoeCare transferred its 3,560,993 ordinary shares of the Company to Group B Preferred Shareholders for a consideration totaling RMB101.9 million. For these shares transferred, the Company granted the same rights of Group B Preferred Shares to these shares held by Group B Preferred Shareholders (Note 19). Accordingly, these transferred shares are redesignated as liability at fair value through profit and loss amounting to RMB101.9 million. And the transaction was accounted for as deemed distribution to the controlling shareholder.

On May 24, 2016, New Century Healthcare (International) Co. Limited acquired 99.0% and 1.0% of equity interest in Jiahua Yihe from Ms. Zhao and Ms. Zhou Jie, respectively. The consideration paid was accounted for as deemed distribution to the controlling shareholder, amounting to RMB200 million.

Notes to the Consolidated Financial Statements (Continued)

16 Share premium and reserves (Continued)

(f) Liability settlement by equity instrument and transaction with the non-controlling interests

On January 22, 2016 and January 30, 2016, Jiahua Yihe transferred its 30% equity interest in each of BNC Harmony Clinic and BNC Women's and Children's Hospital to Jiahua Kangming of a cash consideration of RMB6.9 million. As a consequence of the transaction, part of the liabilities to the preferred shareholders were in effect settled by equity instruments transferred to Jiahua Kangming. The difference of RMB15.3 million between the fair value of liabilities settled and the fair value of the relevant portion of equity instruments and the related portion of the cash consideration was recognized as other gains/(losses)-net (Note 26). On the other hand, the shares transferred to Jiahua Kangming was accounted for as transaction with the non-controlling interests, the difference between the consideration paid for the transaction, the carrying amount of the non-controlling interests was recognized in other reserves.

17 Dividends

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Dividends declared to the controlling shareholder (a)	—	92,036
Dividends declared to the then shareholders of Jiahua Yihe (b)	27,542	—
	<u>27,542</u>	<u>92,036</u>

(a) Dividends disclosed represented dividends declared by the companies now comprising the Group out of their retained earnings to the controlling shareholder of the respective companies, after eliminating intra-group dividends and excluding dividends paid to non-controlling interests.

(b) Pursuant to a shareholder resolution of the Company on December 12, 2016 and a shareholder resolution of Jiahua Yihe on December 16, 2016, dividends of RMB27.5 million relating to the profit of BNC Children's Hospital from December 2015 to May 24, 2016 before the completion of the Reorganization, have been agreed and declared to be paid to the then shareholders of Jiahua Yihe immediately before the completion of the Reorganization. The dividends have been settled before the listing of the Company.

Notes to the Consolidated Financial Statements (Continued)

18 Borrowings

	As of December 31, 2016 RMB'000	2015 RMB'000
Non-current		
Bank borrowings	—	19,980
Current		
Bank borrowings	19,980	10,020
Total borrowings	19,980	30,000
	As of December 31, 2016 RMB'000	2015 RMB'000
Maturity of borrowings		
Within 1 year	19,980	10,020
Between 1 and 2 years	—	19,980
Total borrowings	19,980	30,000

The balance of the Group as of December 31, 2016 represents bank borrowing of BNC Women's and Children's Hospital amounting to RMB20.0 million with interest bearing at fixed rate of 5.70% annually. The loan borrowed which amounting to RMB30.0 million on December 23, 2015 will be matured in December 2017 and was guaranteed by its related parties, Jiahua Likang and BNC Children's Hospital. The loan is repayable starting from July 13, 2016 on a monthly basis by reference to relevant repayment schedule set out in the loan agreement. On January 16, 2017, the Group fully repaid the borrowings in advance.

The fair value of borrowings approximated their carrying amounts as of December 31, 2016 and 2015, as either discounting impact is immaterial or the borrowings carried interests which were benchmarked against rates announced by the People's Bank of China from time to time.

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares

In accordance with Group A Preferred Shares Purchase Agreements, the Company is obliged to issue convertible preferred shares to CDH Investment II when the Group acquired the entire interests in BNC Women's and Children's Hospital on November 30, 2015. The fair value of preferred shares issued of RMB339.4 million to CDH Investment II was recorded as non-current liability. Relevant preferred shares were issued on February 18, 2016.

In accordance with Group B Preferred Shares Agreements signed in August 2015, the Company agreed to issue 7,542,002 preferred shares to Group B Preferred Shareholders, and JoeCare transferred 3,560,993 ordinary shares to Group B Preferred Shareholders and the Company also granted the same preferred share rights prescribed in the Group B Preferred Shares Purchase Agreements. The Company recognized these preferred shares as convertible preferred shares and these ordinary shares with preferred shares rights as non-current liabilities. Relevant shares were issued on February 18, 2016.

The fair value changes between the contract signed off date and the shares issuance date were recognized as derivative as fair value changes through profit and loss.

The movement of other non-current liabilities and derivative instruments is set out as below:

		Group A Preferred Shares to be issued	Derivative liability	Redesignation of ordinary shares into liability	Total other non-current liabilities
	Note				
As of January 1, 2015		—	—	—	—
Preferred shares to be issued	16(c)	339,361	—	—	339,361
As of December 31, 2015		<u>339,361</u>	<u>—</u>	<u>—</u>	<u>339,361</u>
Change in fair value		9,837	5,551	—	15,388
Liability settlement with equity instrument	16(f)	(14,755)	(8,882)	—	(23,637)
Derecognize the derivative liability upon issuance of Group B Preferred Shares		—	3,331	(1,131)	2,200
Issuance of preferred shares		(334,443)	—	—	(334,443)
Ordinary shares classified as liability	16(e)	—	—	101,907	101,907
Change in fair value		—	—	(20,654)	(20,654)
As of December 31, 2016		<u>—</u>	<u>—</u>	<u>80,122</u>	<u>80,122</u>
Changes in fair value charged to consolidated statements of comprehensive income for the year ended December 31, 2016		<u>9,837</u>	<u>5,551</u>	<u>(20,654)</u>	<u>(5,266)</u>

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares (Continued)

The movement of the convertible preferred shares is set out as below:

	Current liability – Group A Preferred Shares		Non-current liability –Group B Preferred Shares		Total	
	Number of preferred shares	RMB'000	Number of preferred shares	RMB'000	Number of preferred shares	RMB'000
As of January 1, 2016	-	-	-	-	-	-
Issuance of preferred shares	16,394,266	334,443	7,542,002	213,439	23,936,268	547,882
Changes in fair value	-	11,476	-	(43,744)	-	(32,268)
Group A Preferred Shares converted to ordinary shares	(16,394,266)	(345,919)	-	-	(16,394,266)	(345,919)
As of December 31, 2016	-	-	7,542,002	169,695	7,542,002	169,695
Change in fair value of convertible preferred shares charged in consolidated statements of comprehensive income for the year ended December 31, 2016	-	11,476	-	(43,744)	-	(32,268)

The key terms of the shares purchase agreement and the memorandum of association of the Company are summarized as follows:

(a) Conversion feature

Each holder of Group A Preferred Shares and Group B Preferred Shares shall have the right, at such holder's sole discretion, to convert all or any portion of the Group A Preferred Shares and the Group B Preferred Shares into ordinary shares of the Company at any time after February 18, 2016 which is the original issue date.

The initial conversion price of Group A Preferred Shares and Group B Preferred Shares is group A and group B original issue price (i.e., a 1-to-1 initial conversion ratio), which will be subject to adjustments to reflect stock dividends, stock splits and other events.

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares (Continued)

(a) Conversion feature (Continued)

Automatic conversion:

Each Group A Preferred Share and Group B Preferred Share shall automatically be converted into ordinary shares of the Company, at the then applicable conversion price upon the closing of a firm commitment underwritten public offering of the ordinary shares in Hong Kong, with the post-money valuation of the Company on a fully diluted basis in excess of (i) the amount of US dollars equal to RMB3,020,000,000 if such initial public offering is completed before December 12, 2016 or (ii) the amount of US dollars equal to the product obtained from the following formula: $\text{RMB3,020,000,000} \times (130\%)^N$, of which N shall be a fraction the numerator of which is the number of calendar days between the closing date of the Group B Preferred Shares Purchase Agreements and the date of the initial public offering and the denominator of which is 365, if such initial public offering is completed after December 31, 2016, and the total securities issued by the Company in such offering not less than 20% of all outstanding share capital of the Company on a fully diluted basis after the offering, or in a similar public offering of the ordinary shares of the Company in another jurisdiction which results in the ordinary shares trading publicly on a recognized international securities exchange; provided that such offering satisfies the foregoing valuation and offering share percentage is subject to the prior written approval of the holders of more than one half (1/2) of the Group A Preferred Shares and holders of more than one eighty-five percent (85%) of the Group B Preferred Shares (a “Qualified IPO”).

On August 29, 2016, all the shareholders of the Company unanimously resolved that, the proposed listing of the Company as approved by the shareholders shall be deemed as a Qualified IPO, and each of the Group B Preferred Shares shall be automatically converted into ordinary shares of the Company on a 1-to-1 basis immediately prior to the closing of the Qualified IPO.

(b) Redemption feature

Any holder of the preferred shares may, at any time, subject to applicable laws and regulations, require the Company to redeem any and all outstanding Group A Preferred Shares or Group B Preferred Shares (as applicable) following any group A or group B redemption triggering events (as applicable).

Group A preferred shareholder:

Group A Preferred Shareholder may require the Company to redeem any and all outstanding Group A Preferred Shares if, among others: (i) the Qualified IPO does not take place by June 28, 2017; (ii) there is a material default or breach by any member of the Group and/or existing shareholder under the Group A Preferred Shares Purchase Agreements or the transaction documents under the Group B Preferred Shares Purchase Agreements, which default or breach would result in the failure to complete a Qualified IPO; or (iii) the Company fails to consummate a Qualified IPO due to reasons from any controlling shareholder, existing shareholder and/or senior management of members of the Group. The redemption price would be calculated based on 12% compound annual return on the investment amount in the case of (i); and 20% compound annual return on the investment amount in the case of (ii) and (iii).

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares (Continued)

(b) Redemption feature (Continued)

Group B preferred shareholders:

Each Group B Preferred Shareholders may require the Company to redeem any and all outstanding Group B Preferred Shares at any time, if: (i) the Company fails, to consummate a Qualified IPO by June 1, 2020; (ii) there is a material breach by any member of the Group and/or existing shareholders under the transaction documents under the Group B Preferred Shares Purchase Agreements, which default or breach would result in the failure to complete a Qualified IPO; or (iii) the Company fails to consummate a Qualified IPO due to reasons from any controlling shareholders of the Company, existing shareholders and/or senior management of members of the Group. The redemption price would be calculated based on 12% compound annual return on the investment amount in the case of (i); and 20% compound annual return on the investment amount in the case of (ii) and (iii).

(c) Voting rights

Each holder of the preferred shares shall have a right to that number of votes equal to the number of ordinary shares issuable as if the preferred shares have been converted into ordinary shares.

(d) Dividends rights

The holders of the preferred shares shall be entitled to receive dividends in preference the higher of the below: (i) any dividends on the ordinary shares, (ii) dividends paid to holders of the preferred shares according to the number of ordinary shares issuable upon conversion of their preferred shares on the record date for the dividend, whenever funds are legally available and when and as declared by the Board. The dividends shall be cumulative. In the event that the Company fails to consummate the Qualified IPO before December 31, 2017, upon the request of the holders of the preferred shares, the Company shall, after paying any applicable taxes and setting aside legally reasonable provisions and funds necessary for the operation of business for the next year, distribute the legally available profits of the Company.

No dividends or other distributions shall be made or declared, whether in cash, in property, or in any other shares of the Company if the total amount of dividends declared by the Board is below the amount of dividends on ordinary shares paid to the holders of the preferred shares. No dividends or other distributions shall be made or declared, whether in cash, in property, or in any other shares of the Company, with respect to any other class or series of shares of the Company, unless and until dividends in like amount have been paid in full on the preferred shares (on an as-converted basis).

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares *(Continued)*

(e) Liquidation preferences

In the event of any merger, acquisition, sales of material assets, liquidation, dissolution or winding up of the Company, either voluntary or involuntary, distributions to the shareholders of the Company shall be made in the following manner (after satisfaction of all creditors' claims and claims that may be preferred by law):

- (i) The holders of the preferred shares shall be entitled to receive for each preferred share, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of ordinary shares or any other class or series of shares by reason of their ownership of such shares, the amount equal to, RMB9.1 per share for Group A Preferred Shares, and RMB28.6 per share for Group B Preferred Shares, as adjusted for share splits, share dividends, combinations, capital reorganizations and similar events, plus all declared but unpaid dividends. If upon the occurrence of a liquidation, dissolution or winding up of the Company the assets and funds thus distributed among the holders of the preferred shares shall be insufficient to permit the payment to such holders of full preference amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the preferred shares in proportion to the preference amount each such holder is otherwise entitled to receive.
- (ii) After setting aside or paying in full the preference amount due pursuant to the article above, the remaining assets of the Company available for distribution to all shareholders, if any, shall be distributed to the holders of the preferred shares and ordinary shares on a pro rata basis, based on the number of ordinary shares then held by each holder on an as-converted basis.

(f) Fair value measurement

The Group monitors other non-current liabilities and convertible preferred shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any feature from its debt host instrument and designates the entire hybrid contract as a financial liability at fair value through profit or loss with the changes in the fair value recorded in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares (Continued)

(f) Fair value measurement (Continued)

The directors had used the discounted cash flow method to determine their underlying equity fair value of the Group and adopted equity allocation method to determine the fair value of other non-current liabilities and convertible preferred shares as of December 31, 2015. Key assumptions are set out as below:

	As of December 31, 2015
Discount rate	15%
Risk-free interest rate	0.8%
Volatility	58%

Discount rate of other non-current liabilities and Group A Preferred Shares and Group B Preferred Shares was estimated by weighted average costs of capital as of each valuation date. The directors estimated the risk-free interest rate on the yield of US Treasury Strips with a maturity life equal to period from the respective valuation dates to expected liquidation date. Volatility was estimated at the dates of valuation based on average historical volatilities of the comparable companies in the same industry. Probability weight for liability component under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of other non-current liabilities and preferred shares on each valuation date.

At the end of 2016, the Company was approaching the completion of the global offering of the shares, the directors of the Company adopted equity allocation method to determine the fair value of other non-current liabilities and convertible preferred shares as of December 31, 2016 by reference to the mid-point of the estimated IPO price range indicated in the prospectus. The key assumptions are set out as below:

	As of December 31, 2016
IPO Price (Mid-Point) (HKD)	7.36
IPO probability	95%
Liquidation probability	2.5%
Redemption probability	2.5%

Notes to the Consolidated Financial Statements (Continued)

19 Other non-current liabilities and convertible preferred shares (Continued)

The estimated fair value of other non-current liabilities and convertible preferred shares as of December 31, 2016 would have been RMB1,221,000 higher/RMB1,110,000 lower should the IPO Price used in fair value analysis higher/lower by 50 basis points from management's estimates.

20 Trade payables

The aging analysis, based on demand note date, of the trade payables is as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Up to 3 months	12,139	9,843
4–6 months	3,953	2,949
7 months–1 year	401	333
Over 1 year	351	211
	<u>16,844</u>	<u>13,336</u>

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

21 Accruals, other payables and provisions

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Accrued employee benefits	33,910	25,611
Accrued operating expenses	3,176	1,947
Payables in relation to listing expenses	22,750	4,207
Advance from customers	42,713	56,482
Duty and tax payable other than corporate income tax	7,726	1,121
Other payables to suppliers of plant and equipment	4,410	8,703
Others	5,130	5,838
	<u>119,815</u>	<u>103,909</u>

Notes to the Consolidated Financial Statements (Continued)

22 Deferred revenue

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Deferred revenue for membership cards	28,519	6,177
Deferred revenue for promotion service	—	730
Total current deferred revenue	<u>28,519</u>	<u>6,907</u>

23 Deferred income tax

The analysis of deferred income tax is as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	17,122	31,544
– Deferred income tax assets to be recovered within 12 months	<u>11,722</u>	<u>4,681</u>
	<u>28,844</u>	<u>36,225</u>
Deferred income tax liabilities:		
– Deferred income tax liabilities to be recovered after more than 12 months	36,783	38,196
– Deferred income tax liabilities to be recovered within 12 months	<u>1,413</u>	<u>1,413</u>
	<u>38,196</u>	<u>39,609</u>
Deferred income tax liabilities-net	<u>(9,352)</u>	<u>(3,384)</u>

Notes to the Consolidated Financial Statements (Continued)

23 Deferred income tax (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Provision for receivables RMB'000	Tax losses RMB'000	Total RMB'000
Balance at January 1, 2015	3	–	3
Credited to the income statement	13	161	174
Business Combination	5	36,043	36,048
At December 31, 2015	21	36,204	36,225
Credited to the income statement	(15)	(7,366)	(7,381)
At December 31, 2016	6	28,838	28,844

The Group recognized the deferred income tax assets of RMB36.0 million in respect of accumulated loss amounting to RMB144.2 million from the business combination of BNC Women's and Children's Hospital on November 30, 2015. The Group also recognized deferred income tax assets of RMB161,000 in respect of tax losses amounting to RMB644,000 in December 2015 of BNC Women's and Children's Hospital. At December 31, 2016, no additional deferred income tax assets was recognized because BNC Women's and Children's Hospital was profit making in 2016.

The expiry date of tax losses is as follow:

	As of December 31, 2016 RMB'000	2015 RMB'000
As of December 31, 2017	34,386	63,849
As of December 31 2018	38,612	38,758
As of December 31, 2019	21,587	21,885
As of December 31, 2020	28,091	28,091
As of December 31, 2021	2,856	–
	125,532	152,583

The group did not recognize deferred income tax assets of RMB2.5 million in 2016 (2015: RMB1.9 million) in respect of tax losses amounting to RMB10.2 million (2015: RMB7.8 million) which can be carried forward against future taxable income.

Notes to the Consolidated Financial Statements (Continued)

23 Deferred income tax (Continued)

The movement in deferred income tax accounts during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Intangible Assets RMB'000
Balance at January 1, 2015	–
Credited to the income statement	(118)
Business Combination	39,727
At December 31, 2015	39,609
Credited to the income statement	(1,413)
At December 31, 2016	38,196

The tax rate for the recognition of deferred tax assets and deferred tax liabilities is 25% for the year ended December 31, 2016. (2015: 25%)

24 Expenses by nature

	Year ended December 31,	
	2016 RMB'000	2015 RMB'000
Employee benefits expenses (Note 25)	165,087	80,293
Cost of inventories and consumables	47,380	23,744
Consultation fees	20,152	15,360
Outsourced examination and inspection fees	5,365	3,601
Utilities, maintenance fee and office expenses	31,635	17,998
Rental expenses	16,503	5,253
Depreciation and amortization	21,219	4,698
Expenses in relation to the Listing	39,608	5,982
Auditors' remuneration	1,165	105
Other expenses	21,128	9,576
	369,242	166,610

Notes to the Consolidated Financial Statements (Continued)

25 Employee benefit expenses

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	133,297	63,153
Contribution to a pension plan	13,343	6,481
Welfare and other expenses	18,447	10,659
	<u>165,087</u>	<u>80,293</u>

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

(a) Five highest paid individuals

The five individuals whose remunerations were the highest in the Group for the year include three (2015: Nil) directors whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining two (2015: five) individuals during the year are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Basic salaries, bonus, housing allowance, other allowance and benefits in kind	1,779	3,036
Contribution to pension plans	—	132
	<u>1,779</u>	<u>3,168</u>

Notes to the Consolidated Financial Statements (Continued)

25 Employee benefit expenses (Continued)

(a) Five highest paid individuals (Continued)

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

	Number of individuals	
	Year ended December 31,	
	2016 RMB'000	2015 RMB'000
Emolument bands		
Nil to RMB1,000,000	<u>2</u>	<u>5</u>

During the years ended December 31, 2016 and 2015, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

26 Other gains/(losses) – net

	Note	Year ended December 31,	
		2016	2015
		RMB'000	RMB'000
Losses on disposal of property, plant and equipment		(90)	(113)
Fair value changes of convertible preferred shares and other non-current liabilities		37,534	–
Gains on liability settlement by equity instrument	16(f)	<u>15,277</u>	<u>–</u>
		<u>52,721</u>	<u>(113)</u>

Notes to the Consolidated Financial Statements (Continued)

27 Finance income/(expenses) – net

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Finance Income		
Interest income from bank deposit	478	316
Net foreign exchange gains	180	–
	<u>658</u>	<u>316</u>
Finance Expenses		
Interest expense on bank borrowings	(1,584)	(43)
	<u>(1,584)</u>	<u>(43)</u>
Financial Income/(Expenses) – Net	<u>(926)</u>	<u>273</u>

28 Income tax expense

Subsidiaries established and operating in Mainland China are subject to PRC corporate income tax at the standard rate of 25% for the year ended December 31, 2016.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Current income taxation:		
– PRC corporate income tax	31,169	25,081
Deferred income tax (Note 23)	5,968	(292)
	<u>37,137</u>	<u>24,789</u>

Notes to the Consolidated Financial Statements (Continued)

28 Income tax expense (Continued)

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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	174,098	91,984
Calculated at a taxation rate of 25%	43,525	22,996
Income not subject to tax	(13,026)	–
Expenses not tax deductible	6,035	1,075
Tax effect of tax losses not recognized	714	718
Utilization of previously unrecognized tax loss	(111)	–
Income tax expense	37,137	24,789

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% for the year ended December 31, 2016. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the year ended December 31, 2016.

The Reorganization had been accomplished in May 2016. As of December 31, 2016, deferred income tax liabilities of RMB3.1 million, have not been recognized for the withholding tax that would be payable on the unremitted earnings of PRC subsidiaries. Management expects to be reinvested such amount in these subsidiaries in the foreseeable future. Unremitted earnings of these subsidiaries as of December 31, 2016 amounted to RMB30.6 million.

Notes to the Consolidated Financial Statements (Continued)

29 Earnings per share (“EPS”)

(a) Basic

Basic EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year ended December 31, 2016.

	Year ended December 31,	
	2016	2015
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>92,136</u>	<u>40,903</u>
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	<u>262,434</u>	<u>272,883</u>
Basic EPS (<i>in RMB</i>)	<u><u>0.35</u></u>	<u><u>0.15</u></u>

The EPS presented above is calculated by using the weighted average number of ordinary shares during the year ended December 31, 2016. In determining the weighted average number of ordinary shares, the one share issued upon incorporation, the 9,999 sub-divided shares on February 18, 2016 and the 83,605,734 ordinary shares issued on February 18, 2016 are treated as if have been in issue since January 1, 2015.

The Company capitalized an amount of USD24,969 standing to the credit of its share premium account in paying up in full at par 249,690,254 shares, which were allotted and issued to the shareholders of the Company in accordance with their respective shareholding (“**Capitalization Issue**”). The EPS as presented above has taken into account of the Capitalization Issue, which is effective on January 18, 2017, the listing date of the Company. Accordingly, the weighted average number of ordinary shares in issue has been adjusted retrospectively as if it was effective on January 1, 2015.

(b) Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares before the Capitalization Issue: 7,542,002 convertible preferred shares (“**Group B Preferred Shares**”) and 3,560,993 ordinary shares redesignated as other non-current liabilities (Note 19), which were granted the same rights of Group B Preferred Shares. The convertible preferred shares and other non-current liabilities are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the impact of fair value change of convertible preferred shares and other non-current liabilities (Note 19).

Notes to the Consolidated Financial Statements (Continued)

29 Earnings per share ("EPS") (Continued)

(b) Diluted (Continued)

	Year ended December 31,	
	2016	2015
Profit attributable to owners of the Company (RMB'000)	92,136	40,903
Gains on the fair value change of the convertible preferred share and other non-current liabilities (RMB'000)	(58,845)	—
Profit used to determine diluted EPS (RMB'000)	33,291	40,903
Weighted average number of ordinary shares in issue (in thousands)	262,434	272,883
Adjusted for:		
– Assumed conversion of convertible preferred shares and other non-current liabilities (in thousands)	31,384	—
Weighted average number of ordinary shares for diluted EPS (in thousands)	293,818	272,883
Diluted EPS (in RMB)	0.11	0.15

The calculation of basic EPS in 2016 has not considered the 6,548,602 ordinary shares before the Capitalization Issue, with liquidation preference from February 18, 2016 (Note 15(e)) as these shares are not considered as ordinary shares that are subordinated to all other class of equity instrument. The profit attributable to those shares is also excluded from the calculation from February 18, 2016. These shares are not included in the calculation of diluted EPS as they do not have dilutive effect.

Both the calculation of basic EPS and diluted EPS in 2016 have not considered the 2,757,744 shares which were issued under the RSA Scheme (Note 15(g)) as no shares have been granted or agreed to be granted by the Company pursuant to the RSA Scheme up to the Latest Practicable Date.

Notes to the Consolidated Financial Statements (Continued)

30 Cash generated from operations

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	174,098	91,984
Adjustments for:		
– Depreciation of property, plant and equipment (Note 6)	15,413	3,830
– Amortization (Note 7)	5,806	868
– Other gains/(losses) – net (Note 26)	(52,721)	113
– Finance income/(expenses)– net (Note 27)	1,106	(273)
– (Reversal)/Provision of impairment of trade receivables	(61)	72
Changes in working capital (excluding the effects of acquisition on consolidation):		
– Inventories	(1,824)	298
– Trade and other receivables	(11,803)	(3,605)
– Balances with related parties	(23,454)	(2,148)
– Trade and other payables	18,198	10,598
– Deferred revenue	21,612	1,214
Cash generated from operations	146,370	102,951

In the statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Net book amount (Note 6)	220	114
Loss on disposal of property, plant and equipment	(90)	(113)
Proceeds from disposal of property, plant and equipment	130	1

Non-cash transactions

No significant non-cash transactions for the year ended December 31, 2016.

Notes to the Consolidated Financial Statements (Continued)

31 Commitments

(a) Capital commitments

The following is the details of capital expenditure contracted for but not provided in the consolidated financial statements.

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for – Property, plant and equipment	<u>125</u>	<u>1,148</u>
Total	<u>125</u>	<u>1,148</u>

(b) Operating lease commitments

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

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	<u>11,630</u>	<u>12,629</u>
Later than 1 year and no later than 5 years	<u>27,284</u>	<u>39,982</u>
Total	<u>38,914</u>	<u>52,611</u>

Notes to the Consolidated Financial Statements (Continued)

32 Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control, controlling shareholder, members of key management and their close family member of the Group are also considered as related parties.

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

Name	Relationship with the Group
Mr. Jason ZHOU	The controlling shareholder of the Company
Beijing Jiahua Kangyong Investment and Management Co., Ltd. (北京嘉華康永投資管理有限公司)	Controlled by the same ultimate controlling shareholder
Beijing Jiahua Yide Medical Investment Management Co., Ltd. (北京嘉華怡德醫療投資管理有限公司)	Jointly controlled by the controlling shareholder of the Company before May 18, 2016
Beijing Yide Hospital Co., Ltd. (北京怡德醫院有限公司)	Jointly controlled by the controlling shareholder of the Company before May 18, 2016
Beijing Jiahua Likang Health Investment Co., Ltd. (北京嘉華麗康醫療投資管理有限公司)	The controlling shareholder of the Company has significant influence
BNC Women's and Children's Hospital	The controlling shareholder of the Company has significant influence till November 30, 2015
Tianjin Heping New Century Women's and Children's Hospital Co., Ltd. (天津和平新世紀婦兒醫院有限公司)	The controlling shareholder of the Company has significant influence
Chengdu New Century Women's and Children's Hospital Co., Ltd. (成都新世紀婦女兒童醫院有限公司)	The controlling shareholder of the Company has significant influence
Suzhou New Century International Children's Hospital Co., Ltd. (蘇州新世紀兒童醫院)	The controlling shareholder of the Company has significant influence
Beijing Children's Hospital (首都醫科大學附屬北京兒童醫院)	Significant influence on the subsidiary of the Company
Beijing MuHeJiaYe Property Management Co., Ltd. (北京睦合嘉業物業管理有限公司)	Controlled by Ms. Zhao, the spouse of the controlling shareholder of the Company
Beijing Jiahe Commercial & Management Co., Ltd. (北京嘉禾興業商業資產管理有限公司)	Controlled by Ms. Zhao, the spouse of the controlling shareholder of the Company
Beijing Jiahua Kangming Medical Investment and Management Co., Ltd. (北京嘉華康銘醫療投資管理有限公司)	Controlled by Ms. Zhao, the spouse of the controlling shareholder of the Company

Notes to the Consolidated Financial Statements (Continued)

32 Significant related party transactions (Continued)

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

(a) Significant transactions with related parties

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Medical services provided to		
– Beijing Children's Hospital	–	172
Hospital consulting services provided to		
– Beijing Jiahua Likang Health Investment Co., Ltd. (i)	29,204	1,751
	<u>29,204</u>	<u>1,923</u>
Examination and laboratory test services received from		
– Beijing Children's Hospital	1,265	1,042
Purchase of goods from		
– Beijing Children's Hospital	521	470
Cleaning services received from		
– Beijing Jiahe Commercial & Management Co., Ltd.	–	792
– Beijing MuHeJiaYe Property Management Co., Ltd.	6,055	1,547
	<u>7,841</u>	<u>3,851</u>

- (i) Jiahua Yihe has commenced providing hospital consulting services to Jiahua Likang for its seven for-profit private hospitals. Pursuant to a management consulting services agreement, the agreement became effective on December 1, 2015 and is valid until November 30, 2018. Under the arrangement, the hospital consulting services that Jiahua Yihe provides relate to brand licensing and authorizing use of management know-how, best practices for medical services and operations and the relevant know-how, professional development training systems and clinical experience exchange platform, procurement and supplier services support and information technology systems and support. Under the agreement, Jiahua Likang agrees to pay Jiahua Yihe a monthly base fee of RMB100,000 for each of its hospitals that receives Jiahua Yihe's specified services in the agreement. In addition, Jiahua Yihe provides other additional business operational and financial consultancy services upon request by Jiahua Likang from time to time at specified hourly rates.

Notes to the Consolidated Financial Statements (Continued)

32 Significant related party transactions (Continued)

(b) Year-end balances arising from sales/purchases of services

Balances with related parties as of December 31, 2016 were disclosed in Note 13.

(c) Guarantees to related party's comprehensive credit lines

Jiahua Likang has entered a comprehensive credit lines contract with Bank of Jiangsu, and in accordance with the contract, Jiahua Likang has been granted a loan of RMB230 million, which was guaranteed by BNC Women's and Children's Hospital. The period of guarantee was from June 9, 2015 to June 8, 2016.

(d) Key management compensation

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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Salaries and bonus	5,711	1,647
Contribution to pension plans	205	92
Welfare and other expenses	254	111
Total	<u>6,170</u>	<u>1,850</u>

(e) Free trademark license agreement

On May 10, 2016, Jiahua Yihe, entered into a trademark licensing and transfer agreement with Jiahua Likang pursuant to which Jiahua Likang agreed to transfer two trademarks to Jiahua Yihe and also irrevocably grant, on a royalty-free basis, a non-exclusive, non-assignable and non-transferable license to Jiahua Yihe and its affiliates to use such trademarks free of charge. The application for the trademark transfer was filed with the relevant competent authority in the PRC on May 16, 2016, which is expected to complete within one year.

(f) Provision of premises by a related party

The Group has established BNC Children's Hospital based on a public-private-partnership arrangement with BCH, a public hospital in Beijing, the PRC. Pursuant to the cooperation agreement in 2002, BCH has agreed to provide premises on its allocated land for the business operation of BNC Children's Hospital without extra payments to each other. The term of the cooperation with BCH lasts until December 12, 2022.

Notes to the Consolidated Financial Statements (Continued)

33 Contingencies

The Group has been named defendants in a number of lawsuits arising in the ordinary course of business. Provision will be made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice. As of the reporting date, no significant lawsuit provision has been made as based on directors' assessment, the pending lawsuits have little impact on the Group's finance results or the outflow of resources is not probable.

34 Subsequent events

On January 18, 2017, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited with the global offering of ordinary shares of US\$0.0001 each of the Company, including, a public offering in Hong Kong of 12,000,000 Shares and an international placing of 108,000,000 Shares to professional and institutional investors inside and outside Hong Kong, in each case at a price of HK\$7.36 per Share. The Net Proceeds from the global offering amounting to HK\$856.4 million (after deduction of underwriting fees and any discretionary incentive fee) were received on the same date.

On February 17, 2017, the Over-Allotment Option was partially exercised by Merrill Lynch International and China International Capital Corporation Hong Kong Securities Limited, on behalf of the International Underwriters, in respect of 10,025,000 Shares, for the purpose of covering over-allocations in the International Offering. The Over-Allotment Shares was issued and allotted by the Company at HK\$7.36 per Share, which was the same as the offer price per offer share under the global offering. The additional net proceeds of approximately HK\$71.6 million from the issue and allotment of the Over-Allotment Shares (after deducting the underwriting commission, transaction levy and trading fee relating to the exercise of Over-Allotment Option) were received on February 17, 2017.

Notes to the Consolidated Financial Statements (Continued)

35 Balance sheet and reserve movement of the Company

Balance sheet of the Company

		As of December 31,	
		2016	2015
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		<u>1,733,437</u>	<u>1,531,735</u>
Total non-current assets		<u>1,733,437</u>	<u>1,531,735</u>
Current assets			
Cash and cash equivalents		1,852	—
Other receivables, deposits and prepayments		<u>825</u>	<u>—</u>
Total current assets		<u>2,677</u>	<u>—</u>
Total assets		<u><u>1,736,114</u></u>	<u><u>1,531,735</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		66	—
Share premium		1,538,282	—
Reserves	(a)	(101,907)	1,192,374
Retain earnings/(Accumulated losses)	(a)	<u>33,292</u>	<u>(4,207)</u>
Total equity		<u><u>1,469,733</u></u>	<u><u>1,188,167</u></u>

Notes to the Consolidated Financial Statements (Continued)

35 Balance sheet and reserve movement of the Company (Continued)

Balance sheet of the Company (Continued)

		As of December 31,	
		2016	2015
	Note	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Convertible preferred shares		169,695	–
Other non-current liabilities		80,122	339,361
Total non-current liabilities		249,817	339,361
Current liabilities			
Amounts due to subsidiaries		4	–
Accruals, other payables and provisions		16,560	4,207
Total current liabilities		16,564	4,207
Total liabilities		266,381	343,568
Total equity and liabilities		1,736,114	1,531,735

The balance sheet of the Company was approved by the Board of Directors on March 28, 2017 and signed on its behalf:

Jason ZHOU

Name of Director

Xu Han

Name of Director

Notes to the Consolidated Financial Statements (Continued)

35 Balance sheet and reserve movement of the Company (Continued)

(a) Reserve movement of the Company

	Retain earnings RMB'000	Reserves RMB'000
Comprehensive income		
– Loss for the period	(4,207)	–
Transactions with owners		
– Ordinary shares agreed to be issued for Listing Business	–	1,192,374
At December 31, 2015	<u>(4,207)</u>	<u>1,192,374</u>
Comprehensive income		
– Income for the period	37,499	–
– Issuance of ordinary shares	–	(1,192,374)
Transactions with owners		
– Deemed distribution to the controlling shareholder	–	(101,907)
At December 31, 2016	<u>33,292</u>	<u>(101,907)</u>

Notes to the Consolidated Financial Statements (Continued)

36 Benefits and interests of directors

(a) Directors and chief executive emoluments

The remuneration of each director and the chief executive is set out below:

For the year ended December 31, 2016	Salary RMB'000	Housing allowance RMB'000	Welfare and other expenses RMB'000	Contribution to a pension plan RMB'000	Total RMB'000
Name of executive directors					
Mr. Jason ZHOU	740	–	–	–	740
Mr. Xu Han	952	29	29	47	1,057
Ms. Xin Hong	959	29	29	47	1,064
	<u>2,651</u>	<u>58</u>	<u>58</u>	<u>94</u>	<u>2,861</u>
For the year ended December 31, 2015	Salary RMB'000	Housing allowance RMB'000	Welfare and other expenses RMB'000	Contribution to a pension plan RMB'000	Total RMB'000
Name of executive directors					
Mr. Jason ZHOU	340	–	–	–	340
Mr. Xu Han	244	26	27	44	341
Ms. Xin Hong	244	26	27	44	341
	<u>828</u>	<u>52</u>	<u>54</u>	<u>88</u>	<u>1,022</u>

On February 18, 2016, the Company appointed Jason ZHOU, Mr. Xu Han and Ms. Xin Hong as the directors, Ms. Liang, Dr. He Xin and Mr. Wang Siye as the non-executive directors. No remuneration paid to the non-executive directors for the year ended December 31, 2016.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the year ended December 31, 2016 (2015: Nil).

(c) During the years ended December 31, 2016 and 2015, no emoluments were paid by the Group to the directors as bonus, as an inducement to join or upon joining the Group or as compensation for loss of office.

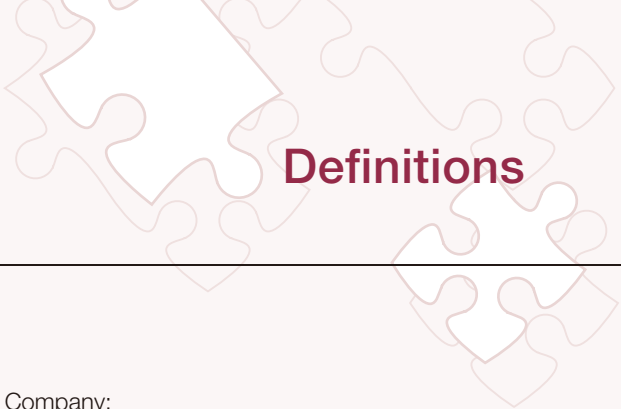
Financial Summary

For the year ended December 31,

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Revenue	490,933	258,196	249,013	238,770
Profit before income tax	174,098	91,984	100,698	110,748
Income tax expense	(37,137)	(24,789)	(26,383)	(28,038)
Total comprehensive income	136,961	67,195	74,315	82,710
Total comprehensive income attributable to :				
– Owners of the Company	98,635	40,903	46,705	53,566
– Non-controlling interests	38,326	26,292	27,610	29,144

As of December 31,

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Total assets	636,749	532,063	155,430	166,636
Total liability	502,228	564,457	57,968	48,638
Total equity	134,521	(32,394)	97,462	117,998
Equity attributable to :				
– Owners of the Company	79,185	(43,501)	63,088	79,786
– Non-controlling interests	55,336	11,107	34,374	38,212



Definitions

“AGM”	annual general meeting of the Company;
“Articles of Association”	the articles of association of the Company adopted on December 22, 2016 which became effective on the Listing Date, as amended from time to time;
“Audit Committee”	the audit committee of the Board;
“BCH”	Beijing Children’s Hospital, Capital Medical University (首都醫科大學附屬北京兒童醫院), a connected person of the Company on the subsidiary level only due to its 35.0% interest in BNC Children’s Hospital;
“BNC Children’s Hospital”	Beijing New Century Children’s Hospital Co., Ltd. (北京新世紀兒童醫院有限公司), a company incorporated in the PRC with limited liability on December 13, 2002, which is a non-wholly-owned subsidiary of the Company;
“BNC Harmony Clinic”	Beijing New Century Ronghe Outpatient Service Co., Ltd. (北京新世紀榮和門診部有限公司), a company incorporated in the PRC with limited liability on May 30, 2012, which is a non-wholly-owned subsidiary of the Company;
“BNC Women’s and Children’s Hospital”	Beijing New Century Women’s and Children’s Hospital Co., Ltd. (北京新世紀婦兒醫院有限公司), a company incorporated in the PRC with limited liability on January 4, 2012, which is a non-wholly-owned subsidiary of the Company;
“Board” or “Board of Directors”	the board of Directors of the Company;
“Boyu AH”	Anyi Hekang (Tianjin) Investment Partnership L.P. (安怡和康(天津)投資合夥企業(有限合夥)), a limited liability partnership formed in the PRC on July 30, 2015 whose general partner is Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠(上海)投資管理有限公司). Boyu AH is an Independent Third Party at the time;
“BVI”	the British Virgin Islands;

Definitions (Continued)

“CDH Fuji”	Shanghai Fuji Investment Partnership L.P. (上海孚紀投資合夥企業（有限合夥）), a limited liability partnership formed in the PRC on July 30, 2015 whose general partner is CDH Equity Investment Management (Tianjin) Co., Ltd. (鼎暉股權投資管理（天津）有限公司) and is controlled by Tianjin Taiding Investment which is a substantial Shareholder of the Company by virtue of its control over CDH Fuji and CDH Fuyi;
“CDH Fuyi”	Shanghai Fuyi Investment Partnership L.P. (上海孚怡投資合夥企業（有限合夥）), a limited liability partnership formed in the PRC on August 3, 2015 whose general partner is CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理（北京）有限公司) and is controlled by Tianjin Taiding Investment which is a substantial Shareholder of the Company by virtue of its control over CDH Fuji and CDH Fuyi;
“CDH Investments I”	collectively, CDH Weixin, CDH Weisen and CDH Asana;
“CDH Weisen”	Beijing CDH Weisen Venture Investment Center L.P. (北京鼎暉維森創業投資中心（有限合夥）), a limited liability partnership formed in the PRC on August 6, 2010 whose general partner is CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理（北京）有限公司) and is controlled by Tianjin Taiding Investment which is a substantial Shareholder of the Company by virtue of its control over CDH Fuji and CDH Fuyi;
“CDH Weixin”	Beijing CDH Weixin Venture Investment Center L.P. (北京鼎暉維鑫創業投資中心（有限合夥）), a limited liability partnership formed in the PRC on May 19, 2010 whose general partner is CDH Huatai Investment Management (Beijing) Co., Ltd. (鼎暉華泰投資管理（北京）有限公司) and is controlled by Tianjin Taiding Investment which is a substantial Shareholder of the Company by virtue of its control over CDH Fuji and CDH Fuyi;

Definitions (Continued)

“Century Star”	Century Star Investment Co., Ltd., a company incorporated in the BVI with limited liability on August 14, 2015 and is wholly-owned by Mr. Zhou;
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“China” or “PRC”	the People’s Republic of China; for the purpose of this annual report only, references to “China” or the “PRC” do not include Taiwan, the Macau Special Administrative Region and Hong Kong;
“Company”	New Century Healthcare Holding Co. Limited (新世紀醫療控股有限公司), a company incorporated in the Cayman Islands with limited liability on July 31, 2015, the Shares of which are listed on the Main Board of the Stock Exchange;
“Controlling Shareholder(s)”	Mr. Zhou, JoeCare and Century Star;
“Director(s)”	director(s) of the Company;
“FY”	financial year;
“GMP Certificate”	Certificate of Good Manufacturing Practices for Pharmaceutical Products;
“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries;
“GSP Certificate”	The Good Supply Practices for Pharmaceutical Products Certificate;
“HKEx”	Hong Kong Exchanges and Clearing Limited;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“HKFRS”	Hong Kong Financial Reporting Standards;
“Independent Third Party(ies)”	any individual(s) or entity(ies) who, as far as our Directors are aware, is/are not connected with our Company or our connected persons within the meaning ascribed under the Listing Rules;
“IPO”	initial public offering of Shares and listing of the Group on the Stock Exchange on the Listing Date;
“Jiahua Kangming”	Beijing Jiahua Kangming Medical Investment and Management Co., Ltd. (北京嘉華康銘醫療投資管理有限公司), a company incorporated in the PRC with limited liability on December 18, 2015 and is a connected person of our Company;

Definitions (Continued)

“Jiahua Kangyong”	Beijing Jiahua Kangyong Investment and Management Co., Ltd. (北京嘉華康永投資管理有限公司), a company incorporated in the PRC with limited liability on June 22, 2007, which is owned as to 90% and 10% by Mr. Zhou and Ms. Zhao, respectively, and is our connected person;
“Jiahua Likang”	Beijing Jiahua Likang Medical Investment and Management Co., Ltd. (北京嘉華麗康醫療投資管理有限公司), a company incorporated in the PRC with limited liability on April 16, 2009, whose registered shareholders include Jiahua Kangyong (as to 41.3%), a company controlled by Ms. Liang (as to 33.7%), and CDH Investments I (as to 25.0%), and is our connected person;
“Jiahua Yihe”	Beijing Jiahua Yihe Management and Consulting Co., Ltd. (北京嘉華怡和管理諮詢有限公司), a company incorporated in the PRC with limited liability on June 15, 2015 and wholly-owned by our Company;
“JoeCare”	JoeCare Investment Co., Ltd., a company incorporated in the BVI with limited liability on July 16, 2015 and wholly-owned by Mr. Zhou. JoeCare is one of our Controlling Shareholders;
“Latest Practicable Date”	March 28, 2017;
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange;
“Listing Date”	the date on which dealings in the Shares first commenced on the Stock Exchange i.e. January 18, 2017;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time;
“Memorandum of Association”	the memorandum of association of the Company adopted on December 22, 2016 which became effective on the Listing Date, as amended from time to time;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
“Mr. Zhou”	Mr. Jason ZHOU, Chairman of the Board, chief executive officer, an executive Director and one of our Controlling Shareholders;
“Ms. Liang”	Ms. LIANG Yanqing (梁艷清), a non-executive Director and one of our substantial Shareholders;
“Ms. Zhao”	Ms. ZHAO Juan (趙娟), the spouse of Mr. Zhou;

Definitions (Continued)

“Nomination Committee”	the nomination committee of the Board;
“Over-Allotment Shares”	10,025,000 Shares issued and allotted by the Company pursuant to the partial exercise of the Over-Allotment Option;
“PPP”	public-private partnership, a business cooperation that is formed and operated through an equity or contractual based cooperation between a public sector party and one or more private sector companies;
“Prospectus”	the prospectus dated December 30, 2016 issued by the Company;
“Remuneration Committee”	the remuneration committee of the Board;
“Reorganization”	the reorganization of our Group in preparation for the IPO, details of which are set out in “History, Reorganization and Development – Our Reorganization” of the Prospectus;
“RMB”	Renminbi, the lawful currency of the PRC;
“RSA Scheme”	the restricted share award scheme approved and adopted by the Company on August 29, 2016;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shares(s)”	ordinary share(s) of US\$0.0001 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“State Council”	State Council of the PRC (中華人民共和國國務院);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiaries”	has the meaning ascribed to it in section 2 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

Definitions (Continued)

“Tianjin Taiding Investment”	Tianjin Taiding Investment Co., Ltd. (天津泰鼎投資有限公司), a company incorporated in the PRC with limited liability on May 8, 2008 and is owned by Tianjin Haoyong Investment Management Co., Ltd. (天津浩永投資管理有限公司) (whose entire issued share capital is held by Mr. WU Shangzhi) as to 34.2% and by certain other shareholders as to 65.8%, none of which is entitled to exercise or control the exercise of one third or more of the voting rights of Tianjin Taiding Investment. Tianjin Taiding Investment is a substantial Shareholder of the Company by virtue of its control over CDH Fuji and CDH Fuyi;
“Tier 1 Cities”	Beijing, Shanghai, Guangzhou and Shenzhen or, where the context so requires, any of them;
“Victor Gains”	Victor Gains Limited, a company incorporated in the BVI with limited liability on February 2, 2010 and wholly-owned by Ms. Liang, and one of our substantial shareholders;
“Voting Agreement”	an agreement entered into between Mr. Zhou and Ms. Liang on February 18, 2016 with an initial term of three years from the date thereof, pursuant to which Ms. Liang irrevocably agreed to follow Mr. Zhou’s voting directions when exercising the voting rights attached to the Shares beneficially owned by her during the term of such agreement;
“YoY”	year-on-year;
“Zhonghe Qingrun”	Beijing Zhonghe Qingrun Investment Co., Limited (北京眾和清潤投資有限公司), an investment company incorporated in the PRC with limited liability on January 25, 2005, which is owned by Ms. Liang as to 51.0%, Mr. LIANG Yanmin as to 39.0%, Ms. GAN Feng as to 5.0% and Ms. GAN Hui as to 5.0%, respectively and is a connected person of the Company; and
“%”	Percent.

In this annual report, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.